September 21, 2011

Mr. Bruce McLennan, Chair
Yukon Utilities Board
Box 31728
Whitehorse, Yukon Y1A 6L3

Re: Utilities Consumers' Group ("UCG") and Leading Edge's (LE") Notice of Motion relating to Yukon Energy Corporation ("Yukon Energy") and Yukon Electrical Company Limited ("Yukon Electrical") re: Rider F – Fuel Adjustment Rider & Deferred Fuel Price Variance Policy

In letters dated September 8, 2011, UCG and LE have sought Board Orders for further information from Yukon Energy and Yukon Electrical arguing that the information provided in responses filed September 6, 2011, was not fully responsive. The Board by letter dated September 13, 2011, invited the Companies to provide comments by September 21, 2011.

Overview of Companies Submission

With regard to both letters, the IRs in question are not properly within the scope of this proceeding. It is inappropriate in a narrowly focused review of the Companies' Policy regarding the administration of the Diesel Fuel Price Variance Account ("DFPVA") and related Rider F charges to examine revenue requirement, rate policy and other issues which are not part of the review, and are properly addressed as part of a full General Rate Application "GRA" proceeding.

Scope of the Current Proceeding

This proceeding is defined in large part by Section 8 of OIC 1995/90 which provides the Board with a specific direction relating to fuel price risk in Yukon. It states:

> The Board must permit Yukon Energy Corporation and The Yukon Electrical Company Limited to adjust their rates to retail customers, major industrial customers, and isolated industrial customers so as to reflect fluctuations in the prices for which the two utilities pay for diesel fuel, without the requirement for specific application to and approval from the Board.

Accordingly, Rider F prices set by YEC/YECL are not required to be approved by the YUB, and further, the Companies must be permitted to adjust their rates "so as to reflect fluctuations in the prices for which the two utilities pay for fuel", i.e., the adjustment mechanism must apply to all fuel consumed, not just GRA forecast fuel.

The Board in a letter dated May 26, 2011, noted that "Rider F is effectively a deferral account and subject to true-up based on actual results. Further, the filing for acknowledgement by the Companies conforms with Section 8 of OIC 1995/090." In this respect the Board acknowledged that it was appropriate for the Companies to defer to the DFPVA amounts related to the difference between the actual weighted average cost per litre of fuel consumed and the most recent GRA approved fuel price.

Further, in Board Order 2010-13 the Companies were directed to "file a written policy with the Board detailing how Rider F – Fuel Adjustment Rider is managed." The Companies were not directed to file a Rider F Application in order to examine its impact to revenue requirement and rate policy objectives. As noted above, these are matters that are properly addressed as part of a GRA proceeding.

The Board's May 26th letter and the Board's direction provided in Order 2010-13 have set a clear scope for the proceeding, and the Companies responded to interrogatories according to that scope.

Intervenor comments re: Scope of the Current Review Process

LE notes that concerns raised in previous correspondence were "deferred to this present Rider F policy review proceeding". UCG argues the Board "did not put limitations on the issues to be debated as long as they were related to the exploration of issues identified in the Application." Both submissions fail to consider the policy direction provided by OIC 1995/090 and clarification provided by the Board in its letter dated May 26, 2011.

Specific Issues Raised by Leading Edge

LE asserts inadequate responses were provided to LE-YEC/YECL-1-6 and LE-YEC/YECL-1-7, and reiterates concerns about whether the Companies "….are entitled to collect from ratepayers costs for diesel fuel in excess of the approved fuel prices when generation was in excess of the GRA approved generation." These concerns are addressed above in review of OIC 1995/90 and the fact that this direction makes it clear that fuel price risk is not to be undertaken by the Companies.

LE also notes, "Rider F as proposed by the Utilities transfers some of the risk of under forecast diesel requirements to ratepayers". This assertion is incorrect. As noted the OIC direction relates to fuel price risk. The DFPVA currently protects both the utility and ratepayers from forecast risks related to diesel price variances, and its administration does not transfer risk from one party to the other. If the DFPVA did not apply to all fuel volumes the Companies and ratepayers would not be fully protected from all diesel fuel price variance risk as is clearly contemplated by OIC 1995/90.

LE asserts incomplete responses have been provided to LE-YEC/YECL-1-4 and LE-YEC/YECL-1-5, noting, "there must be an interaction between Rider F (which applies to ALL diesel generation according to the Utilities) and its calculation methodology and the DCF (which is to deal with diesel generation costs related to fluctuations in hydrology)". Further, "it is important that any credits that may be due to the DCF by virtue of above average hydro energy availability is not used instead to cover in whole or in part the Utilities' costs for fuel for diesel generation that [is] above forecasted levels."

