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**IN THE MATTER OF YUKON ENERGY AND THE YUKON
ELECTRICAL COMPANY LIMITED FOR REVIEW OF RIDER F –
FUEL ADJUSTMENT RIDER & DEFERRED FUEL PRICE
VARIANCE POLICY**

A written proceeding before the

YUKON UTILITIES BOARD

June 2011 to November 2011

**ARGUMENT OF JOHN MAISSAN
LEADING EDGE PROJECTS**

1. Interpretation of OIC 1995/90

Yukon Energy Corp. (Yukon Energy) and The Yukon Electrical Company Ltd. (YECL) (together the Utilities) state in various places that Section 8 of OIC 1995/90 that must apply to all fuel consumed not just GRA forecast fuel (including response to LE-YEC/YECL-1-7 REVISED, top of page 2 of 3). However, neither this OIC nor any of its predecessors state that that it must apply to all fuel consumed. Leading Edge is not convinced that it must apply to all fuel consumed, but believes that it is within the Board's jurisdiction to interpret this clause consistent with previous Board decisions such as Board Order 2003-03 (response to YUB-YEC/YECL-2-2(i) Attachment 3 top of page 5 of 5).

Recommendation:

1. ***That the Board not just accept the Utilities' interpretation of OIC 1995/90 but uses its own judgment as to what an appropriate interpretation of Section 8 is.***

2. Utilities past practice with respect to DFPVA calculations

In response to YUB-YEC/YECL-2-1 (and elsewhere) the Utilities have provided ample evidence to show that they have consistently applied the DFPVA calculations to all diesel fuel consumed and applied the difference between the existing GRA approved fuel price and the actual fuel price to the account. This does not mean that Leading Edge endorses the Utilities' methodology to apply in all circumstances. See section 6 below for Leading Edge's views on the interplay between the DFPVA and various other accounts.

3. Timing of adjustments to Rider F

The Rider F policy proposed by Yukon Energy and the Yukon Electrical Company Limited (YECL) (together the Utilities) would have Rider F adjusted when the Diesel Fuel Price Variance Account (DFPVA) exceeds a positive or negative balance of \$200,000. The Utilities have said that they want to provide rate stability and that they do not want to use Rider F as a mechanism to provide rate signals related to diesel [LE-YEC/YECL-1-10]. The following are noteworthy points:

1. Exhibit 2 of the proposed policy indicates that the DFPVA was being decreased on a monthly basis from November 2010 on and had a positive balance of less than \$50,000 at that time. Ratepayers were getting a rebate at this time;
2. By February 2011 the DFPVA account was negative and the monthly deficits were continuing to grow as diesel prices were well above the price approved by the Board in the most recent GRAs. The customers were still receiving a rebate;
3. Customers continued to get a rebate until June 30 2011 by which time the negative balance had exceeded \$448,000. At this time fuel prices were going down and Rider F was increased to \$0.0035 per kWh from a credit of \$0.0009 per kWh;
4. In response to YUB-YEC/YECL-2-2 (c) (at bottom of page 5 of 10) the Utilities state "...as the Rider F will be adjusted by the Companies to a new rate once the

DFPVA has gravitated back to zero.” This approach clearly was not applied in the winter of 2010-2011 as the account balance was swinging rapidly through zero in January / February 2011 and no new Rider F was instituted until July, 2011. Furthermore this answer is not consistent with the Rider F DVPVA policy submitted by the Utilities which indicates that Rider F changes will only be made to keep the account balance in a range of +/- \$200,000. We may wonder what the real approach will be.

5. Based on long term average water flow conditions the average diesel generation required to meet the 2009 test year load levels is 4 GWh per year [2009 Phase II Rate Application response to YUB-YEC/YECL-1-15]. With continuing load growth the diesel generation requirement will now be at least 14 to 16 GWh (applying 2% per year to Yukon Energy wholesale sales only) and increasing every year (response to YUB-YEC/YECL-2-2(c) page 6 of 10, last bullet). Also we know that most of this will be diesel generation expended on the now consolidated hydro grid during the winter months for peaking and probably for energy too. We also know from experience that diesel fuel costs tend to go up in winter for months at a time when the demand for heating fuel (which is very similar to diesel fuel) is higher.

There is thus a body of knowledge that indicates that the DFPVA is most likely going to go negative in winter and positive in summer. And yet with the proposed policy the Utilities will wait not just while the negative trend is established but until the negative balance exceeds \$200,000 and is increasing. Then it will take another two months for a new Rider F to be calculated, to give the Board 30 days notice, and to prepare for an implementation date, so the implementation delay is likely to be in the order of 3 months.

