John F. Maissan – President
219 Falcon Drive Whitehorse Yukon Y1A 0A2
Phone: (867) 668-3535 Fax: (867) 668-3533
Email: @leprojects. Website: .leprojects.

September 23, 2011

Mr. Bruce McLennan, Chair By email
Yukon Utilities Board
Box 3178
Whitehorse, Yukon
Y1A 6L3

Dear Mr. McLennan:

Re: Yukon Energy Corporation (Yukon Energy) and The Yukon Electrical Company Ltd. (YECL) Rider F Policy review proceeding letter of September 21, 2011

Scope of the current proceeding

Yukon Energy and YECL (together the Utilities) have stated that the scope of this proceeding is narrow and that some of the questions asked by Leading Edge are inappropriate and are properly addressed in a full General Rate Application (GRA) proceeding. The last GRA covered the 2008 and 2009 test years, 2010 was not a test year and it appears likely that 2011 will not be a test year. The Utilities have avoided a direct answer to the IR about whether 2011 would be a test year or not (LE-YEC/YECL-1-13).

In a GRA proceeding it is difficult for any party to anticipate all the issues that may emerge in years after the test years to which the GRA applies, and to which no future GRA will apply. This was the case with the Rate Schedule 39 review and is the case again in this proceeding. In these circumstances the Yukon Utilities Board (the Board) can, and we believe properly should, allow a broader scope rather than restrict the scope to a narrow one. If 2011 is not ultimately covered by a GRA, which appears likely, questioning about 2011 details may not be answered by the Utilities on the basis that they "are out of scope" and the Board will have no power to order the Utilities to make any adjustments considered necessary.

With respect to Section 8 of OIC 1995/90 which is quoted in the Utilities letter, there is no explicit mention that the diesel fuel price variance be applied to generation other than forecast generation. In our view if it does not say "all" generation then it does not apply to "all" generation, it only applies to Board approved generation and diesel use. The Utilities, to suit their purposes, have interpreted Section 8 to mean to apply to all fuel consumed. The OIC does not state all generation or all diesel used, the Utilities have tried to insert the word "all" in the interpretation of the diesel fuel referred to in Section 8. In our view Section 8 wording is open to interpretation and to the best of our knowledge the Utilities have not

specifically asked the Board in a GRA or other proceeding to verify that their interpretation is correct. Thus the assumption that one particular interpretation (the Utilities' interpretation) is correct is inappropriate and the scope of review of this proceeding should properly encompass both possible interpretations.

The Utilities' response to Leading Edge's concern about the Utilities collecting from ratepayers costs for diesel fuel in excess of approved prices when generation was in excess of the GRA approved generation at the bottom of page 2 of the Utilities' letter is to state that the OIC direction "makes it clear that fuel price risk is not to be undertaken by the Companies". The OIC says no such thing, the Utilities want it to say that. The Utilities have chosen not to make 2010 a test year and probably do not want 2011 to be a test year so they have chosen to accept all diesel forecast volume and price risks for diesel generation requirements in excess of those last approved by the YUB.

It is our view that both of the substantive issues we have raised and about which the Utilities have refused to answer IRs, specifically the costs for diesel fuel prices in excess of Board approved prices when diesel generation is in excess of Board approved diesel generation forecast levels and the interrelationship between the DFPVA and the DCF calculations are very much within the scope of this proceeding.

Specific issues

At the top of page 3 of the Utilities' letter they state "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.". This is incorrect on two accounts: first is that the Utilities have inserted the word "all", it does not appear in the OIC thus there is no clarity as the Utilities contend; and, secondly the ratepayers are fully protected if the DFPVA applies only to forecasted diesel generation – it is the Utilities that are not protected. The reason that the Utilities are not protected is that they have chosen not to make 2010 a test year and have appeared to have chosen not to make 2011 a test year. Clearly diesel generation requirement in excess of forecasted generation is a risk the Utilities chose to absorb (along with other risks) when they made that choice. No portion of this risk should be passed on to ratepayers.

With respect to Leading Edge's concerns on the interaction between the DCF and Rider F, the Utilities on page 3 of their letter indicate that the DCF should be addressed in a GRA. If we knew for certain that 2011 would be a test year Leading Edge would defer to the GRA proceeding that encompassed 2011 as a test year. However, it appears that 2011 is not going to be a test year as the Utilities have avoided a direct answer to the IR on the subject (LE-YEC/YECL-1-13), so it is indeed a significant issue now and properly should be addressed at this time.

The Utilities state 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,"

And,

"The DCF was created to mitigate the impact of water level fluctuations on the amount of hydro generation available."

We know that (a) diesel generation in 2011 is above 2009 GRA forecast levels (the most recent Board approved level), and (b) water flows in 2011 are above long term averages and thus the amount of hydro generation available is above average. If the above average water flows and hydro generation availability are used to reduce some or all of the excess diesel generation (diesel volume in excess of the 2009 GRA forecast) that would have been required at long term average hydro generation and the DCF has not been credited with this benefit then the Utilities have indeed passed on to ratepayers the diesel fuel volume risk that they should have absorbed when they chose not to make 2010 a test year and when they chose (apparently) not to make 2011 a test year. **This is a particularly relevant issue if the Utilities interpretation that Section 8 of OIC 1995/90 applies to "all" diesel generation prevails. If Section 8 of the OIC is limited to forecast diesel generation only, it is not an issue for the Rider F Policy, but it still would be an issue for the DCF calculations.**

There is thus a significant overlap between the DCF and Rider F policy because if the DCF is not properly (and transparently) applied to 2011 the Utilities may be passing on to ratepayers costs for diesel generation that they should be absorbing by not crediting the DCF when using above average water flows (hydro generation availability) to reduce diesel generation.

Regrettably by avoiding answering very relevant questions on this matter the Utilities have raised suspicions that indeed costs they should be absorbing as a result of their choices are being inappropriately pushed onto ratepayers.

Respectfully submitted,

John F. Maissan, P.Eng.
Electronically copied to the YEC – YECL 2009 GRA Phase II circulation list