In the Matter of:

THE YUKON ENERGY CORPORATION ("YEC")
2012 - 2013 GENERAL RATE APPLICATION

ARGUMENT OF
THE CITY OF WHITEHORSE
("CW" OR "THE CITY")

NOVEMBER 28, 2012

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1. Introduction

1. The Yukon Energy Corporation ("YEC") filed with the Yukon Utilities Board (the "Board") a general rate application (the Application), dated April 27, 2012, for the 2012 and 2013 test years. The Application requested approval of an interim refundable rate Rider J of 6.4% for retail customers and 2.9% for industrial customers, effective July 1, 2012. Rider J would recover YEC's entire requested 2012 revenue requirement, if implemented on January 1, 2012. The Board approved Rider J as applied for in Order 2012-05, dated June 7, 2012 with the rate adjustments effective July 1, 2012 on a refundable basis

2. By letter dated October 11, 2012, YEC applied for an interim refundable revenue shortfall Rider R of 6.5% for 2013 to be applied to all retail and industrial firm rates (including the 2012 shortfall Rider J and the fixed Rider F) effective January 1, 2013. Rider R, as applied for, would recover all the 2013 revenue deficiency set out in the Application. The Board approved an interim Rate Rider R of 3.75% to be applied to firm industrial and retail customers in Order 2012-10, dated November 5, 2012, with the interim rates effective January 1, 2013 on a refundable basis.

3. A hearing into the Application was held in Whitehorse November 12-14, 2012. Based on the hearing and the rest of the evidentiary record, the City submits that, in some instances, YEC has projected costs that are higher and revenues that are lower than should be reasonably expected. In examining the Application, the City has pursued a limited number of issues that are of concern to its citizens. The absence of argument on any particular issue does not constitute agreement with any party's position on that issue. The City's detailed and specific submissions regarding areas of concern with the proposed revenue requirement are set out below.

2. System Sales

2.1 Wholesale Sales Forecast

4. YEC forecast Wholesale Sales of 296,000 MWh for 2012 and 298,228 MWh for 2013.[1] The wholesale customer, YECL, forecast wholesale purchases of 286,357 MWh for 2012 and

[1] Exhibit B1, Appendix 6.1, Table 1, page 6.1-3

289,755 MWh for 2013.[2] YEC provided the following description of its method of forecasting its wholesale sales:

> "Each year Yukon Electrical provides Yukon Energy with an Integrated Grid firm wholesale purchase power forecast reflecting its forecast grid firm retail sales less its forecast generation from its Fish Lake hydro plant. Yukon Energy reviews and adjusts the Yukon Electrical forecasts in light of the most recent information available."[3]

5. There are significant discrepancies between the Wholesale Sales of YEC and the wholesale Purchases of YECL. Based on the evidence provided in these proceedings, the City concludes that YECL has likely provided the more accurate forecast. The detailed description of YEC's Wholesale Sales forecast[4] indicates that YEC's Wholesale Sales forecast is not based on any forecast provided by YECL but is based on actual 2011 Wholesale Sales that are weather normalized and then increased by a 2.6% growth factor. The City considers that YEC's method of forecasting Wholesale Sales is invalid for two reasons. First, the weather normalization and subsequent weather correction is performed on YEC's entire System Sales and not solely on the Wholesale Sales.[5] Secondly, the six percent of YEC's weather normalization that is unexplained[6] more than accounts for the approximately 10 GWh difference between YEC and YECL's forecast. (6% x 296 GWh = 17 GWh) This is not a surprising result as there are many uses for electricity other than heating load. Weather normalization is unknown in the electric utility industry[7] and the YUB has never approved its use.[8]

6. YEC's evidence is that the utility has no knowledge of the methods employed by YECL to develop its forecast of wholesale purchases.[9] This is confirmed by Mr. Mollard's description of the informal process which has the objective to "push those forecasts up a little bit from what

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[2] Exhibit B9, YECL-YEC-2-2(a) Attachment 1, page 1 of 4
[3] Exhibit B1 (b), page 2-3, lines 22 -25
[4] Exhibit B5, YECL-YEC-1-3 a)
[5] Tr. page 65, line 5 - line 16
[6] Tr. page 64, lines 10 - 13
[7] Tr. page 64, lines 14 - 16
[8] Tr. page 63, lines 4 - 14
[9] Exhibit B5, CW-YEC-1-6 (c), page 2 of 2

they provide."[10] Given the importance of wholesales to system sales, the City submits that YEC should make an effort to understand YECL's forecasting methods with the objective of validating YECL's Wholesale Sales forecast. YECL is the utility that serves its retail customers and is in the best position to forecast the retail customers' needs. The City considers that the Board should direct YEC to provide detailed support for its Wholesale Sales forecast in future applications. For these proceeding, the City submits that the Wholesale Sales Forecast should be 286,357 MWh for 2012 and 289,755 MWh for 2013. YEC should be directed to adjust its total sales, forecast of diesel generation, the DCF and any other adjustments that may be necessary.