We have had the situation this past year where Rider F has been 180 degrees out of synchronization with the high diesel costs being incurred – i.e. ratepayers were getting a rebate for many months while the DFVPA was going negative – and started paying Rider F in the summer when significantly less diesel cost were being incurred on the grid system (and in non-grid connected communities where loads are substantially lower in summer). Seasonal cycles of increasing and decreasing pressure in diesel fuel prices due to heating fuel demand variations will be a reality into the future. There is no reason why an orderly system of reviewing Rider F on at least a twice annual basis with implementation dates of says January 1 and July 1 cannot be implemented. And there is no reason why the trend in oil prices and in the trend in the DFPVA balance, regardless of the actual balance, cannot be taken into account intelligently.

Such an approach is likely to improve rate stability not decrease it.

Recommendation

- 1. That the Yukon Utilities Board (the Board) directs the Utilities to review the trends in the price of diesel fuel and in the DFPVA account at least twice per year with Rider F changes, as appropriate, to be implemented on January 1 and July 1 each year. This process is to be put in writing in the Rider F Policy.***

4. Diesel Contingency Fund (DCF) and potential avoidance impact on the DFPVA

The DCF is a mechanism designed to provide rate stability regardless of annual water flows that vary from the long term average flow virtually every year, whether positive or negative. Credits to and withdrawals from this account require the Utilities to track the actual water availability compared to the long term average water availability and either credit the account when surplus water is available and diesel generation is reduced compared to the average water flow condition, or withdraw from the account to cover increased diesel costs when water flows are below the long term average.

We know from the Phase II GRA [2009 Phase II Rate Application response to YUB-YEC/YECL-1-15] that in 2009 the marginal diesel requirement under average water flow conditions was 4 GWh per year. Now, two years hence, we have indications that that number is about 15 GWh per year and growing (until Mayo B is in operation at which time this will temporarily decrease). Consistent with these numbers Yukon Energy predicted material diesel generation would be required in 2012 [Mayo B Application pages 28-30, and Application Attachment D].

We are now in a situation where there is a material amount of diesel generation required on the margin. We know that the Utilities are paying for all diesel generation up to the GRA approved cost (\$0.96 per litre). We know that 2011 has been an above average water inflow year for the hydro power plants.

So how do we know that the Utilities are not covering some of what should be their increased cost for diesel generation by using the extra water available and not crediting the DCF when they should be? We do not know because the Utilities have not provided the relevant information and data. The Utilities have only stated that there is no interrelationship between the DCF and the DFPVA. The reality is that there has been above average water and thus hydro generation availability in 2011. The Utilities have not provided the information that shows that there has not been above average hydro generation, and that extra hydro generation has not been used to reduce the Utilities' fuel costs by displacing diesel generation which they otherwise would have had to pay for (at the GRA approved fuel price).

Until all the data and calculation methodologies for these two accounts are presented to the Board and to all parties, the Utilities should not be allowed to collect costs related to diesel fuel usage that is both above the Board approved price AND in excess of the diesel generation forecast by the Utilities for 2009 – the last Board approved test year. The reason is that we simply do not have the data from the Utilities to show whether or not they used above average hydro generation in 2011 (and will use in the remainder of 2011 and through the first 5 months of 2012) to displace what would have been diesel generation under long term average hydro availability. And if there would have been diesel generation then the DFPVA would have been impacted one way or the other.

We know that previous hydro forecast information exists and we know that Yukon Energy does prepare an annual generation model (response to YUB-YEC/YECL-2-2 (c) page 7 of 10 near top) so the hydro and diesel data does exist.

Recommendations:

- 1. That the Board instruct the Utilities that the Rider F policy be re-written to limit the costs collected in the DFPVA to the level of diesel generation approved by the Board in the most recent GRA decisions.**
- 2. That the Board instruct the Utilities to table the necessary data, calculations, and operation of the DCF and to make very clear what, if any, amounts should have been credited or deducted to the DCF, and showing what the diesel fuel price variance for this generation would be transferred as a credit or debit to the DFPVA.**

5. Charges for fuel costs when diesel price AND diesel generation is in excess of the amounts approved by the Board in the most recent GRA Decisions.

The Utilities have indicated that their interpretation of OIC 1995/90 is that they can collect for diesel fuel costs in excess of Board approved costs for all fuel consumed [Policy filing page 1]. In response to LE-YEC/YECL-1-15 the Utilities said that if the cost for diesel fuel was below the Board approved price then the DFPVA account (and ultimately consumers) would be credited for the positive difference for the “total actual diesel generation”. This aspect is not clear in the proposed Policy, and I had not understood this to be the case until I read the IR response.

Leading Edge is of the view that this would be a fair arrangement i.e. while ratepayers would be at risk for diesel fuel price in excess of the Board approved price when diesel generation over the Board approved levels occurs they would benefit when the price is below the Board approved price. In this manner the Utilities would carry the risk of diesel generation under-forecasts. The word “would” has been underlined because this would be the case when the potential avoidance of the DCF despite above average hydro generation and the resulting impact on the DFPVA / Rider F has been sorted out to everyone’s satisfaction. Until it is sorted out to my satisfaction I cannot recommend approval of this aspect of the Rider F policy.

