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June 3, 2015

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

Dear Mr. McLennan:

Re: Revise Diesel Contingency Fund ("DCF") and Related Amendments to Rate Schedule 42 Pertaining to the Energy Reconciliation Adjustment ("ERA") – Yukon Energy Response to Intervenor Comments

In Board Order 2015-03, the Yukon Utilities Board ("the Board" or "YUB") indicated that it was seeking clarification of certain items in Yukon Energy's (YEC's) Compliance Filing and provided a number of clarification questions for YEC as Appendix A to the Order. Yukon Energy provided its response to these questions on May 8, 2015, and on May 21, 2015 comments were provided by both ATCO Electric Yukon ("AEY") and the Utilities Consumers Group ("UCG''). Yukon Energy hereby provides its reply to the interveror comments.

ATCO Electric Yukon

AEY's submission has focused on two issues related directly or indirectly to the ERA:

1. AEY asserts that Yukon Energy did not follow the Board's direction "...by failing to provide a revised ERA that is based on actual diesel costs, with actual being defined as real, verified diesel costs instead of derived costs from the YECSIM model"; and
2. AEY asserts that it continues to require a Purchase Power Flow Through Deferral Account ("PPFTDA") to address AEY's forecast risk through the ERA, regardless of how the ERA is calculated.

With regard to the second issue, AEY states that a PPFTDA should be continued "regardless of how the ERA is calculated" because an ERA arises only when there is a variance in YEC's GRA forecast wholesale sales to YEC.[1] This matter was dealt with comprehensively by the Board in Section 2.4 of Decision 2015-01 and, given that AEY's position remains "regardless of how the ERA is calculated", it is not in scope for the current DCF/ERA Compliance Filing review process. AEY's argument ignores the fact that ERAs as approved and applied in the past (i.e., in the 1990s when YECL and YEC jointly sought Board approval for ERAs) always were implemented only when there was a variance in YEC's GRA forecast wholesale sales to YEC - and at no time was a PPFTDA ever considered or approved when an actual ERA amount was determined for YECL.

With regard to the first issue, AEY's comments are not helpful for the Board in that they ignore the substantive analysis on this matter provided in the Compliance Filing and in Yukon Energy's response to the clarification questions set out in Appendix A to Board Order 2015-03[2]. More particularly, AEY completely ignores the material unacceptable results arising from the interpretation of the Board's Order. It chooses instead to take an overly rigid view of the Board's Order and the compliance process without embarking upon any useful engagement of the issues identified by Yukon Energy and tested by the Board in its IRs.

On AEY's overall comment about YEC failing to provide a revised ERA based on "actual diesel costs" without reference to the YECSIM model, Yukon Energy notes that AEY fails to address the following key points provided in the Compliance Filing:

- ERA determination in accordance with Board Order 2015-01 is dependent on confirmation of the definition of "actual diesel costs" for the purpose of the ERA.
- Yukon Energy incorporated into its calculations in the Compliance Filing the definition for "actual diesel costs" as set out in Section 2.1.1 of Order 2015-01, which assumes YEC's actual costs <u>after</u> DCF determinations.
- This was done in order to ensure that the ERA determination does not yield unacceptable results for all stakeholders including the Board.[3]

AEY's comments on this core matter also ignore the following related points that have been confirmed in response to the Board's clarifying questions:

- **Actual diesel costs for YEC are LTA diesel costs for the grid load incurred; there is no double counting when considering the DCF and ERA; and YEC would be harmed if the ERA was discontinued with the existence of the DCF (response to YUB-YEC-1-001):** Amounts credited to the DCF are charged to YEC's income statement account for diesel expenses, along with diesel costs incurred for actual generation - and, as a result, the income statement for YEC is charged the long-term

[1] See AEY's comments, footnote #5.

[2] See Compliance Filing Section 3.0 and Appendix B.

[3] The Compliance Filing reviewed in detail the implications for all stakeholders of proceeding with ERA determination based on the alternative definition for "actual diesel costs" <u>before</u> DCF determinations, as defined in Section 2.2 of Order 2015-01, and documented results that YEC believes would be patently unacceptable to all stakeholders including the Board.

average (LTA) diesel costs for each year based solely on the actual grid load for the year (net of secondary generation, expected wind and LTA Fish Lake generation).

- Figure 1 in YUB-YEC-1-001 provides an example of LTA diesel cost at 2012 actual loads with actual water conditions and with a hypothetical drought, showing that LTA Diesel cost charged to YEC at any actual annual grid load remains unaffected by actual water conditions.

