

**Yukon Energy Corporation/Yukon Electrical Company Ltd.
Application to Revise the Diesel Contingency Fund and Related Amendments
to the Energy Reconciliation Adjustment**

**Yukon Utilities Board (YUB) Information Request Round 1 to
Yukon Electrical Company Ltd. (YECL)**

YUB-YECL-1

Reference: YECL DCF-ERA filing

Issue/sub-issue: DCF

Quote: The activation of the DCF was based on a simple concept: YEC would determine whether it was actually burning diesel in a given month to determine if diesel was "on the margin" in that month...

...
The ERA and DCF were designed to be closely integrated. The ERA allowed YEC to flow-through its incremental diesel generation costs — as determined by the DCF — to YECL when actual wholesale sales varied from the companies' joint Board-approved forecast.¹

...
All forecasts were prepared by Yukon Electrical and used jointly for both Yukon Electrical and YEC in common test period GRAs.

...
...in 2012, YEC purported to charge \$439,000 to Yukon Electrical based on YEC's unilaterally modified DCF and ERA mechanisms.² >

Preamble: Further information is required.

Request:

- (a) With regard to the ERA as originally approved as part of YECL and Yukon Energy Corporation (YEC) joint general rate applications (GRA),³ is it correct to assume that the ERA and DCF were activated simultaneously, on the basis of a 250 MW.h diesel usage level per month threshold?
- (b) Please provide a past ERA determination and explanations regarding the underlining calculation(s).
- (c) On a go-forward basis, if each of the utilities, prior to submitting their respective GRAs, were to consult the other regarding load forecasts, would this serve to mitigate concerns about joint Board-approved forecasts? Please explain.
- (d) Prior to YEC submitting its 2012-13 GRA, did YEC consult with YECL about permanently switching on the DCF through the use of a formulaic approach? If so, please provide rationale and reasoning that was proposed and YECL's response. Please provide all documentation.
- (e) Considering the DCF only and considering the historical basis for triggering the DCF, is it appropriate to permanently switch on the DCF at this time? Please explain.

¹ YECL DCF-ERA filing, January 31, 2014, page 2.

² YECL DCF-ERA filing, January 31, 2014, page 3.

³ YECL DCF-ERA filing, January 31, 2014, page 2.

- (f) If the Board were to adopt a monthly diesel consumption (MW.h/month) threshold to trigger the DCF, as was done in the past, and given that YEC and YECL are not jointly managed,
- does YECL have any concerns with adopting a DCF MW.h/month trigger approach?
 - what, from YECL's perspective, would be important considerations when choosing an appropriate DCF trigger threshold?
 - what would be an appropriate DCF trigger threshold?
 - What changes and considerations would YECL recommend, if any, to its current DCF proposal?
- (g) Please explain the differences between a GRA forecast that you would prepare for YECL GRAs versus one that you would provide for a YEC GRA forecast.

YUB-YECL-2

Reference: YECL DCF-ERA filing

Issue/sub-issue: ERA calculation

Quote: However, circumstances have changed. The original ERA, and YEC's proposed DCF and ERA, are no longer appropriate.

...

...However, YEC's proposed ERA calculation is not based on actual costs incurred; instead, the calculation is based on a derived variance cost from an untested simulator.⁴

Preamble: Further clarification is required.

Request:

- (a) Please explain why the original ERA is no longer appropriate. Is it solely a question of not being jointly managed and accordingly, YEC and YECL submit separate GRAs?
- (b) For purposes of clarification, please explain:
- by way of an example calculation, the basis of YECL's submission that the YEC's proposed ERA calculation is not based on actual costs incurred.
 - whether ERA calculations were historically premised on actual costs incurred.
 - historically, how were ERA variance costs determined.
 - whether ERA variance costs required or were dependent upon a simulation.
- (c) Please provide an example calculation using one month of actuals provided by YEC for which YECL is being billed.

⁴ YECL DCF-ERA filing, January 31, 2014, page 4.

YUB-YECL-3

Reference:

YECL DCF-ERA filing

Issue/sub-issue:

ERA charges

Quote:

Yukon Electrical would also note that the Board, in Decision 2009-02, approved a wholesale purchase power deferral flow through for Yukon Electrical. This approved deferral was also referenced in Board Order 2010-13 as follows:

168. In Board Order 2009-2, the Board approved YECL's wholesale purchase power deferral account that dealt with the treatment of variances between the actual and forecast cost of purchase power for the hydro zone during the period **when diesel generation was on the margin** and when the approved run-out rate set out under the Energy Reconciliation Adjustment (ERA) in Schedule 42 was different than the rates used to determine the forecast cost of purchase power for diesel generation. [emphasis added]

As well, the Board indicated the following:

181. Implicit in the Board's approval of the purchase power deferral account is the approval of a future rider to dispense of the accumulated balances in the deferral account.