2.2 Whitehorse Copper Tailings (WHCT)

7. The application forecast industrial sales to Eagle Industrial Minerals (Whitehorse Copper Tailings or WHCT) starting in 2013.[11] By letter dated October 12, 2012, Yukon Electrical Company Limited (YECL) stated that WHCT was a customer of YECL:

> "As per current discussions with WHCT, Yukon Electrical Company Limited (YECL) wishes to inform Yukon Energy Corporation (YEC) that YECL intends to serve WHCT as one of its customers. WHCT is in YECL's service territory and would be served electrical power over YECL's distribution system."[12]

8. By letter dated November 1, 2012, YEC stated that "The most efficient and cost effective way for YEC to serve WHCT is through wheeling power over the existing YEC/YECL systems using the YEC and YECL wholesale rate provisions approved by the YUB in Board Order 2010-13.[13]" YEC projected ratepayer savings of $210,000 annually by its proposed serving arrangement.

9. The City takes no position at this time as to which utility should serve WHCT. This does not mean that the City is indifferent to the serving arrangements that are ultimately put in place to serve WHCT. On the contrary, the City is interested in this matter and further notes that the WHCT is located within the City's boundaries. The City submits that the serving arrangements should be based on the most efficient and effective service to the customer, with regard to the net

[10] Tr. page 47, lines 2 - 24
[11] Exhibit B1 (b), page 2-2, lines 2 - 3
[12] Exhibit B15, Attachment 2, page 2 of 4
[13] Exhibit B15, Attachment 2, page 3 of 4

benefits to all customers of both utilities. In the City's view, on the basis of the evidence on the record in these proceedings, there is insufficient evidence for the Board to determine which utility can provide the optimum service to WHCT. In particular, the costs and benefits of YECL's proposed serving arrangements have not been fully explored in these proceedings.

10. The City recommends that this issue should be resolved in a separate application by either YEC or YECL where the net costs and benefits to end use customers can be fully evaluated. The most efficient way to resolve this issue would be a short written proceeding. The City recommends that the costs and revenues attributable to serving WHCT be removed in the compliance filing pending a Board hearing on this matter.

3. Capital Additions

3.1 Opening Plant Balances

11. Despite the April date for the Application, the opening plant balances for the 2012 test year are forecasts made in 2011. YEC provided its Section 25 Annual Filings for 2011 as an undertaking to provide the actual Opening Plant Balances.[14] The City notes that 2011 year-end Property, Plant and Equipment and Net Rate Base in the Regulatory Filings differ from those set out in the Application.[15]

12. The City submits that the Board should direct YEC to correct its 2012 opening Plant Balances to the actual balances recorded in the Regulatory Filings, except as noted in the subsequent section, as part of the compliance filing. In addition, YEC should provide, in the compliance filing, a reconciliation of its forecast plant balances, as applied for, to the actual, explaining any differences between forecast and actual. The City submits that the Board is entitled to use the best information available to it on the record at the time of its decision.

13. The Alberta Utilities Commission ("AUC") has dealt with this issue of using updated actual information many times, indicating that in some circumstances its use is limited to testing the accuracy of forecasts, and in others, <u>such as opening plant balances</u>, the actual updated

[14] Exhibit B18, Regulatory Filings, Page 2 of 6
[15] Exhibit B1 (b), Schedule 1, page 7-2

information is substituted for the forecast. In Decision 2010-505 the AUC discussed this at length as follows:

> "The UCA asked the Commission to confirm that the Commission prefers the best available information at the time it must make its decision to determine a revenue requirement and asked the Commission to apply that principle to EDTI.
>
> Commission Findings
>
> The Commission confirms that it requires the best available information at the time it makes its decision and confirms its views from Decision 2008-113. There, the Commission adopted the Board's views on the use of updated information in a prospective rate-setting environment as set out in Decision 2006-004:
>
>> In recent years, when confronted with the question of whether or not to consider events that have occurred after the preparation of revenue requirement forecasts, the Board has usually taken the position that such information will be used in assessing the reasonableness and accuracy of the forecasts and the methodology utilized in preparing the forecasts. The Board has not, however, substituted the forecasts with the updated information, except with respect to certain specific forecast items. **For example, the Board has updated interest rate forecasts in determining the cost of capital, income tax rates, opening balances for plant property and equipment and has excluded amounts forecast for capital projects that did not proceed. The Board has determined that the use of updated information in these particular types of categories was in the overall public interest and had as its objective an appropriate revenue stream without undue benefit or detriment to the regulated utility. The utility has also always been able to update its application and its forecasts to reflect any unforeseen increases in costs. The Board continues to be of the view that this is the appropriate use of information that becomes available subsequent to the preparation of the forecasts underpinning an application."**
>>
>> On the basis that the Board should have the best available information, the Board has expressed a preference in having actuals for the full year prior to the test year where possible. Providing the Board with the best available information at the time it must make its decision, will assist the Board in determining a revenue requirement for the utility that most closely matches current expectations and conditions. Properly considered, this should reduce the initial forecasting risk to the utility and reduce the possibility of overpayment by ratepayers[16]. [emphasis added]

[16] AUC Decision 2010-505, paragraphs 22-24

3.2 Capital Additions

14. YEC provided the following continuity schedule of spending on major projects[17]:

YUKON ENERGY CORPORATION
EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT
($000S)

Table 5.2
April 2012

Description	Actual 2009	Actual 2010	FYF 2011	BP 2012	BP 2013
Major Projects					
Mayo B - Construction	7,441	41,200	60,721	7,226	
Carmacks Stewart Transmission Line Stage 2	3,836	24,424	13,652		
Aishihik Third Turbine Construction	4,074	4,742	5,000		
Whistle Bend Subdivision Supply			68	50	5,112
Mayo Hydro - Substation Enhancements		163	3,648	6,342	
Victoria Gold - Grid Connection			14	2,000	7,000
Aishihik Generation Station Redundancy	102	706	5,300	257	
Enterprise System	102	221	1,180	1,404	250
LNG (Liquified Natural Gas)			0	0	2,669
Mayo Head Gate Repairs	62	204	428	640	
Whitehorse Spillway Improvements			96	575	575
Western Copper - Grid Connection					1,000
Total Major Projects	15,616	71,661	90,109	18,494	16,606