- Figure 2 in YUB-YEC-1-001 provides an example with LTA diesel of the DCF and ERA applicable to the 2012 YEC grid load change (increase) from GRA forecast, showing that there is no double count with the DCF and ERA and that YEC would be unable without the ERA to recover the incremental actual diesel costs it incurs when YECL wholesales are higher than GRA forecast[4].

- **Incremental LTA diesel generation from incremental grid load is reflected in the DCF calculation, and YEC does not collect from its retail and major industrial customers all incremental diesel costs caused by sales to these customer classes above GRA approved forecasts (response to YUB-YEC-1-003):** The DCF transfer equals LTA diesel less actual diesel generation. Yukon Energy's actual diesel costs are based on LTA diesel after the DCF transfer. When YEC's LTA diesel cost increases due to increases in wholesale sales to AEY (for resale to AEY retail customers), the ERA ensures that YEC is kept whole from these increases. Therefore the DCF and ERA are inextricably linked in this circumstance. Conversely, LTA diesel cost load risk arising from sales to YEC's retail and industrial customers remains with YEC as is appropriate.

- **Further, the fact that actual diesel generation is less than expected (LTA) diesel at GRA load forecast has no relevance as to the actual diesel costs YEC incurs on its income statement for diesel generation at the grid load actually incurred, and determining the ERA based on LTA diesel generation will eliminate "patently unacceptable" impacts (as defined in the Compliance Filing analysis) to all stakeholders under drought water conditions (YUB-YEC-1-004):** YEC's actual diesel costs at the grid load incurred will equal LTA diesel costs and have no relation to actual diesel generation. The "patently unacceptable" impacts to all stakeholders as demonstrated in the Compliance Filing related to the drought example, where actual diesel generation exceeds expected diesel generation. Under this drought example, the "patently unacceptable" impacts to all stakeholders would be eliminated when the ERA is determined with actual diesel costs based on LTA.

[4] The 2012 example had actual water conditions (hydro generation) above LTA, resulting in actual diesel generation being less than LTA diesel generation. If actual diesel generation was higher than LTA (e.g., a drought example), and YEC recovered its costs for actual diesel generation through an ERA, the Compliance Filing demonstrates that double counting of DCF related diesel costs would occur with unacceptable impacts on AEY and/or ratepayers.

Yukon Energy submits that its responses to the Board's clarifying questions in effect also address other concerns noted by AEY and the Board regarding the YECSIM model verifiability or use as a "billing engine". The actual diesel costs incurred by YEC on its income statement for LTA diesel as determined by YECSIM-derived tables approved by the Board are fully verifiable, and provide a clear basis for determination of ERA billing charges.[5]

Finally, Yukon Energy provides the following additional clarifications regarding matters that AEY misstated regarding the DCF and the ERA in its comments to the Board:

- AEY has no basis for asserting that the ERA as proposed in the Compliance Filing would impose impacts on AEY related to "water levels" or "YEC's operational decisions" where YEC "burns more diesel than forecast as a result". As reviewed in response to YUB-YEC-1-001, the DCF and the ERA determined as per the Compliance Filing will both be based on LTA diesel. As a result, the ERA as proposed in the Compliance Filing would not be affected by changes in water levels or by YEC's actual operational decisions affecting actual burns of diesel generation. In contrast, as reviewed in the Compliance Filing, an ERA based on actual rather than LTA diesel generation would expose AEY to impacts related to "water levels" and "YEC's operational decisions" related to diesel generation.

- Yukon Energy does not agree with AEY's assertion that it "has no basis upon which to forecast the purchase power rate in future GRAs as it will be impacted by numerous factors that AEY is either unable to forecast (e.g., water levels) or outside of AEY's control". In addition to the reply above on the matter of water level impacts and actual diesel generation impacts, the following are noted:[6]

    - In any future AEY GRA, the Board and AEY can fully consider the impact on AEY of YEC's then approved Rate Schedule 42 and ensure that all parties receive fair treatment.

    - The specific issues related to transition adjustments at the current time (prior to any future AEY GRA) have been addressed in Yukon Energy's earlier Reply Argument, and have been adopted in Board Order 2015-01 (section 2.4.2).