Based on the above approvals, if it is ultimately determined that an ERA amount should be charged to Yukon Electrical, then Yukon Electrical respectfully submits this amount would be flowed through to all Yukon ratepayers.⁵

Preamble:

Clarification is required.

Request:

Respecting the above submission, is YECL indicating that ratepayers, be they YECL customers or YEC, should be paying for ERA charges? Please explain.

YUB-YECL-4

Reference:

YECL DCF ERA filing, Appendix A

Issue/sub-issue:

Past practices

Quote:

Yukon Energy continues to rely heavily on past practices and methods even when they do not make sense in today's environment.

Preamble:

Clarification is required.

Request:

Please explain DCF and ERA past practices which are in YEC's current proposal and why, if agreed to in the past, YEC's current proposal is unacceptable.

⁵ YECL DCF-ERA filing, Cover letter, page 8, Yukon Electrical's Proposal.

YUB-YECL-5

Reference:

YECL DCF-ERA filing, cover letter

Issue/sub-issue:

YECSIM modelling & YECL deferral account proposal

Quote:

While Yukon Electrical recognizes that the design of a deferral account will require further consideration, Yukon Electrical submits a deferral account can provide a more simple and transparent solution that would better accord with well established regulatory principles, as opposed to the complex custom rate-smoothing mechanism YEC has proposed. A deferral account would eliminate the perverse outcome of allocating diesel costs to either Yukon ratepayers or Yukon Electrical based on the accuracy of YEC's forecast. The use of a deferral account would obviate the need for the inefficient and time consuming testing that will be required of YEC's YECSIM and YEC's future forecasts and operations. A deferral account can also be designed in a manner that will at least partially mitigate the Board's concerns with respect to the DCF muting market signals and creating intergenerational inequity.⁶

Preamble:

Further clarification is required regarding YECL's proposed deferral account.

Request:

- (a) Respecting YECL's submission that the design of a deferral account would require further consideration, does YECL have any further submissions regarding the design of a deferral account since its last submission? Please provide example calculations based on 2012 actuals.
- (b) Is YECL familiar with YEC's YECSIM modelling tool? Please provide the testing YECL is referring to in the above quote.
- (c) Respecting the above quote, is YECL indicating that further testing is required prior to YECL accepting and moving forward with YEC forecasts based on YECSIM, or is YECL indicating that using a forecast tool as YECSIM will require extensive testing of results?
- (d) Can YECL further clarify what it means by "at least **partially [mitigating]** the Board's concerns with respect to the DCF muting market signals and creating intergenerational inequity," in the above quote?

⁶ YECL DCF-ERA filing, cover letter, pages 7 to 8.

YUB-YECL-6

Reference: YECL DCF-ERA filing, Appendix A

Issue/sub-issue: YECL proposed deferral account

Quote: To address these principles, Yukon Electrical proposes that Yukon Energy calculate a full fuel volume variance for a DCF based on the following:

- A. Determine diesel revenues recovered by YEC rates.
- B. Determine actual diesel costs.
- C. Take the difference between A) & B) and either deposit-to or withdraw-from the deferral account.

Preamble: Further clarification is required.

Request:

Please provide an example making use of YEC's 2012 results.

YUB-YECL-7

Reference: YEC DCF-ERA filing, page 2

Issue/sub-issue: DCF

Quote: The DCF continues to set out how YEC's annual diesel cost variances due solely to water related hydro and wind generation variances from YUB approved GRA forecasts are to be addressed on behalf of ratepayers.

Request:

- (a) Does YECL disagree with this purpose for the DCF? Please explain.
- (b) Does YECL support a DCF or similar fund?

YUB-YECL-8

Reference: YEC/YECL DCF-ERA Filings of January 31, 2014

Issue/sub-issue: Joint Agreement

Request:

- (a) With respect to the DCF and ERA materials, please confirm that the Companies (YEC and YECL) were not able to agree on any single item. If not confirmed, please explain.
- (b) Please provide YECL's opinion on what purpose the DCF and ERA mechanisms should serve. Please also indicate whether that purpose has been adequately served in the past.

