

**YUKON ELECTRICAL COMPANY LIMITED
2013-2015 GENERAL RATE APPLICATION**

**INFORMATION REQUEST NO. 1
FROM THE TOWN OF WATSON LAKE
TO YECL**

JULY 18, 2013

WL YECL 1

Topic: 2013 Revenue Shortfall

Reference: Section 12

Preamble: The Phase 1 GRA test years are 2013 to 2015 but the application was not filed until May 27th and the interim rate rider (Rider R) did not go into effect until July 1st. YECL intended to collect 50% (\$1,825,000) of the total non-fuel portion of its 2013 revenue shortfall of \$3,649,000 through Rider R in the period from July 1st to December 31st.

YECL does not state if, or how, it intends to seek recovery of the other 50% of its 2013 revenue shortfall, which would have been accumulated in the pre-interim rate period of January 1st to June 30th.

Requests:

- a) Please indicate if, and how, YECL intends to seek recovery of the other 50% of its 2013 revenue shortfall that is not recovered through interim rate Rider R.
- b) If YECL does intend to seek recovery of the other 50% of its 2013 revenue shortfall then please explain upon what basis, legal and/or otherwise, it is expecting the YUB to engage in retroactive ratemaking and allow such a recovery.

WL YECL 2

Topic: Rate Case Costs

Reference: Section 1, Schedules 8.8 and 8.9

Preamble: On page 1-4, YECL states that the 3-year amortization cost of the Phase 1 GRA is \$139,000 and that choosing a 3-year test period produces annual savings of \$69,500 compared to a 2-year test period.

Requests:

- a) Please indicate where in the schedules provided with the GRA the 3-year annual amortization cost of \$139,000 is shown. If it is not shown in any schedule provided then please provide such a schedule that also shows the proposed annual amortization costs of the Phase 2 GRA.
- b) There was a 3-year gap (2010-2012) between GRA test years (2009 – 2013). Assuming the 1st test year of the next Phase 1 GRA is not until 2017, 2018 or 2019, please estimate the savings if the 2013-2015 Phase 1 and Phase 2 GRA costs are amortized over periods that end in 1) 2016, 2) 2017 and 3) 2018.

WL YECL 3

Topic: Costs Related to Board Orders or Legislative Provisions

Reference: Page 1-6

Preamble: YECL states:

“Yukon Electrical also seeks the ability to flow-through (dollar for dollar) to the tariff any costs related to Board Orders or legislative provisions resulting in changes to the rules or parameters that Yukon Electrical operates under, or that bear on the nature and extent of Yukon Electrical’s obligations as a regulated utility and which impact its 2013-2015 revenues or revenue requirement.”

Requests:

- a) Please explain why YECL is asking for this ability. Was there a precipitating event that led YECL to ask for this ability?

- b) Please explain why these costs cannot be dealt with as they arise rather than YECL being provided with the blanket ability to flow-through these costs without seeking Board approval.
- c) Please provide further details and examples of the types of costs that YECL envisions being captured by this ability. How would this ability be put into practice? Also, what types of costs would not be captured by this ability?
- d) Rather than the blanket ability to flow through these costs should there instead be thresholds established: 1) a minimum threshold below which YECL would be expected to absorb these costs as part of its regulatory and business risk and 2) a maximum threshold above which Board consideration and approval is required?

WL YECL 4

Topic: Key Assumptions - Inflation

Reference: Table on Page 1-6

Preamble: The Table on Page 1-6 provides a list of assumptions used by YECL is preparing the GRA.

Requests:

- a) Please provide further support and reasoning for YECL's assumption that the 2015 labour inflation rate should be 3.5%.
- b) Please explain the rationale for YECL's approach to calculating "Other Inflation". Specifically, why does YECL choose to use Alberta inflation values in calculating its inflation rate for Yukon. What evidence is there that Alberta provides a better approximation than B.C.? Are inflation estimates now available for Yukon for 2014 and 2015? If yes, please provide them. If no, when will they be available?

WL YECL 5

Topic: Staffing Levels

Reference: Pages 1-7 to 1-13, Section 1 Attachment 1

Preamble: Northland proposes to increase its staffing level by 16 FTEs from 2009 to 2015. Descriptions are provided for individual positions but there is no broad overview of what is driving this large increase in staffing.