15. The City notes that spending on Mayo B continued into 2012. YEC confirmed that, although the project was "in service" as of December 2011, there were a number of deficiencies and site remediation that required corrections in 2012.[18] YEC confirmed that the project, at the time of the hearing had not been accepted by the utility.[19] As the project is not complete, the City recommends the Board direct that Mayo B be removed from the 2012 opening plant balances and placed in PHFFU until the project is complete and accepted for service.

4. Revenue Requirement - Operating and Maintenance Expense

4.1 Transmission Brushing

16. In response to CW-YEC-1-18 (b), Table 1, YEC provided its transmission brushing costs per kilometer.

[17] Exhibit B1 (b) Table 5.2, page 5-51
[18] Tr. page 36, line 14 - page 37, line 20
[19] Tr. page 37, lines 10 - 16

Table 1:
Transmission Costs per km of Transmission Line ($000)

	2009 GRA Compliance	Actual 2009	Actual 2010	FYF 2011	Existing 2012	GRA 2012	Existing 2013	GRA 2013
Labour	482	453	319	396	431	431	440	440
Brushing	377	387	268	434	505	505	639	639
Other Non-Labour	235	369	208	280	255	255	214	214
Total	1,094	1,209	795	1,110	1,191	1,191	1,293	1,293
Km of Transmission Lines	849	849	931	935	935	935	935	935
Cost per Km of Transmission Line								
Labour	0.57	0.53	0.34	0.42	0.46	0.46	0.47	0.47
Brushing	0.44	0.46	0.29	0.46	0.54	0.54	0.68	0.68
Other Non-Labour	0.28	0.43	0.22	0.30	0.27	0.27	0.23	0.23
Total	1.29	1.42	0.85	1.19	1.27	1.27	1.38	1.38

17. During cross-examination, YEC explained the transmission brushing costs in recent years have increased due to excess precipitation creating more undergrowth.[20] The City acknowledges that YEC's overall transmission brushing costs should increase due to completion of the Carmacks-Stewart Transmission Project ("CSTP"). When YEC's transmission brushing costs are restated on a per km basis, it appears that YEC's unit brushing costs are related more to rate applications than to precipitation. The City recommends that YEC's forecast brushing costs for the test years be reduced to reflect a unit cost of $375/km, the average of its 2010 and 2011 unit costs.

4.2 Distribution Brushing

18. YEC proposed Distribution Brushing costs of $93,000 in 2012 and $113,000 in 2013 versus actual brushing costs of $68,000 in 2011.[21] YEC explained that "In 2011 an external contractor was hired to brush about 20 kilometres in Dawson as well as a number of critical sites in Mayo. For 2012 and 2013 YEC intends to continue this approach and would expect to achieve similar results."[22] YEC's explanation concerning why distribution costs are increasing overall and on a unit basis was:

> "Brushing is not a black-and-white concept. Brushing from one year to the next is very different based on the trees in the area, how much they've grown, the cycle of when we've been back there last. One area of one community can be much different than another area of that one community. So there's no -- there's no formulaic approach that it costs this much, and it's this much per kilometre every place you go all the time. It's just not that precise."[23]

[20] Tr. page 68, lines 4 - 13
[21] Exhibit B5, UCG-YEC-1-31
[22] Exhibit B5, YECL-YEC 1-28, page 1 of 1
[23] Tr. page 70, line 22 – page 71, line 5

19. The City acknowledges that YEC has contracted out its distribution brushing function and that distribution brushing costs may not be comparable in 2011 to years when distribution brushing was done internally. Given Mr. Morrison's explanation, the City questions why the cycle of brushing seems to include the difficult communities to brush during rate applications. The City recommends that YEC's forecast distribution brushing costs be reduced to $68,000 since YEC expects "similar results" as in 2011.

4.3 DSM Administration Expense

20. YEC proposed including $49,000 in DSM Administration Expense in revenue requirement for both test years.[24] YEC detailed its DSM Administration spending for 2012 in an undertaking.[25] These expenses are explained in the DSM Policy:

> "2.2 The following DSM-related costs shall be expensed as incurred:
> a. Administrative and other general overhead expenditures are expensed unless the expenditure can be directly attributed to a specific DSM program.
> b. Expenditures related to information programs and advertising unless directly attributed to a specific DSM program.
> c. Expenditures on training staff shall be expensed."[26]

21. The City recommends that the Board disallow all DSM Administration Expenses. This account appears to cover costs that should be incorporated into other accounts. The City notes that YEC proposes significant increases in Communications, Training and General Expenses,[27] all of which appear to describe the types of expenses set out in Section 2.2 of the DSM Policy. The breakdown of 2012 DSM Administration Expenses incurred to date confirms that these expenses already have corporate accounts or are not covered by the DSM policy (e.g. Rent). Including expenses of this type in corporate accounts ensures that DSM thinking is incorporated into all activities undertaken by YEC. A further concern with DSM Administration expenses is that the

[24] Exhibit B1 (b), page 3-12
[25] Undertaking # 3 at Tr. page 28, lines 12-18; response received November 16, 2012
[26] Exhibit B1 (b), Appendix 5.2. page 5.2-1
[27] Exhibit B1(b), Table 3.9, page 3-11

expenses have no definable benefits, unlike the projects that are amortized.[28] This is additional evidence that DSM Administration expenses are activities that are already defined by existing corporate accounts.