Issues related to the DCF are appropriately addressed as part of a revenue requirement proceeding, and are clearly outside the scope of the current review process. However, to help clarify matters it is noted that Rider F is a fuel price adjustment mechanism that addresses only risks related to changes in fuel price from forecast and does not address risk (at GRA-approved fuel prices) for changes in volume from the GRA forecast. All fuel price related risks are addressed by Rider F. This is very different than the DCF. The DCF was created to mitigate the impact of water level fluctuations on the amount of hydro generation available. That mechanism deals with a separate set of risks unrelated to diesel fuel price risk and consequently are not related to DFPVA deferrals or Rider F changes.

Specific Issues Raised by Utilities Consumers' Group

Several of the information requests provided by UCG are revenue requirement issues and are therefore outside the scope of the current limited written process; UCG in its argument acknowledges this when it specifically states it is seeking this information to understand specific issues related to utility costs and cost drivers. This includes the following IRs:

- **UCG-YEC/YECL-1-2(d) and (e)** – Requests information related to the proportion of fuel costs of the total costs of providing electricity for 2009 through 2011 to date as well as details related to the specific actions both utilities have taken to acquire fuel and generate or purchase power. These are revenue requirement issues and are not relevant to this review.

- **UCG-YEC/YECL-1-5** – Requests information on the cost drivers (i.e., the sources of generation used to supply base levels of kWh consumption for 2009 and 2010) and how this generation is dispatched to meet the demands of the various customer classes and asserts it requires this information "to understand how an across the board rate is justified." This is a revenue requirement issue and is not relevant to this review.

- **UCG-YEC/YECL-1-12** – Requests information regarding Rider F calculations related to "…industrial customers for 2005, 2006, 2007, 2008, 2009 and 2010 showing all calculations including kWh, rider rate charged and accumulated monthly amounts collected," and asserts this is required "to better understand the contributions made by the industrial class towards fluctuating fuel costs in Yukon to better understand how all customer classes are treated in a fair and equitable way in the area of revenue requirement recovery." The response provided by the Companies specifically notes that the "Fixed Rider F" is a revenue related item to YEC. This request relates to how amounts charged to the industrial class are booked by YEC as an offset to revenue requirement which is not a rate design issue or Rider F related matter.

Other information requests by UCG simply go well beyond the scope of information required as part of this review. Such information will not facilitate any greater understanding of the DFPVA or related Rider F changes, and consequently has no relevance to the current process.

- **UCG-YEC/YECL-1-3(a), (b) and (c)** – Requests information related to (a) "the details of the amount for fuel expense that has been approved for recovery in rates approved by the YUB in order to have this base data included on the record of the proceeding"; (b) "data for 2009, 2010 and 2011 to date comparing approved levels of fuel consumption by month at GRA-approved prices and actual fuel prices, and actual fuel consumption at GRA-approved prices and actual prices in order to understand and verify the details behind the amounts recorded in the DFPVA"; and (c) "an explanation of why the utilities are proposing the use of actual diesel fuel consumed in the fuel adjustment clause calculations rather than the fuel consumption levels approved by the YUB for recovery in rates in order to better understand the alternative methods for calculating variances in fuel expense." This relates to the same issue raised by LE concerning LE-YEC/YECL-1-6 and LE-YEC/YECL-1-7and is discussed and addressed above.

- **UCG-YEC/YECL-1-11(a)** – Requests information on the difference in diesel fuel prices included in rate versus actual prices paid for the years during which the Rider F was set to 0.0 cents/kWh in order to understand what the tolerance has been by the utilities in the past to accept forecast risk and whether ratepayers have been treated fairly to this point." The historical data requested goes beyond the scope of the process, and in any event is not readily available. Further, pursuant to OIC 1995/90 the Companies do not have a fuel price risk. Although the rider may from time to time be set to 0.0 this does not suggest the Companies are accepting any forecast risk – it is simply an indication that fuel prices are not varying enough to warrant a change in rider to collect or refund amounts being deferred to the DFPVA".

In summary for the reasons set out above there is no basis to seek further information from the Companies arising from either LE's or UCG's notice of motion.

Yours truly,

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YUKON ENERGY CORPORATION

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