Requests:

- a) Taking a big picture approach that considers communities served, customers served, power sales, customer complaints, etc. please describe the conditions that are driving a 16 FTE increase in staffing levels in just 6 years.
- b) Please explain why the General Manager is a 0.8 FTE.
- c) Please explain what position(s) previously fulfilled the functions now assigned to the Senior Corporate Communications Advisor? Why was that arrangement deemed insufficient such that this new position was determined necessary? Many of the tasks assigned to this position do not appear to require the skills of a senior-level employee so please explain why this is a senior-level position. Why is this position a 0.6 FTE?
- d) Please provide further support for the need to add a financial analyst in 2011.
- e) Please provide support in terms of communities and customers served to support the need for another meter reader in 2012. At what point were the two meter readers unable to fulfill their responsibilities?
- f) Part of the justification for adding a Manager, Financial Reporting and Accounting, North of 60, was the work required to transition to IFRS. Once that transition is complete, will this position be eliminated? If no, why not? Also please provide support to the claim that the regulatory burden is increasing to justify this position.
- g) Part of the justification for adding a Corporate Accountant was the work required to transition to IFRS. Once that transition is complete, will this position be eliminated? If no, why not? Also please provide support to the claim that the regulatory burden is increasing to justify this position.
- h) Please explain why the Manager, Financial Reporting and Accounting, the Supervisor, Financial Services, and the Corporate Accountant positions were created in Atco Electric instead of having those positions in YECL and based in Yukon to support the economy and communities in Yukon.
- i) Please explain what position previously fulfilled the responsibilities of the Construction Lead and why that arrangement was no longer suitable.

- j) Did the creation of the Engineering Tech Civil 1 reduce the overall costs for YECL? Please demonstrate with calculations.
- k) Were customer service metrics not being met such that the new Customer Service Advisor position is required in 2013? Please explain.
- l) Please explain why the responsibilities of the Customer Service Representative could not be distributed amongst the Customer Service Advisors and/or the Supervisor, Customer Accounting and Administration.
- m) Please explain why the responsibilities of the Environmental Technician could not be added to the responsibilities for the Engineering Tech 1 Civil and/or fulfilled through the use of contractors.
- n) The rationale cited for many of the new positions has been growth in the capital program. If the level of growth is not sustained, how frequently will YECL review its staffing levels to eliminate/consolidate positions so that staffing levels are not excessive?

WL YECL 6

Topic: Treatment Under IFRS vs Regulatory

Reference: Section 1 Attachment 2

Preamble: The Table in Attachment 3 provides a comparison of the treatment of significant items for Financial Statement purposes and regulatory purposes, post IFRS. Watson Lake wishes to understand the reasons for any differences in IFRS treatment of significant items by YECL and ATCO Electric Ltd.

Requests:

- a) Please indicate whether the treatment of the significant items under IFRS for Financial Statement purposes, as set out in the Table in Attachment 2 is consistent with treatment of the same items for financial statement purposes by YECL's parent, ATCO Electric Ltd or its affiliates Northland Utilities (YK) Ltd. and Northland Utilities (NWT) Ltd. If there are differences please identify the differences and the reasons for them.
- b) Please indicate whether the treatment of the significant items for regulatory purposes as set out in the Table in Attachment 2 is consistent with treatment of the same items for regulatory purposes by NUL's parent, ATCO Electric Ltd. and its affiliates NUL(YK) and NUL(NWT). If there are differences please identify the differences and the reasons.

- c) Please indicate how revenues that are interim as of fiscal year-end are treated for Financial Statement purposes under IFRS. Indicate whether there has been any change in the Financial Statement treatment of revenues that remain unapproved as of fiscal year end, due to regulatory lag, as a result of the transition from GAAP to IFRS. Please elaborate.

WL YECL 7

Topic: Treatment Under IFRS vs Regulatory

Reference: Page 1-13

Preamble: YECL, consistent with its parent company, has chosen not to recognize any regulatory assets and liabilities in its Financial Statements starting in 2011. The absence of the recognition of regulatory deferral accounts will result in increased volatility in IFRS based earnings. The IFRS based Financial Statement to utility earnings reconciliation will involve separately tracking the effects of writing off regulatory assets and liabilities. This will add more complexity and time to all of YECL's accounting functions.