22. The City recommends the Board direct that all DSM Administration expenses be excluded from 2012 and 2013 revenue requirement and the DSM Policy be modified by including the underlined wording in Section 2.2:

> 2.2 The following DSM-related costs shall be expensed <u>to the appropriate corporate account</u> as incurred:

5. Depreciation, Amortizations and Deferral Accounts

5.1 Regulatory Costs

23. YEC proposed the following amortization of regulatory costs[29]:

YUKON ENERGY CORPORATION
Continuity Schedule of Deferred Costs (2012)
($000S)

Table 5.6
April 2012

	Total expenditures					Accumulated Amortization		
	Dec 31 2011	Forecast 2012 Additions	Forecast 2012 Transfers/ Write-offs	Forecast 2012	Amortization Rate and Method	Dec 31 2011	2012 Forecast expenses	Forecast 2012
Rate Case								
Completed projects:								
YUB 2007-7 & 9 - Resource Plan	642,853			642,853	SL-10 years	257,141	64,285	321,427
YUB 2007-7 & 9 - PPA Review	243,045			243,045	SL-12 years	81,015	20.254	101,269
YUB 2007-8 - Part 3 Hearing	185,011			185,011	SL-45 years	16,445	4,111	20,557
Reserve for Injuries & Damages - Study	42,500			42,500	SL-2 years		21,250	21,250
2008/2009 GRA Phase 2	312,537			312,537	SL-2 years		156,269	156,269
Brushing & ROW Vegetation Management	173,227			173,227	SL-2 years		86,614	86,614
Alexco PPA Regulatory Costs	53,854			53,854	SL-5 years		10,771	10,771
DSM	1,037,179	1,074,000		2,111,179	SL-10 years		30,262	30,262
DSM Contributions	(734,554)			(734,554)	included in above			
Rate Schedule 39 Inflation Update	25,691			25,691	SL-2 years		12,846	12,846
Rider F Policy Review	31,535			31,535	SL-2 years		15,768	15,768
Resource Plan Update	633,906	225,000		858,906	SL-5 years		-	-
2012/2013 GRA Phase I		1,100,000		1,100,000	SL-2 years		550,000	550,000
Total Rate Case Closed	2,646,784	2,399,000	-	5,045,784		354 601	972,429	1,327,030

24. The City disagrees with the proposed amounts to be amortized, the proposed periods of amortization and the proposed timing of amortization. With respect to past regulatory hearings (the 2008/2009 Phase 2, Alexco PPA and Rate 39 Inflation Update) these costs were approved in Board Orders 2011-08, 2011-09, 2011-07 and 2011-07 (errata), respectively. Each Order, with the exception of the errata Order, contains the phrase "The Board directs YEC to amortize these

[28] Tr. page 35, lines 11 - 21
[29] Exhibit B1 (b), Table 5.6, page 5-60

hearing-related costs." The City interprets this to mean that amortization of the costs in these orders should have taken place in 2011. YEC did not amortize these costs in 2011.[30] The City submits that the amount to be amortized beginning in 2012 as a result of these three cost orders should be reduced by one-half the annual amortization, in recognition of the mid-year convention.

25. With respect to the period of amortization, the City considers that rate hearing costs should be amortized over a period of five years, not two years as YEC proposes. Amortizing hearing costs over a two year period consisting of the test years results in customers paying for hearing costs embedded in rates in the years between applications. YEC applied for rate relief in 1998, 2005, 2008 and 2012, or with an average interval of 4.7 years.[31] A five year amortization period would permit hearing costs to be fully amortized between rate cases.

26. Finally, the City notes that YEC proposes to amortize the costs of this particular hearing prior to receiving a cost order. A review of YEC's process indicates that the estimated hearing costs are revised at the time of the compliance filing but are never trued up to actual.[32] By never adjusting the hearing costs incorporated in rates to the actual costs awarded, YEC denies customers any benefit of the reductions to costs claimed by the utility or intervenors. The flaws in YEC's hearing cost amortization process are amply demonstrated by the detailed explanation of how the costs from YEC's 2008/2009 GRA were awarded and amortized provided in Undertaking # 11 at Page 88, line 12. In the compliance filing, YEC included $800,000 to be amortized during the test years ($400,000 each year) whereas Order 2009-11 awarded YEC total hearing costs of only $640,065.28. YEC's hearing cost methodology resulted in customers overpaying $159,934.72 in regulatory costs during the test years. Customers then annually paid $400,000 to YEC through rates for hearing costs that were never incurred.

27. Hearing costs lend themselves to deferral account treatment similar to the RFID. These costs are difficult to forecast accurately and they incur infrequently. For example, YEC forecast

[30] Tr. page 73, line 21 - line 4
[31] Exhibit B1 (b), page 2, paragraphs 1 - 3
[32] Tr. page 86, line 10 – Tr. page 88, line 19

2008/2009 hearing costs of $1,100,000 whereas the Board awarded $640,065.28[33]. A deferral account assures that customers pay no more and no less over time that the costs that were actually incurred. Therefore, the City recommends that YEC establish a Hearing Cost Reserve Account, similar to that employed by YECL, on a going forward basis for the hearing costs it seeks approval for in this Application. Those hearing costs that are already being amortized should continue to be amortized according to the Board Orders that approved them. The City submits that a Hearing Cost Reserve Account would promote rate stability, would treat YEC and YECL equally and ensure that hearing costs are recovered accurately over time.