Utilities Consumers Group

UCG's submission has focused on the following three issues related solely to the DCF:

1. The rebate should be provided over a two year period instead of a one year period;

[5] The ERA as proposed in the Compliance Filing is not affected by YEC operational decisions related to diesel consumption. As in the ERA determinations as approved by the Board in the 1990s, the LTA diesel determination reflects assumed system operation under specified loads and assumed system losses - and as a result, ERA determinations in response to actual wholesale loads may be impacted by actual system losses.

[6] Yukon Energy's previous submissions on these matters are reviewed at pages 19 and 20 of Board Order 2015-01.

2. All Industrial Primary customers should be excluded from any DCF rider rebate; and

3. The 2014 DCF calculations used in the Compliance Filing are based on inaccurate information, and it is alleged that Yukon Energy is "unilaterally changing the goal posts as per Board Order 2013-01 in their Table 1.1-1 to their advantage".

With regard to each of the points raised by UCG, the following is noted:

- **Rebate disposal period** - This proposal is made in the last sentence of UCG's submission without any justification or explanation. As explained in the Compliance Filing, the proposed approach recognizes the direction to provide rebates where applicable at the end of each year, and simply seeks to avoid multiple DCF riders applying at any one time. UCG has not provided any justification for modifying the proposed approach.

- **Exclusion of Industrial Primary customers from the DCF rider rebate** – There is no basis for the Board to exclude Industrial Primary customers from the DCF rider rebate. Specifically, each customer class has paid into the DCF and charging Industrial Primary customers rates based on DCF charges without affording them the same benefits that all other customer classes paying into the account receive would be rate discrimination. Yukon Energy in its earlier rebuttal evidence noted concern regarding UCG citing Board Orders from other jurisdictions without any assessment of the context or relevance for the current proceeding[7].

- **Yukon Energy 2014 DCF calculations used in the Compliance Filing** – There is no merit to UCG's assertions that the 2014 DCF calculations are "inaccurate". Yukon Energy provides the following additional comments on UCG's submission in this regard:

    - Overall, it is unclear on what basis UCG is arguing that the 2014 DCF amounts are "inaccurate", or what these results should in fact be, or on what basis it focuses its allegations on 2014 DCF determinations by YEC versus 2012 and 2013 DCF determinations by YEC.

    - The Board in Order 2015-01 and Order 2015-03 did not raise any concerns with regard to DCF determinations for any of the three years addressed in the Compliance Filing.

[7] More specifically dealing with UCG's reference to Newfoundland practice, at pages 8-9 of Yukon Energy's earlier Rebuttal the following was noted: "Newfoundland Hydro's RSP is a complex rate stabilization mechanism with separate funds to manage changes from GRA forecasts as regards fuel price; changes in fuel volumes compared to forecast, i.e., addresses changes in load compared to forecast; water variability; and rural rates. In addition to other complexities, fund payments/ withdrawals are assigned according to rate class - and load variation provisions (i.e., changes in load relative to forecast) affecting each rate class add a wide range of issues that have no relevance at all to the current DCF proceeding in Yukon." In short, there is no basis for the Board to assume that UCG's assertions accurately reflect what in fact occurs with regard to industrial customers in this jurisdiction.

- UCG appears to argue that YEC should determine its thermal generation savings for the DCF in 2014 based on the last GRA forecast amounts without any modifications to reflect long-term average (LTA) generation at actual grid loads for 2014. There is no comment offered by UCG as to why this concern applies only to 2014, i.e., the Compliance Filing for the 2014 DCF determination simply uses the same approach in this regard as was adopted for 2012 and 2013 DCF determinations.

- UCG supports this argument solely by reference to the Board Order 2013-01 direction for "YEC to base its hydro and diesel energy requirements on YECs GRA forecasts on 100 percent of long term average (LTA) hydro generation." UCG does not explain how this earlier Order has any relevance to the current Board Order 2015-01 regarding the DCF matters currently under review, even though review of the earlier Order suggests that it indeed is fair and reasonable to modify the LTA hydro generation to reflect actual grid load when determining the DCF for a given year.

UCG's submission notes an "Attachment" that was included in the e-mail. This Attachment, which is titled "Electricity Policy and Regulation for Industrial Customers in the Yukon", is not otherwise addressed or explained in the submission. Even if relevant to the proceeding (which this document is not), filing new evidence in this manner is not appropriate or permissible when commenting on a final Compliance Filing related to a final Board Order in a proceeding. Yukon Energy has no further comment on the Attachment.

Please direct any questions on this communication to the undersigned.

Yours truly,

E Mollard

Ed Mollard
Chief Financial Officer