Requests:

- a) Please explain why YECL and its parent decided not to recognize any regulatory assets and liabilities in the Financial Statements. Is this the same approach taken by NUL(YK) and NUL(NWT)? Please explain why it was considered prudent to incur the additional costs of annual reconciliations as a result of this treatment.
- b) Please identify the direct and indirect additional costs, in each test year, resulting from the added complexity and time due to the need for separately tracking significant items for regulatory and Financial Statement purposes.

WL YECL 8

Topic: Sales and Revenues

Reference: Section 2

Preamble: The Board would like further support with respect to the customer forecasts and regression analysis

Requests:

- a) Please expand Table 1 to include 2008, 2009 and 2010 and also to show the sales variances in each year subsequent to 2008 (so 2009 to 2015) caused by 1) the change in number of customers, 2) the change in consumption per customer (normalized for residential) and 3) the impact of the demand side management program. For 2013 to 2015 this analysis should be presented relative to the corresponding GRA forecasts.
- b) Please explain the decreasing Private Lights sales in Table 1.
- c) YECL partially attributes its increasing residential sales to increased use of electricity for space heating. Please explain the reasons for the increased interest in the use of electricity for space heating in Whitehorse. Has the interest in electricity for space heating increased in other communities? Why or why not?
- d) Please provide an analysis of the elasticity of demand for electricity for space heating relative to a range of prices of electricity (with that range including the expected \$/kwh arising from this Phase 1 and the upcoming Phase 2 for the test years). This analysis should take into consideration the forecast costs for competing options for heating energy.
- e) Should cooling degree days (CDD) be a factor in forecasting electricity usage to take into account use of electricity for space cooling?
- f) Please expand Schedule 2.1 so that it presents customers, sales and revenue by community.
- g) Please explain why Section 2 Attachment 20 only shows the 20-year "Normal" HDD for Whitehorse and Watson Lake.
- h) Please provide a schedule showing the calculation of the UPC for each community (residential and commercial) from 2008 to 2015 with all

calculations clearly shown and with references to Attachments 1 to 21 of Section 2.

- i) Please discuss the meaning of differences (higher vs. lower and magnitude), and the reasons for these differences, in the coefficients of HDD for the different communities.
- j) Please indicate whether there are any observable trends with respect to residential consumption per customer in each community (for example due to conservation, size of housing units, etc). Indicate whether the introduction of a trend factor into the regression analysis would help improve the R^2 values in the regression analysis. Provide all supporting analysis with respect to this response.
- k) Please indicate why 18 degrees Celsius was chosen as the balance point for temperature normalization. Please provide an analysis showing the sensitivity of the regression results to lower temperatures being used as the balance point.
- l) Given the relatively small size of some communities please indicate whether it would make sense to group the customers under single family residences and multifamily units for the purposes of the regression analysis. Does YECL have the necessary data for such analysis?
- m) Please indicate whether any 2013 published housing starts forecasts data were considered in the development of the residential sales forecast. If so, please provide the sources and the data used and show how this information was factored into the forecasts. If 2013 housing starts data was not used, please explain why not.
- n) Please provide a schedule showing the calculation of the commercial sales per community starting from the number of customers and the UPC.
- o) Please explain why temperature normalized sales were not used to arrive at the average consumption per customer for commercial customers. Please provide an analysis that would show the calculation of the commercial consumption per customer for each test year using temperature normalized sales per customer. Indicate whether the stratification of the commercial customers by size would help produce better R^2 values.
- p) Please explain the large increases in reconnect revenue starting in 2012 shown in Schedule 2.2.

WL YECL 9

Topic: Purchase Power, Line Losses and Station Service

Reference: Section 3

Preamble: Clarification and additional information is needed on purchased power, line losses and station service.

