

UTILITIES CONSUMERS' GROUP  
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March 23, 2011

Yukon Utilities Board  
Box 31728  
Whitehorse, Yukon Y1A 6L3

Attention: Deana Lemke, Executive Secretary

**Re: Yukon Energy Corporation Application for Approval of Escalation of Rate Schedule 39  
Demand and Energy Charges per OIC 2007/94**

Dear Ms. Lemke:

Please find enclosed the reply argument submissions of the Utilities Consumers' Group with respect to the above noted matter.

Yours truly,

Roger Rondeau  
Utilities Consumers' Group

**YUKON UTILITIES BOARD**

**IN THE MATTER OF** the *Public Utilities Act*  
Revised Statutes of Yukon, 2002 c.186, as amended

and

**IN THE MATTER OF** an application by Yukon Energy Corporation  
for approval of escalation of Rate Schedule 39 demand and energy  
charges per OIC 2007/94

**REPLY ARGUMENT OF**

**UTILITIES CONSUMERS' GROUP**

**March 23, 2011**

## INTRODUCTION

1. The Utilities Consumers' Group (the "UCG") filed its Final Argument on March 17, 2011 with respect to Yukon Energy Corporation's ("YEC") application for approval of the escalation of Rate Schedule 39 demand and energy charges per OIC 2007/94. Final arguments were also submitted by YEC and Leading Edge Projects Inc.

## REPLY TO LEADING EDGE ARGUMENT

1. On page 2 of its argument, Leading Edge recommends that *"future escalations of Rate Schedule 39 demand and energy charges pursuant to OIC 2007/94 be considered administrative matters by the Board and that the Board approve them following verification that the appropriate escalation rates have been identified"*.
2. As was submitted in our final argument, UCG argues that this recommended approach would be contrary to the directions of the Rate Policy Directive (OIC 1995/90) which require the Board to establish rates in accordance with recognized rate design principles. This recommendation also goes against established Board practice.
3. In its Reasons for Decision in Board Order 2007-5, the Board determined that "the Yukon regulatory environment is one that prefers a direction of standardized utility practice in regard to rates. Such standardized utility practice includes providing a full COS calculation when designing new rates. The process to complete the necessary studies for the cost of service calculation, prepare the application and obtain regulatory approval for new rates can be protracted" and that the Board is of the view that "due to the articulating nature of a COS study, rates cannot be developed in isolation"<sup>1</sup>.
4. UCG submits that simply reviewing escalation rates without considering impacts on the revenue recovery of Board-approved rates would not result in rates that are supposed to be designed to recover established revenue requirements from customer classes.

## REPLY TO YEC FINAL ARGUMENT

5. On page 2 of its argument, YEC states that *"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*

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<sup>1</sup> Board Order 2007-5, Reasons for Decision, page 5

*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”.*

6. YEC goes on to say (on page 3 of its argument) that “*the incremental revenues from the Application are expected to be less than YEC's ongoing incremental cost escalations for 2011 as compared to 2009*”.
7. UCG submits that there has not been any evidence submitted as part of this proceeding to back-up YEC’s suggestion that the costs to serve the industrial class were going to increase. Such unfounded statements should be completely ignored.
8. What is known is that the Board has established a revenue requirement for YEC, divided this revenue requirement among customer classes and then set rates to recover that entire revenue requirement including a fair return. If YEC applies to increase the revenue recovery from one class of customer by a minimum of \$123,648, then this will clearly result in an over-recovery of allowed revenue requirement unless other rates are reduced to compensate. With the anticipated expansion of mining activity in the Yukon, UCG submits that this incremental revenue estimate is on the low side.
9. UCG submits that YEC’s inability to provide a cost of service study and the Board’s established view that standardized utility practice requires the provision of a full cost of service study when designing new rates leaves the Board in a position of being asked to approve new rates without following established rate design principles.
10. YEC goes on to state (on page 3 of its argument) that “*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*”. UCG submits that the Board was well aware of the revenue-to-cost ratios of each customer class when it determined the appropriate revenue recovery from each of these customer classes in the recently completed General Rates Application. UCG submits that this part of YEC’s argument has no relevance to the issue at hand.
11. UCG continues to believe that without supporting cost of service analysis, YEC has not adequately supported its application to allow the Board to make a final decision on the applied-for rates and allow YEC to simply keep this additional revenue in its own private coffers. As is stated in our final argument, the Board is on record as not advocating a policy of deferring revenues or costs outside of the appropriate recognition period for the purpose of keeping rates stable but supporting the view that if revenues exceed the revenue requirement (as is clearly the case here), then the rates should be reduced”<sup>2</sup>.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 23<sup>rd</sup> DAY OF MARCH, 2011.

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<sup>2</sup> Appendix A to Board Order 2007-5, Reasons for Decision, page 10