28. The City suggests that the annual appropriation be calculated to amortize the account over five years, being the interval between YEC rate cases. The costs awarded by Orders 2011-08, 2011-09, 2011-07 and 2011-07 (errata) are reduced by a half-year of amortization. The City assumes that the studies provided for the hearings will be approved in full by a cost order as no objection was raised during these proceedings with the findings. The City considers that the hearing costs of $1,100,000 forecast for these proceedings are excessive. In the City's view these proceedings have been no more complex than the 2008/2009 GRA, for which the Board awarded approximately $640,000 in costs. Accordingly, all else being equal, the City would forecast that the costs to be awarded for these proceedings would be $640,000. However, taking into account the new Schedule 1, Scale of Costs approved by Yukon Utilities Board Order 2012-09 dated October 17, 2012, which applies to this application, some escalation of forecast costs would be reasonable. Using the increase in the maximum hourly rate for lawyers to $350 from $225 as a proxy for the over-all level of expected increase, would result in a forecast cost for this proceeding of some $995,555, which the City will round up for a forecast of $1,000,000.

29. The annual appropriation for the Hearing Cost Reserve account can be adjusted at a subsequent GRA for over- or under-recovery of awarded costs. Table 1 sets out these costs and the appropriation for each year:

[33] Undertaking 11, Tr. page 88 line 12

Table 1

Proposed YEC Hearing Cost Reserve Account

	2012	2013	2014	2015	2016	2017	2018
Opening Balance	-	39,324	1,725,423	1,380,339	1,035,254	690,169	345,085
Additions:							
2008/2009 GRA Phase 2	281,283						
Alexco PPA Regulatory Costs	48,469						
Rate Schedule 39 Inflation Update	23,122						
Rider F Policy Review	31,535						
Resource Plan Update		858,906					
Brushing & ROW Vegetation Management		129,778					
Reserve for Injuries & Damages - Study		42,500					
2012/2013 GRA Phase I		1,000,000					
Total Additions:	384,409	2,031,184	-	-	-	-	-
Less: Annual Appropriation	345,085	345,085	345,085	345,085	345,085	345,085	345,085
Closing Balance	39,324	1,725,423	1,380,339	1,035,254	690,169	345,085	-

5.2 Demand Side Management (DSM) Planning Policy

30. The City does not oppose YEC's proposed DSM Planning Policy[34] and the resultant periods of amortization and policies for expensing with the exception of DSM Administration Expenses. This was discussed in a separate section of this argument. The City recognizes that DSM is in its infancy at this stage in Yukon and should be treated in a manner similar to deferred study costs. The City agrees with YEC that DSM should be regarded as an environmentally responsible supply option requiring investment and evaluation similar to wind, geothermal and hydro.[35] Given that DSM will likely result in viable supply options at some time, YEC should be directed to make provision in its DSM Policy for rate base treatment of DSM projects similar to that afforded to other supply options when tangible and significant energy savings are identified.

[34] Exhibit B1 (b), Appendix 5.2
[35] Tr. page 31, line 18 – page 32, line 10

5.3 Deferred Study Costs Planning Policy

31. YEC proposed a Planning policy for the treatment of various studies taken to plan the development of its system.[36] The City does not take issue with this policy and that customers should bear the cost of these studies over time. These studies must be undertaken to determine alternatives that will result in the least-cost generation to customers. Customers even benefit from studies that do not result in projects as the utility will have avoided a high-cost option. However, there appears to be some uncertainty that remains after the hearing as to whether all the feasibility studies in Tables 5.3 to 5.7 have or have not passed the "Reasonable Assurance Test".[37] If a study has passed the Reasonable Assurance Test, YEC should be directed to remove the study from Tables 5.3 to 5.7 and reclassify it as a capital project.

5.4 Diesel Contingency Fund (DCF)

32. YEC requested permission to reactivate the DCF based on diesel being on the margin during the test years.[38] YEC indicated that no additions or withdrawals had been made to the Fund since December 31, 2007. YEC forecasted no secondary sales during the test years but proposed crediting any secondary sales to the DCF in the future. YEC did not propose any change to the current ±$4,040,046 cap on the fund, although this might need to be addressed if diesel continued to be the primary fuel source.[39] YEC proposed a DCF pro-forma report in the following format:[40]

[36] Exhibit B1 (b), Appendix 5.1
[37] Tr. page 90, line 4 – page 91, line 6
[38] Exhibit B1 (b), page 3-28 line 23 – page 3-29 line 16, and Appendix 3.2
[39] Exhibit B1 (b) Appendix 3.2, page 3.2-5
[40] Exhibit B5, CW-YEC-1-24 (b)

Table 1:
Diesel Contingency Fund Pro-Forma Monthly Report (2013)