Requests:

- a) Please explain the difference between Primary Purchase Power and Secondary Purchase Power.
- b) Please explain the decreasing and then eliminated use of Secondary Purchase Power.
- c) Please explain the phrase “on the margin” with reference to diesel.
- d) Please explain the purpose and mechanics of the Diesel Contingency Fund.
- e) Please provide a schedule that shows how the annual line losses (6.2%, 6.2%, 6.1%, 6.1% and 6.4% from 2008 to 2012) are calculated.
- f) Please provide a schedule showing loss amounts and percentages by community. Please discuss any trends, and the reasons for the trends, by community. What steps is YECL taking to lower losses?
- g) Please provide a schedule showing station service amounts and percentages by community. Please discuss any trends, and the reasons for the trends, by community. What steps is YECL taking to lower station service?
- h) Please discuss the approaches that are used to maintain optimum station service use and to improve usage in plants with a high station service use percent.
- i) Identify any regulatory approaches that may provide incentives for YECL to reduce losses and maintain optimum station service usage. Please compare the approaches to calculating, managing and using line loss and station service percentages of YECL as compared to its affiliates NUL(YK) and NUL(NWT).
- j) Please indicate whether a cost benefit analysis has been carried out to determine the optimum set of capital investments that would maximize loss reduction and optimize station service use, by community. Please elaborate.

WL YECL 10

Topic: Fuel Costs

Reference: Heat Rates, Schedule 4.2

Preamble: The heat rates for Swift River and the Standby Units are lower than the heat rates for the other plants.

Requests:

- a) Please explain why the heat rates for Swift River and the Standby Units are much lower than the other plants. Is YECL taking steps to increase the heat rates in these, and all other, plants?
- b) How and when are the heat rates measured to verify their accuracy as used in the GRA forecasts? Please describe in detail how YECL compiles and reports data respecting plant efficiencies. Include details of how the data is gathered and monitored by individual generating unit/plant, the technology used to monitor and compile data, the frequency with which data is collected and reported.
- c) Please discuss the approaches that are used to maintain optimum plant efficiencies and to improve the ones with low efficiencies. Identify any regulatory approaches that may provide incentives for the Company to maintain optimum plant efficiencies. Compare YECL's approach to calculating, managing and using plant efficiencies in its GRA forecasts as compared to its affiliates NUL(YK) and NUL(NWT).

WL YECL 11

Topic: Fuel Costs

Reference: Section 4, Page 4-1

Preamble: Diesel fuel is purchased for each of the five diesel plants operated by YECL. YECL conducts a fuel tendering process in which a vendor is selected to be the exclusive provider of fuel to YECL. The current diesel fuel arrangements are due to be retendered early in 2014.

Requests:

- a) Please describe the pricing mechanism for diesel fuel supply to each of the communities that is currently in place and, the pricing mechanism that would apply during the test period. Indicate the expiry date of the current supply contract.
- b) Please describe the fuel tendering process used by YECL. How long was the current contract and how long will the next contract be? Explain why YECL considers this process to result in competitive fuel prices throughout the contract period.

WL YECL 12

Topic: Pension Expense

Reference: Section 5, Page 5-3

Preamble: YECL does not provide a forecast of pension expenses and is also proposing to use a deferral account to flow through increases or decreases to required cash contributions to the company's defined benefit pension plan as a result of the required annual actuarial evaluations.

Requests:

Please explain, in much more detail than is provided in the application, the functioning of the pension plans. More specifically:

- a) How were the amounts of the Defined Benefit payments for 2010 to 2012 calculated?
- b) What is the reason and purpose for the DB Special Payments for 2010 to 2012? How were these amounts calculated?
- c) On what basis is YECL assuming that the 2013 DB contribution rates will be the same as 2012?
- d) The application states that the next actuarial evaluation to determine the 2013 DB funding requirements was to be completed as of Dec. 31, 2013. Should this have been Dec. 31st, 2013? If no, then please describe the outcome of that evaluation.
- e) Is the purpose of the proposed deferral account to handle what was in 2010 to 2012 the DB Special Payments? Please explain the purpose and functioning of the proposed deferral account in more detail.

- f) Please provide schedules showing the actual and forecast payments to the defined benefit and defined contribution plans for the period from 2008 to 2015, both in percent of payroll and actual amounts. Please explain any significant variations in these costs. Please explain why the company's contribution to the defined contribution plan is 6% and explain if that amount could change during the test years.
- g) Please provide a schedule showing the actual and forecast OPEB costs for the period from 2008 to 2015, both in percent of payroll and actual amounts. Please explain any significant variations in these costs.

WL YECL 13

Topic: O&M Expense

Reference: Section 5, Schedules 5-1 and 5.2

Preamble: The Town wishes to examine some of the O&M expense increases proposed for the test period.

