

**YUKON
ENERGY**



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October 22, 2008

Yukon Utilities Board
Box 31728
Whitehorse, YT
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Attention: Ms Wendy Shanks, Board Chair

Dear Ms. Shanks:

Re: Yukon Energy Request for Interim Refundable Rates

As a result of discussions with YECL outlined in more detail below; Yukon Energy is required to amend its interim rate application implementation date from November 1, 2008 to December 1, 2008. Yukon Energy also responds below to comments that intervenors have provided on this interim rate application.

Amended Interim Rate Application Start Date

Further to the Board's letter of October 17, 2008, Yukon Electrical Company Limited (YECL) has informed Yukon Energy that YECL cannot implement as of November 1, 2008 interim retail rate changes as proposed by Yukon Energy in its 2008-2009 General Rate Application (Application) filed October 6, 2008 even if a decision on that application was rendered this week. As the Board is aware, YECL directly supplies the vast majority of retail customers in Yukon and also is the billing service provider to YEC as regards YEC retail customers. Accordingly, given YECL's position Yukon Energy is required to amend its interim retail rate change Application to start December 1, 2008.

- i. Accordingly, item 3 on page 7 of the Application is amended to seek Board approval to implement the 2009 retail rate changes and decreases noted in item 2 (pages 5, 6 and 7) of the Application effective on an interim refundable basis at December 1, 2008, along with other rate schedule changes as set out in item 2 of the Application.

Response to Intervenor Comments

Comments from the Leading Edge Projects Inc. (LE), City of Whitehorse (CW), Utilities Consumers' Group (UCG), and YECL have supported an interim rate reduction as proposed by Yukon Energy, but have generally proposed that this be done only through an across the board

rider reduction, e.g., a reduction in Rider J, without any interim rate changes to promote economy and efficiency as directed by OIC 1995/90. Concerns commented on by these intervenors included the following:

- LE noted concern about rate instability related to the many potential rate changes forthcoming from the YECL and Yukon Energy applications, and recommended only one such change prior to calendar year end. LE was strongly in favour of run-out block rates that reflect diesel generation marginal costs of power, as proposed in Yukon Energy's Application – LE left to the Board to determine if first block rate and run-out block rate changes can happen in the current "Phase 1" Yukon Energy hearing.
- CW commented that interim rate changes, in its experience, are generally applied uniformly across-the-board to all existing rates without rate restructuring (e.g., through a Rider J adjustment), and that changes to existing rate design should not be considered in interim rate applications because it is not possible in the time available to carry out the necessary level of scrutiny.
- UCG suggested no "tampering" with rate design until completing a full test of the revenue requirements, and proposed a Rider J reduction. [UCG suggested a Rider J reduction by 17.8% to a negative 2.87% which would in no way be consistent with Yukon Energy's Application – as reviewed in the Application, and demonstrated in the proposed interim 3.48% overall rate reduction for Lighting class rates, the proposed rate reduction if applied on an across-the-board basis through Rider J would reduce Rider J by only 3.48 percentage points.]
- YECL also recommended a Rider J approach for interim rates, suggesting that the development of any "new rate structure including changes to existing approved tariffs should be fairly tested within the framework of a Phase II process." Suggesting that Yukon Energy's approach "raises certain regulatory efficiency questions", YECL requests that the Board convene a "Phase II Workshop that would address the appropriate process to consider all Phase II issues related to both YEC and Yukon Electrical."

In addressing the above concerns regarding precedence for interim rate changes approved in Yukon, as well as concerns about rate stability and regulatory efficiency, Yukon Energy provides the following comments for the Board's consideration:

- Contrary to suggestions from YECL and others, past Board Orders demonstrate that interim rate changes of the type proposed by Yukon Energy for interim rate approval are reasonable and consistent with good practice, the Board's jurisdiction, and OIC rate directives. Joint GRA applications were filed by Yukon Energy and YECL (when YECL was manager for Yukon Energy) that sought interim runoff rate block rate changes to promote economy and efficiency as well as other interim rate changes that were not applied as either riders or across-the-board rate changes:
 - the last joint application governed by OIC 1995/90 (the 1996/97 GRA) proposed a wide range of such interim rate schedule changes, including run-out rate block changes; in those specific circumstances, the Board rejected approval of any interim rate riders or other changes based on the magnitude and varied effects among classes of customers. (Order 1996-1 found that the contemplated rate

changes were “of sufficient magnitude” and would “have such a varied effect on the different classes of customers that they should not be approved without a complete review of the evidence.”)