		Jan Actual	Feb Actual	Mar Actual	Apr Actual	May Actual	Jun Actual	Jul Actual	Aug Actual	Sep Actual	Oct Actual	Nov Forecast	Dec Forecast	Total
	Hydro (MW.h)	41,527	36,581	37,028	31,388	31,899	29,925	31,770	30,710	33,216	35,203	39,806	40,870	419,921
	Diesel (MW.h)	1,501	1,357	3,670	688	300	132	212	212	112	112	1,901	1,901	12,098
	Wind (MW.h)	-	-	5	3	5	20	30	46	80	39	-	9	238
L1	Total YEC Supply (MW.h)	43,028	37,938	40,703	32,079	32,204	30,077	32,013	30,968	33,408	35,354	41,707	42,780	432,257
L2=L1-238	Actual Grid Load (Load less GRA Wind Generation) (MW.h)													432,019
L3	Grid Load Benchmark (MW.h) (Table 3.2-2)													430,000
L4	Diesel as % of Increased Load (MW.h)													56%
L5	Expected Base Diesel Generation (MW.h)													18,100
L6=(L2-L3)xL4	Expected Incremental Diesel Generation (MW.h)													1,131
L7=L5+L6	Total Expected Diesel Generation (MW.h)													19,231
L8=L7x59%	Expected Diesel Generation in Rates (MW.h)													11,342
L9	Actual Diesel Generation (MW.h)	1,501	1,357	3,670	688	300	132	212	212	112	112	1,901	1,901	12,098
L10=L9-L8	Diesel Generation to be Included in DCF (MW.h)													756
L11=L10x$0.3168	Incremental Diesel Generation Cost to Charge (Refund) DCF ($000s)													$ 240

Note: Pro-forma monthly report assumes actual load and diesel generation for some 2013 months in the table for illustration purposes.

33. Even though customers will bear the risk of secondary sales and hydro variability as a result, the City has no objection to reactivation of the DCF as proposed by YEC. The City notes that the DCF report will be filed annually with the YUB but will not contain the actual DCF balance at any given time nor will there be any narrative.[41] Given YEC's uncertainty concerning the current DCF cap, the City submits that the Board should direct that the DCF reporting be made on a quarterly basis and contain an update on the DCF balance and a short narrative as to whether the DCF will require replenishment or refunding or will require revision of the cap.

5.5 Reserve For Injuries and Damages (RFID)

34. YEC noted that the RFID was demonstrating an increasing deficit[42]. To address this deficit, YEC first requested that the Board approve a transfer of $0.398 million of one-time funds from Faro Mine Dewatering Deferral Revenues against the RFID balance. Secondly, YEC requested that the remaining RFID balance of $0.180 million be amortized over a 5-year period. Finally, YEC requested that the annual appropriation to the RFID be increased to $195,000 per year beginning in 2012[43]. This increase was based on an actuarial valuation of YEC's RFID provided as Appendix 12.5 to Tab 12 of Exhibit B1 (c). The resultant appropriation, including the

[41] Tr. page 54, line 12 – page 58, line 25
[42] Exhibit B1 (b) page 3-17, line 19 –page 3-18 line 1
[43] Exhibit B1 (b), page 3-18, line 5 to page 3-19 line 3

amortization of the remaining RFID deficit was $229,000.[44] The changes to the RFID were incorporated in a revised Finance Policy.[45]

35. The City accepts YEC's proposal to transfer funds to the RFID from the Faro Dewatering Fund and to close this account. The City further accepts that the remaining deficit be amortized over five years. The City also agrees with the recommendation of the actuary that the RFID appropriation needs to be increased, based on past experience of claims. However, the City does not accept the actuary's recommendation that the annual appropriation, net of any deficit amortization, should be increased to $195,000.

36. The City notes that application of the proposed Finance Policy results in the full value of any loss above $10,000 being charged to the reserve.[46] This results in inconsistent treatment of claims above and below $10,000 and the customer absorbing the full cost of claims over $10,000. YEC's evidence is that there is "no particular reason" for YEC not absorbing the first $10,000.[47] The City submits that self-insurance should be treated consistently with commercial insurance and should bear an effective deductible. The Finance Policy should be amended to charge the first $10,000 to the department incurring the loss. The City considers that this will induce employees and managers to employ practices that will reduce claims.

37. To reflect this effective deductible to the RFID, the City recommends that the Board direct the RFID annual appropriation to be reduced by $30,000. This figure results from the history of RFID claims[48] exceeding $10,000, as summarized in the following table:

[44] Exhibit B1 (b), page page 3-19 lines 5-8
[45] Exhibit B1 (b), Appendix 3.1
[46] Exhibit B5, CW-YEC-1-23, (d)
[47] Tr. page 93, line 20 - page 94, line 7
[48] Exhibit B5, CW-YEC-1-43 (b) Attachment 1

Table 2

Year	# Incidents over $10,000
1997	3
1998	8
1999	5
2000	2
2001	1
2002	2
2003	2
2004	2
2005	0
2006	7
2007	2
2008	4
2009	3
Average	3.2

38. The City recommends that the annual RFID appropriation of $231,000 inclusive of amortization be reduced to $201,000 to reflect the amended Finance Policy.

6. Cost of Capital

6.1 Forecast Cost of Equity

39. In the 2008/2009 GRA, YEC proposed employing the British Columbia Utilities Commission ("BCUC") generic cost of equity for the test years plus 2 basis points. The two basis points represented the BCUC's 52 basis points upward adjustment for the risk of a small utility less a 50 basis points reduction required by OIC 1995/90 (as amended by OIC 1998/32). The City supported a formulaic approach to determine YEC's return on equity in the 2008/2009 GRA and continues to support this approach in these proceedings.