Recommendations:

- 1. That the Board not allow the Utilities to collect costs for diesel fuel costs above Board approved prices when diesel generation exceeds the level of diesel generation approved by the Board in the most recent GRA decisions.**
- 2. That the Board consider allowing such costs to be collected only when:**
 - a. The Board is satisfied that any potential avoidance of the DCF with excess hydro and the resulting impact on the DFPVA have been completely eliminated and that clarity exists the satisfaction of all parties; and**
 - b. Rider F policy has been rewritten to make it clear that the DFPVA will be credited when the actual fuel price is below Board approved levels for**

ALL diesel generation even when the diesel generation is in excess of the levels approved by the Board.

6. DFPVA / Rider F interplay with DCF, capital projects, Reserve for Injuries and Damages, and other operating (and maintenance) accounts

The Utilities practice has been to apply the DFPVA calculations to all diesel fuel used regardless of the reason for the excess fuel. This includes diesel fuel used to make up for below average hydro generation (due to low water) (the DCF), diesel fuel used for capital projects, diesel used because of uninsured losses (Reserve for Injuries and Damages), and diesel used for other reasons such as maintenance requirements (response to YUB-YEC/YECL-2-1 (b) top of page 6 of 21 and elsewhere). What this means in effect is that these other accounts are either subsidized in the short term by ratepayers or are subsidized by rate payers through the DFPVA. Contrary to what the Utilities say the DFPVA comes into play in each and every one of these situations. The DFPVA does not “double collect” but it is still in play with each of them.

Leading Edge sees no good reason why these accounts should not be charged the actual diesel costs whether above or below the GRA cost. There is no impact on the Utilities – they are not at risk for higher than GRA fuel cost, and there is no reason why ratepayers should benefit if the costs are below the GRA cost – because they will only have to pay it back later! The one possible exception is operating (maintenance) accounts or expenses which if not budgeted will impact the Utilities’ financially.

The Utilities have stated that Rider F would be ineffective if only applied to forecast fuel (response to YUB-YEC/YECL-2-3 (b) and (c), top of page 4 of 8). This is obviously incorrect. Given all of the accounts in place as described above the only risk to the Utilities beyond the forecast risk (which they accept) is the risk of above GRA fuel prices – and this is a small percentage of their forecast risk if they do not come back to the Board with a GRA.

The reality of the situation as described above supports the recommendations made in earlier sections. No separate recommendations are required here.

7. DCF comments

Section 4 presents evidence that hydro (actual and long term average) and diesel generation exists but has not been provided. The Utilities have provided two supporting arguments. One is that diesel is not on the margin and the other is that the DCF needs updating.

Yes, the DCF calculation methodology needs updating once Mayo B is adding hydro generation to the integrated grid. Is Yukon Energy not responsible for this? It certainly is not the Board or the ratepayers. Yukon Energy has been planning an integrated system for years now, so why was this not addressed in a timely fashion? This is a lame excuse in any case, as the Mayo (original or Mayo A) generation of about 40 GWh per year can simply be added to the existing Aishihik (105 GWh per year) and the Whitehorse Rapids

(246 GWh per year) generation to yield a total of about 391 GWh per year for the integrated system. The same calculations can then be done.

In response to YUB-YEC/YECL-2-4 (a), (b), and (c), bottom of page 3 of 7) the Utilities state that diesel on the margin means "...diesel being used to meet long-term firm energy requirements of the WAF system, not just periodic peaking requirements..."; and later in the same IR ((d) and (f), page 5 of 7 near bottom) that the DCF would not be advanced "...until such time as the system has firm loads that exceed the long-term average capability of the system over the course of a long period (many months to years)." This is not how the DCF has been operated historically. In response to YUB-YEC/YECL-2-4 Attachment 2 (a-c) at the top of page 4 of 17 and again in the middle of page 7 of 17 it is very clear that the DCF is calculated on the basis of diesel on the margin in any particular month. This is also acknowledged in response to LE-YEC/YECL-1-4-REVISED on page 2 of 5 first bullet near the bottom. It appears that the Utilities are avoiding the application of the DCF and in my view it is because it should apply in 2011. In section 3 we say that load growth would be in the order of 15GWh per year (wholesales only) and if this is added to Yukon Energy's 2009 generation forecast of 372.5 GWh the 2011 generation requirement is about 387.5 GWh. With long term average hydro generation at about 391 GWh per year it is highly likely that diesel generation is or was on the margin for a number of months in 2011. Couple this with an above average water (thus above average hydro generation year) and one cannot help but feel that Yukon Energy is not being forthcoming because they were taking advantage of the situation.

Recommendation:

- 1. That the Board order the Utilities to apply the DCF calculation procedure to each and every month in 2011 for the integrated system by adding the last approved WAF hydro generation figures to the Mayo A long term average hydro generation figures; OR in the alternative to order the Utilities to provide an updated integrated system DCF to the Board for review and approval and to require the Utilities to apply this to 2011 retroactively once approved.***

Respectfully submitted,



John Maissan
Leading Edge Projects
November 14, 2011