Requests:

- a) Labour and fringe are cited in numerous areas as responsible for increased expenses. Please provide a schedule showing labour and fringe expenses for 2008 to 2015 for each of the accounting areas shown in Schedule 5.1. Please describe what is included in "fringe".
- b) Fish Lake is described in Schedule 5.1 as a major driver of increased costs but little detail is provided. Please provide a schedule that details all of the Fish Lake costs for 62600 – Hydro Production for the period from 2012 to 2015.
- c) Please provide a detailed schedule of expenses for 64600 – Diesel Generation for the period from 2012 to 2015.
- d) 84600 – Diesel Maintenance. YECL states that the cost increase in 2012 is mainly due to overall higher contractor costs. Please explain this in more detail. Were these higher costs due to an increased level of maintenance activities? If yes, please explain why. Were these higher costs due to contractors increasing their rates? If yes, please explain what YECL is doing to ensure to control its contractor costs.

- e) 87000 – Supervision. Please explain what YECL has done to determine why its after-hour calls have been increasing and what it has done to reduce the usage of its after-hours service.
- f) 87800 – Street Light Maintenance. Why are there higher levels of streetlight repair activity in the test years?
- g) 72200 – Administration Corporate. Please explain why there is not a larger drop from 2012 to 2013 given that 2012 included regulatory intervention costs of \$103,000.
- h) 72300 – Insurance. Page 5-5 refers to the removal of distribution line insurance coverage. Schedule 5.2 refers to the removal of transmission and distribution line coverage. Please explain the difference.
- i) 72500 – Employee Expenses. Please explain the change in policy.
- j) 72600 – Training and Safety. Please explain in more detail the increase in costs in 2012.
- k) With reference to Schedule 5.3, please provide reasons for the increases in information technology (IT) and billing system services (ITBS) in the test period relative to 2012 actuals. Include a schedule showing the rates and volumes of IT and ITBS services in each of 2012, 2013, 2014 and 2015.
- l) With reference to Schedule 5.3, please provide detailed reasons for the increases in Financial Reporting and Regulatory Support from 2010 to 2015.

WL YECL 14

Topic: O&M Expense

Reference: Section 5, Page 5-5

Preamble: YECL is proposing to discontinue purchasing third party distribution line (property) insurance at the end of the 2013/2014 insurance period, July 1, 2014 and, on a go forward basis, insurable losses during construction or operations, if and when they occur, would be charged to the Reserve for Injuries and Damages.

Requests:

- a) Please describe the nature and extent of the insurance coverage provided by the existing distribution property insurance policy. Identify the risks that are covered by the policy.

- b) Please provide an assessment of the order of magnitude maximum risk exposure if the existing policy were cancelled and replaced by self insurance.

WL YECL 15

Topic: Taxes Other Than Income

Reference: Section 6, Page 6-1

Preamble: Increases in property taxes are due to planned capital work and inflation.

Requests:

- a) Please separate the increases in the test years into tax increases due to capital projects and tax increases due to inflation.
- b) Please explain why an inflation factor is being built into property taxes during the test years when there is no apparent inflationary effect from 2008 to 2011.

WL YECL 16

Topic: Return on Equity

Reference: Section 8; Page 8-6

Preamble: YECL is seeking approval for a deferral account that would flow through any change in its ROE according to the BCUC Automatic Adjustment Mechanism, which will become operative if a long term Canada bond yield of 3.8% is met or exceeded.

Requests:

- a) Please describe the rationale for and functioning of the AAM. How is the change in the ROE linked to the magnitude of the change in bond yields? Please explain the linkage to a long term Canada bond yield of 3.8% for activating the AAM. Is there a cap on the frequency and magnitude of the AAM changing the ROE to prevent numerous and excessive increases in the ROE?
- b) Using YECL's 2015 forecast long term bond rate range of 4.0% to 4.4%, what would be the range of adjustments to YECL's ROE through the AAM? What would be the revenue range collected through the proposed deferral account and the impact in a \$/kwh and rate percent increase basis for the different customer classes?
- c) Is the AAM reversible? For example, if the bond rate dropped to or below some threshold, would the AAM decrease YECL's approved ROE? If yes, what is that lower bond yield threshold? If no, please explain why not? Why it is fair and reasonable for the AAM to be able to increase the ROE but not decrease it?