> "A generic formula provides a fair and objective method of determining what can be a contentious issue that can be costly to the utility and customers to resolve. The City considers that the formulaic approach to ROE provides for an efficient process and serves to reduce regulatory costs."[49]

[49] Argument of the City of Whitehorse dated May 22, 2009, page 15 of 26

40. In the Application, YEC noted, "The BCUC is currently engaged in a review process; however, until this review is completed, a more up-to-date low risk benchmark is required for the purposes of determining fair ROE for the test years. Aside from using a more up-to-date benchmark ROE for a low risk utility, Yukon Energy intends to maintain the approved practice adopted for previous applications (i.e., the approved adjustment to reflect any specific added risks related to Yukon Energy)."[50] Because the BCUC did not set a generic ROE for 2012, YEC proposed employing the Alberta Utilities Commission ("AUC") generic return on equity as determined in AUC Decision 2011-474. To the 2012 ROE of 8.75% for 2012, YEC added the net two basis points for a proposed ROE of 8.77% for 2012 and 2013.

41. The City agrees with YEC that a change from the BCUC generic cost of capital to the Alberta AUC method is required for these proceedings. The timing of the BCUC's process is inconvenient for these proceedings.[51] However, the City disagrees with YEC's selective application of the AUC's methods to these proceedings. YEC has cherry-picked features of the BCUC and AUC methods which is not a valid application of the AUC's formulaic approach. The City submits that YEC should apply the AUC method in a consistent manner for both 2012 and 2013.

42. The AUC's method is to set a rate for a generic utility and to then adjust the capital structure of specific utilities for the relative riskiness of that utility.[52] To correctly apply the AUC method, any adjustments for YEC's specific risks should be made to its capital structure, not via a 52 basis point addition to ROE. Regarding the 50 basis point reduction, the City notes that OIC 1995/90 (as amended by OIC 1998/32) is still in force. The City interprets "a normal commercial return on Yukon Energy Corporation's equity, less one-half of one percent (0.5%)"[53] to mean that, adhering to the AUC's method of determining a return on equity, YEC's return on equity shall be 8.25% for 2012, on a capital structure appropriate to its risks (see next section).

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[50] Exhibit B1 (b), page 8-3, lines 9-14
[51] Tr. Page 651, lines 1-11, including Undertaking #32, the response to which is in the Nov. 16, 2012 filing
[52] Exhibit B5, CW-YEC-1-41 (a) , Table 2, pages 4 and 5 of 7
[53] OIC 1995/90, S. 2

43. AUC Decision 2011-474 continued its 2012 generic return on equity as an interim rate for 2013 until completion of a hearing scheduled for 2013.[54] The City is reluctant to support the use of placeholders for revenue requirement but the AUC is highly unlikely to have completed Proceeding ID 2191 prior to YEC's compliance filing. The City proposes that the Board set an interim ROE of 8.25% for 2013 subject to the AUC's final determination of a final generic ROE for 2013. If there are significant changes to the AUC's final 2013 ROE from the interim award, YEC's revenue requirement could be adjusted through Rider R.

6.2 Capital Structure

44. YEC proposed a capital structure based on a ratio of 60% debt and 40% equity. This was based on a study performed in 1990 by RBC Dominion Securities that determined that this is a minimum required to "maintain what would be viewed by the markets as an investment grade rating".[55] Given that the business and financial risks for YEC of 1990 are unrelated to those facing YEC during 2012, the City submits that it is time that YEC's risk is re-evaluated according to the AUC's methods of determining a utility's risks. The City submits that this need not be a lengthy exercise as YEC has provided the AUC's evaluation of appropriate capital structures of the utilities it regulates.[56] These entities access the capital markets at commercial rates, which is the same criterion used by RBC Dominion Securities in 1990.

45. YEC considers itself "a vertically integrated utility with generation, transmission, and distribution functions."[57] The electric industry in Alberta is organized into separate Generators, Transmission Facility Owners (TFOs) and Distribution Companies (DISCOs). Generators are not regulated so the AUC does not evaluate the risk of these entities. Despite these differences, it should be possible to infer an appropriate capital structure based on the AUC's determinations in Decision 2011-474.

46. The City does not accept YEC's characterization as a vertically-integrated electric utility. YEC's distribution assets are not significant compared to its transmission and generation assets, adding

[54] AUC Notice of Application No. 1608918, ID 2191, dated October 18, 2012
[55] Exhibit B5, CW-YEC-1-39 (d), Tr. page 102, line 20 – page 104, line 18
[56] Exhibit B5, CW-YEC-1-41 (a) Table 1
[57] CW YEC 1-39 (a) - (c)

little to YEC's risk profile. The AUC has determined that a TFO's capital structure should consist of 36-37% equity.[58] YEC's generation consists of a mix of primarily hydro and diesel units with some wind generation. YEC states that its diesel generation bears little risk.[59] YEC's hydro generation bears risks during construction that are mitigated and borne by customers by the ability to charge CWIP during construction, amortizing the costs of studies that have not passed the Reasonable Assurance Test and by review of the Resource Plan. YEC's hydro construction risks are manageable and no different than the construction risks faced by a TFO in Alberta. YEC's hydro availability risks and secondary sales risk are now borne by the customer.[60] The risk resulting from fuel price variability is borne by Rider F.[61] YEC operates an isolated grid without interconnection to outside producers ensuring that it can sell all the power it produces. The City concludes that YEC's generation risks are no different than that of a TFO. Accordingly, the City submits that YEC's capital structure should consist of no more than 37% equity.

