

**IN THE MATTER OF YUKON
ENERGY CORPORATION RATE
SCHEDULE 39 ESCALATION OF
DEMAND & ENERGY CHARGES
UNDER OIC 2007/94**

FINAL ARGUMENT OF YUKON ENERGY CORPORATION

P. John Landry
Davis LLP
2800 - 666 Burrard Street
Vancouver, BC V6C 2Z7
Tel: 604.643.2935

Counsel for Yukon Energy Corporation

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OVERVIEW OF APPLICATION

Yukon Energy (“YEC”) filed an application with the Yukon Utilities Board (the “Board”) on November 30, 2010 (the “Application”) seeking an Order from the Board for approval of escalation of Rate Schedule 39 Demand and Energy Charges required pursuant to OIC 2007/94. Board Order 2010-12 established a written process for review of the Application, with one round of interrogatories, written argument and reply.

On December 30, 2010, YEC requested an interim order on a refundable basis to escalate the Demand and Energy charges in Rate 39 by 2.8% effective January 1, 2011. Board Order 2010-15 approved YEC’s request for an interim order.

On February 21, 2011, Utilities Consumer Group (“UCG”) filed a Notice of Motion requesting the Board issue an order requiring YEC to provide adequate responses to certain questions submitted by UCG. The UCG motion was dismissed by Board Order 2011-3.

SUMMARY OF REQUESTED APPROVAL

The existing Rate Schedule 39 was approved as final by the Board in Board Order 2008-13.

YEC is requesting an Order of the Board approving as final the interim escalation of the Demand and Energy charges in Rate Schedule 39 by 2.8%, effective January 1, 2011 pursuant to the requirement in OIC 2007/94.

ARGUMENT

Yukon Energy’s correspondence on November 30, 2010, December 30, 2010 and January 14, 2011 and interrogatory responses filed February 14, 2011 fully address and support the reasonableness and necessity of the requested approval.

As noted, in Board Order 2011-2 the Board determined that “the scope of the proceeding is limited to the escalation of the Demand and Energy charges in Rate Schedule 39 and the Intervenors should govern themselves accordingly.”

OIC 2007-94 provides for escalation of Demand and Energy charges, once per calendar year, starting January 1, 2010, based on the latest percentage increase in the 12 month implicit chain price index for gross domestic product at market prices for Canada as reported by Statistics Canada. Accordingly, the Application is for a simple annual administrative filing, as required by OIC 2007/94, to increase the Demand and Energy charges in Rate Schedule 39 to reflect inflation of 2.8%.

There has been no challenge that the calculation of the percentage increase in the Application is other than what is required by OIC 2007-94. In this regard, the following are noted:

- **As required by OIC 2007-94 the Statistics Canada 12-month implicit chain price index for GDP was used** – The response to UCG-YEC-1-4 notes the use of this the 12-month implicit chain price index is mandated by OIC, and no other relevant 12-month Implicit Chain Price Index for GDP at market prices for Canada as reported by Statistics Canada is available.
- **Percentage increase in Demand and Energy charges correctly calculated** - In its November 30, 2010 letter to the Board, YEC noted that the most recent data available from Statistics Canada for the Third Quarter of 2010 indicated a requirement to escalate the Demand and Energy charges for Rate Schedule 39 by 2.8% for rates effective January 1, 2011. Supporting data and information from Statistics Canada are provided in response to UCG-YEC-1-3. There is no indication from any intervenor that YEC has incorrectly administered this adjustment to demand and energy charges. In fact, in correspondence filed January 14, 2011 Leading Edge noted its support for the requested escalation in demand and energy charges and confirmed that YEC had consulted the appropriate Statistics Canada table specified in the OIC and correctly identified 2.8% as the appropriate year over year increase.

As noted in response to YUB-YEC-1-1, the requirement to escalate Demand and Energy charges once each calendar year in accordance with the OIC did not commence until January 1, 2010. No escalation was required in December 2009 because there was no increase in the chain price index at that time (see YUB-YEC-1-1, and UCG-YEC-1-6 and related correspondence filed in Attachment 1 to that interrogatory response).

Issues were raised in interrogatories regarding the justification and need for the incremental revenues resulting from the Application and potential consideration of a deferral account for such revenues.

As noted in response to YUB-YEC-1-2(a), the current projected incremental revenue for 2011 if the Board approves the requested escalations is \$123,648. As noted in response to YUB-YEC-1-2(f), YEC cannot provide at this time an updated cost of service for 2011 or a comprehensive estimate of all incremental costs to provide service in 2011 as compared to 2009 costs last reviewed and approved by the Board; however, YEC confirmed that it is expecting continuing and notable escalations in diesel generation fuel and operating costs as well as other costs, and

such escalations are anticipated to be well in excess of the estimated incremental revenues arising from 2.8% escalation.

On the matter of a deferral account for the incremental revenues, the following points demonstrate that such a mechanism is neither needed nor appropriate in the current circumstances:

- As reviewed above, the incremental revenues from the Application are expected to be less than YEC's ongoing incremental cost escalations for 2011 as compared to 2009;
- As confirmed in response to YUB-YEC-1-2(b), it was the position of the Companies (YEC and YECL) in the 2009 Phase II proceeding that the revenue to cost ratio for Rate Schedule 39 customers exceeded unity; and
- As noted in response to YUB-YEC-1-3(f): "Aside from a full new GRA filing, no mechanism exists to assign any portion of the incremental revenues or incremental costs among customers; and on balance, YEC would expect that any new GRA at this time would need to address YEC's ongoing escalations in costs that exceed its escalations in revenues. YEC does not see any basis or need for a deferral account."

ALL OF WHICH IS RESPECTFULLY SUBMITTED



P. John Landry
Counsel for Yukon Energy Corporation