WL YECL 17

Topic: Common Equity Ratio

Reference: Section 8, Page 8-4 and 8-6

Preamble: YECL refers to its expert evidence from its previous GRA which stated that YECL's business risk is similar to NUL(YK). In the time

since, NUL(YK)'s common equity ratio has increased from 40% to 43.5%.

In the previous GRA, the YUB approved a common equity ratio of 40%. In the time since the BCUC has increased its benchmark common equity ratio from 35.01% to 38%.

Requests:

- a) With the NUL(YK) and the BCUC common equity ratios both having been increased by 3.5%, please explain why YECL is seeking a common equity ratio of 44% rather than the 43.5% that would be in keeping with the 3.5% increases in the NWT and BC.
- b) Please provide a calculation of YECL's coverage ratios including before and after tax interest coverage ratios, funds from operations to interest coverage ratios, funds from operations to debt ratios, for the 2008 and 2009 GRA forecasts and actuals, the 2010 to 2012 actuals as well as for the 2013 to 2015 GRA forecasts.

WL YECL 18

Topic: Long Term Debt

Reference: Section 8, Page 8-7

Preamble: During the 2013-15 test period, YECL is forecasting that it will issue long term debt all 3 years. The recommended rates of 4.30%, 5.00% and 5.75% are based on the best information available at the time the forecast was prepared.

Requests:

- a) Please confirm that debt issues for YECL as well as its parent ATCO Electric are raised by Canadian Utilities Limited.
- b) Please provide the bond yields for a benchmark 30 year CU Ltd. bond, by month, for the 12 months ended June 2013, the corresponding 30-year long Canada bond yields and the resulting yield spreads.
- c) Please provide updated forecasts of 10 year and 30 year long Canada bond yields for each of the years 2013, 2014 and 2015. Please rationalize any changes in the forecast long Canada bond yields from current levels.

WL YECL 19

Topic: RFID

Reference: Section 8, Page 8-8

Preamble: Page 8-8 states that the RFID balance at the end of 2012 was \$73,000. Schedule 8-4 shows an RFID balance at the end of 2012 of \$69,000.

Requests:

What is the correct RFID end of year balance for 2012?

WL YECL 20

Topic: Allowance for Working Capital

Reference: Section 8, Schedule 8.10

Preamble: Schedule 8.10. Line 12 shows large fluctuations in income taxes receivable (payable).

Requests:

Please explain, on a year-to-year basis from 2008 to 2015, the large fluctuations in income taxes receivable (payable).

WL YECL 21

Topic: Capital Additions

Reference: Section 9

Preamble: YECL wishes to have more information on capital additions.

Requests:

- a) YECL states that generation assets are continually monitored through power plant inspections and monitoring and provides a list of broad reasons that can dictate the need for new generation assets to be put in place. Please provide copies of the inspection and monitoring reports,

linked to the list of reasons, which are resulting in generation capital additions during the test years.

- b) YECL states that it forecasts new extensions are based on discussions with communities, developers, engineering firms and customers. Please provide additional details on these discussions.
- c) System Performance Projects – Please provide the complete list of items that are monitored for system performance. What levels, and why, are considered acceptable for each item.
- d) Please describe the process that is used in deciding to refurbish or overhaul equipment instead of replacing it.
- e) Please provide a list of expected life cycles of priority/major equipment.
- f) Please provide a copy of the life cycle planning report(s) that are contributing to capital additions in the test years.
- g) Please provide a list of forced projects for the years 2008 to 2012 and the basis for forecasts in the test years.
- h) If different than the reports requested in a) above, please provide copies of the distribution system performance reports that are prepared for capital forecasting for the years 2008 to the present.
- i) If not included in the reports already requested, please provide a complete list of the Type A and Type B priorities. Please link capital projects from 2008 to 2015 to these priorities.
- j) Please provide a list, on a year-to-year basis, from 2008 to 2012 of all unplanned outages. Please explain what performance criteria are calculated and tracked by YECL (SAIDI, CAIDI, etc.) and present the criteria for each year.
- k) For all capital projects completed in the period from 2008 to present, please present a schedule and evaluation of YECL's ability to forecast, and maintain, project budgets. Included in this, please include initial project budgets and actual costs. Please provide an evaluation, on a per project basis, of the reasons for any actual project cost being greater than 110% of the initial budget.