6.3 Forecast Cost of Debt

47. YEC forecast the interest rate of new debt for 2012 and 2013 of 5%. This was based on the rate of 5% obtained for the $100 million 30-year issued in 2010. Since this was the most recent commercial rate for YEC's debt, this was the rate used for the forecast cost of debt for the test years.[62] The City does not consider that a rate for debt incurred two years previously is suitable as a forecast interest rate for a forward test year. Furthermore, it is unclear at the moment whether YEC will be tapping the commercial markets in 2012 and 2013.[63] Even if YEC does tap the commercial markets for debt during the test years, there is no evidence on the record as to what a proper forecast of its commercial debt would be.

48. The City notes that YEC's past practice employed a formulaic approach to determine the cost of debt.

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[58] Tr. page 105, line 14 – page 106, line 10
[59] Tr. page 274, line 23 – page 275, line 2
[60] Tr. page 44, lines 6 25 and page 294, line8 – page 295 line 12
[61] Tr. page 45, lines 11 - 16
[62] Exhibit B9, CW-YEC-2-3, page 2 of 2, lines 5-9
[63] Tr. page 99, line 3 - page 100, line 2

> "New YEC debt required at the end of each fiscal year has typically been provided by YDC. Since the early 1990s, interest rates on such new YDC debt have been set each year based on a proxy for market conditions (i.e., long-term Canada bond rates plus 120 basis points to reflect the estimated spread for YEC debt guaranteed by the Yukon Government)."[64]

49. The City has been supportive of the formulaic approach to the cost of equity, as noted in this argument. The same formulaic principles can easily be applied to the forecast cost of equity using the proxy Long Canada plus 120 basis points employed by YDC since the 1990s. The evidence in these proceedings is that the 2013 Consensus Forecast when the application was prepared in April was between 2.57 to 2.77 percent.[65] The City accepts this as an appropriate forecast for year-end 2012, which indicates that YEC's 2012 forecast cost of new debt should be a maximum of 3.97%. The Consensus forecast at the time of the hearing was between 2.31 and 2.38 percent.[66] The City submits that the YDC formula indicates that the 2013 forecast cost of new debt should be a maximum 3.58%.

7. Summary of Recommendations

50. The Board should direct YEC to provide detailed support for the Wholesale Sales forecast in future applications. The City submits that the Board should approve the 2012 Wholesale Sales Forecast at 286,357 MWh for 2012 and at 289,755 MWh for 2013. YEC should be directed to adjust its total sales, forecast of diesel generation, the DCF and any other adjustments that may be necessary.

51. The City recommends that the costs and revenues attributable to WHCT be removed in the compliance filing pending a Board hearing determining the matter of whether YEC or YECL serves WHCT.

52. YEC should correct its 2012 opening Plant Balances to the actual balances recorded in the Regulatory Filings, except as noted in the subsequent section, as part of the compliance filing. In

[64] Exhibit B9, CW-YEC-2-3, page 1, line 35 to page 2, line 3
[65] Tr. page 202, lines 23- 25
[66] Tr. page 202, line 25 – page 203, line 2

addition, YEC should provide, in the compliance filing, a reconciliation of its forecast plant balances, as applied for, to the actual, explaining any differences between forecast and actual.

53. The City recommends that Mayo B be removed from the 2012 opening plant balances and placed in PHFFU until the project is complete and accepted for service.

54. The City recommends that YEC's forecast transmission brushing costs for the test years be reduced to reflect a unit cost of $375/km, the average of its 2010 and 2011 unit costs.

55. The City recommends that YEC's forecast distribution brushing costs be reduced to $68,000 since YEC expects "similar results" as in 2011.

56. The City recommends that YEC should amortize hearing costs over a five year period. YEC should be directed to set up a Hearing Cost Reserve Account per Table 1 of this argument that will amortize hearing costs over five years. The City submits that the costs awarded in Board Orders 2011-08, 2011-09, 2011-07 and 2011-07 (errata) should be placed in the Hearing Cost Reserve Account account less half a year of amortization.

57. The City recommends that if a study has passed the Reasonable Assurance Test, YEC should be directed to remove the study from Tables 5.3 to 5.7 and reclassify it as a capital project.

58. The City recommends that all DSM Administration expenses be excluded from 2012 and 2013 revenue requirement and the DSM Policy be modified by including the underlined wording in Section 2.2:

> 2.2 The following DSM-related costs shall be expensed <u>to the appropriate corporate account</u> as incurred:

59. The City suggests that the DCF reporting be made on a quarterly basis and contain an update on the DCF balance and a short narrative as to whether the DCF will require replenishment or refunding or will require revision of the cap.

60. The City recommends that the annual RFID appropriation of $231,000 inclusive of amortization be reduced to $201,000 to reflect the amended Finance Policy.

61. The return on equity awarded to YEC for 2012 should be 8.25%. For 2013, the ROE should be set to 8.25% on an interim basis pending the outcome of the AUC 2013 Generic Cost of Capital process.

62. YEC's capital structure should be reduced to 37% equity to reflect its business and regulatory risks.

63. YEC's 2012 forecast cost of new debt should be a maximum of 3.97% and the 2013 forecast cost of new debt should be 3.58%.

All of which is respectfully submitted this 28th of November, 2012.

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