- the much earlier 1991/92 joint GRA application (governed by earlier similar rate directives as regards run-out rates) demonstrated proposed interim rate schedules that included numerous variable rate adjustments within rate class rate components, including run-out rate changes varying by rate class and rate zone to promote economy and efficiency. Board Order 1991-1 approved as interim rates the proposed new rate schedules (reasons were addressed in Order 1991-2).
 - In summary, the material issues to consider with regard to interim rates relate to the magnitude of proposed rate changes and the extent of effects variation among different customer classes – and there is no reasonable basis in Yukon GRA practice for suggesting that interim rate proposals must be limited to across-the-board rate riders such as Rider J.
- In consideration of past Yukon practice and Board directions, Yukon Energy’s Application has tempered the range and magnitude of the proposed interim rate changes:
 - The rate changes are designed to prevent any rate revenue rebalancing among retail customer classes.
 - The proposed runoff rate block changes are restricted only to residential customer classes, reflecting (as stated in the Application) the need for future joint Yukon Energy and YECL rate design work to identify and assess options before implementing similar changes for general service customer classes;
 - The residential runoff rate increases are also moderate and, as explained in the Application, are in effect only a modest step towards achieving the results required based on 1996/97 GRA rate design principles as well as OIC 1995/90 rate directives to promote economy and efficiency in the context of 2008 versus 1996 diesel generation costs.
 - All other interim rate changes go to reducing first block rates – this approach is driven by recognition that reduction of runoff block rates at this time would not promote economy and efficiency as directed by OIC 1995/90, or be consistent with 1996/97 GRA rate design principles. As noted in the Application, on average in Yukon over a year about 70% of non-government residential customer monthly bills and 67% of non-government general service customer monthly bills show only first energy block level use.
 - Yukon Energy’s interim rate proposals are directed at rate stability objectives, i.e., the Application seeks to implement one set of YEC-related rate adjustments for both 2008 and 2009 (starting with the interim rates), and to avoid use of across-the-board rate riders that are clearly not appropriate and contrary to current rate design requirements reflective of the 1996/97 GRA rate design structure as well as OIC 1995/90 rate directives.
 - In the interest of regulatory efficiency, as well as past GRA practice in Yukon (where “Phase I” and “Phase II” matters were typically addressed in the same application and

hearing), Yukon Energy's Application does not seek to defer adjustment of specific rates until a separate "Phase II" hearing process.

- Past GRA practice demonstrates the need and efficiency to address in the initial application rate changes as needed and readily feasible to reflect rate design directives and principles. Past practice also confirms that such proposed rate changes made within the established framework (e.g., runoff rate changes consistent with established principles) can and should be implemented as interim rates.
- Where it is not practicable in this instance to address specific rate design matters in the initial application, Yukon Energy is supportive of initiatives (e.g., workshops to consider specific matters that might then be brought forward during Yukon Energy's Application hearing process) to avoid the need for a separate Part II hearing process or consideration of cost of service study matters at this time; in Yukon Energy's view, this approach is also supported by the recent OIC 2008/149 requiring that, until the end of 2012, rate adjustments for retail customers are to apply equally, when measured as percentages, to all classes of retail customers. However, Yukon Energy does not support the suggestion that all non-uniform rate changes should be delayed or deferred in this manner – and submits that the proposed rate changes in Yukon Energy's Application meet all of the reasonable tests for consideration in the Application and as interim rates.

Yukon Energy notes that its interim rate Application does not give rise to conflicts between the utility and customers, i.e., the above issues deal with what is fair and reasonable for rate changes among the various customers and levels of customer use. There is no concern as to the proposed reduction in rates where Yukon Energy seeks to pass on to customers as soon as practicable the benefits of connecting the Minto mine to the grid. Yukon Energy also notes that, under its proposals, the magnitude of the benefits received by most retail customers in each retail customer class is materially greater than would occur through an across-the-board reduction in Rider J.

The rate design directives in OIC 1995/90 apply equally to, and to the benefit of, all customers of both YECL and Yukon Energy. In this regard, run-off rate adjustments in Yukon have been driven in past GRAs by OIC rate directives and diesel fuel generation incremental costs, i.e., these adjustments have not been predicated on past cost of service studies. The current need to increase runoff rates has been jointly recognized by both YECL and Yukon Energy as a prime first step consideration for any contemporary rate redesign initiative (see August 26, 2005 joint letter to YUB on cost of service matters as directed by Order 2005-1).

As the main generator and transmitter of electricity in Yukon, however, Yukon Energy is directly interested in promoting economy and efficiency through adjusted and higher run-off rates more consistent with OIC 1995/90, the 1996/97 GRA rate structure and the major oil price increases which have occurred since the 1996/97 GRA. As reviewed in the Application (Section 4.4.2), at today's electricity run-off rates based on 1996/97 GRA diesel fuel price forecasts, residential customers are receiving inefficient price signals that second block electricity is presently cheaper for heating than using furnace oil. The proposed interim rates begin to implement more

appropriate updated prices signals at the earliest opportunity. In contrast, a flat Rider J reduction applied to these run-off rates would move these rates in the wrong direction and actively work against promoting economy and efficiency as directed by OIC 1995/90.

In summary, Yukon Energy notes the following with regard to intervenors' comments related to the interim rate application:

1. Granting interim relief as proposed with non-uniform rate changes, is consistent with past practice on interim rates in this jurisdiction.
2. The proposed run-out block rate increase is only a modest step towards achieving the economy and efficiency results required by 1996/97 GRA rate design principles, as well as OIC 1995/90 in the context of 2008 diesel generation marginal costs of power.
3. The proposed run-out block rate increase applies only to residential customers. Run-out block rate changes for commercial classes of customers will be addressed as soon as practicable in discussions with YECL.
4. The proposed interim rate changes do not require delay until a Phase II process or Cost of Service analysis.
5. Any alternative (e.g. including a Rider J reduction) that results in lowering of the current second block rates does not meet the test of economy and efficiency required by the OIC 1995/90 in the context of 2008 diesel generation marginal costs of power.

In closing, Yukon Energy has sought to keep YECL advised of the rate change options and issues that it has been considering. Further, Yukon Energy's Application proposes that, as a first priority, future joint YEC/YECL attention be directed as soon as practicable at identifying and assessing rate design options for General Service rate classes as required to promote economy and efficiency in accordance with OIC 1995/90.

Yours truly,



for David Morrison
President & CEO