YUB-YECL-9

Reference: YEC DCF-ERA filing

Issue/sub-issue: Response to previous Board directions

Request:

- (a) How does the filed application conform with the direction from Board Order 2013-1, to provide a revised DCF proposal that incorporates specific changes noted in that Order and to work with YECL to provide a joint recommendation regarding how the DCF will affect the ERA in Rate Schedule 42, or Board Order 2013-3 that YEC and YECL provide a joint filing regarding the revised DCF proposal, and the ERA, stating if agreement cannot be reached, a

filing in which the Companies state which aspects they agree upon, the aspects they disagree upon and the position of each company on those aspects they disagree upon.

- (b) Please summarize in YECL's view, any aspects the Companies agree upon, the points the Companies disagree upon, why there is disagreement and what would be necessary to bridge those areas of disagreement.
- (c) If the Companies cannot agree on changes to the DCF and ERA, should the DCF and ERA be discontinued? Please explain.
- (d) Is there a legislative requirement to continue with the DCF? Please explain.
- (e) Is there a legislative requirement to continue with the ERA? Please explain.
- (f) Would any DCF or ERA calculations be valid for any years that are not a GRA test year? Please explain.

YUB-YECL-10

Reference: YEC DCF-ERA filing, page 2

Issue/sub-issue: ERA

Quote: ... the ERA should be discontinued and YEC's diesel cost variance, regardless of its cause, should be recovered through a new deferral account to be administered by YEC...

Request:

- (a) Does YECL agree with this summary of the YECL position as provided by YEC?
- (b) Does the above imply that YECL assumes no volume risk in regards to increased sales over forecast amounts? Please explain.
- (c) Should the incremental wholesale costs be passed on to customers? That is, if the incremental revenue exceeds the incremental wholesale costs, would a deferral account imply double dipping? Please explain.

YUB-YECL-11

Reference: YEC DCF-ERA filing, page 2

Issue/sub-issue: DCF/ERA

Quote: The Board's current and past Orders for both utilities continue to support implementation of DCF and ERA mechanisms in Yukon, ...

Request:

What is the impact if the Board determines that the DCF and ERA are no longer required?

YUB-YECL-12

Reference: YEC DCF-ERA filing, page 2

Issue/sub-issue: ERA

Quote: ... (b) to provide for YECL recovery through a Rate Rider of any net added YECL cost not otherwise recovered from ratepayers after full consideration of YECL revenue changes related to the wholesale variance.

Request:

Please provide an illustrative example.

YUB-YECL-13

Reference: YEC DCF-ERA filing, page 5

Issue/sub-issue: Net Revenue Cost

Quote: After the ERA, YECL would retain a net revenue cost impact of \$0.009 million as a result of the wholesales variance; ...

Request:

- (a) Does this example mean that in certain situations, the revenues from the incremental sales over the forecast amount are less than the wholesale costs of the energy associated with those incremental sales?
- (b) In YECL's view, is this a forecast risk that should be borne by the utility? Please explain.
- (c) How would YECL view this situation during a non-test year?

YUB-YECL-14

Reference: YEC DCF-ERA filing, page 6.

Issue/sub-issue: Rate Rider

Quote: Industrial and retail firm sales would be required to pay a rate rider for recovery of the above DDA amounts for 2012 and 2013 (total \$0.540 million).

Request:

Please explain how YECL envisions this deferral account operating?

YUB-YECL-15

Reference: YEC DCF-ERA filing, page 6.

Issue/sub-issue: Charges to YECL

Quote: There would be no new charges to YECL under this option related to any of the wholesales variances from approved GRA forecasts (i.e., the ERA would be discontinued, and YECL net revenue gains from added wholesales of \$0.571 million in 2012 and \$0.004 million in 2013 would be retained). [Footnote omitted]

Request:

In YECL's view does this shift forecast risk from YECL to the customer?

YUB-YECL-16

Reference: YEC DCF-ERA filing, page 6.

Issue/sub-issue: YECL Deferral Account

Quote: Under Option A, added YECL revenues from increased retail sales variances either equal or exceed any net ERA cost to YECL (due to ability to flow through any net costs to the YECL deferral account).

Request:

Does the deferral account only apply to the change in rates for wholesale purchases from YEC or does it consider changes in volume too?

YUB-YECL-17

Reference: YEC DCF-ERA filing, Table 4, page 11.

Issue/sub-issue: Summary of Impacts

Request:

Does YECL disagree with the summary as shown in Table 4 of YEC's January 31, 2014 filing? If so, please identify each specific discrepancy and explain in YECL's view why there is a discrepancy.

YUB-YECL-18

Reference: YEC DCF-ERA filing, Appendix 1.1, page 1.1-6.

Issue/sub-issue: Fish Lake Hydro

Quote: In contrast to YEC hydro generation, YECL's Fish Lake hydro generation is not affected in any material way by YECL's wholesales load levels or YEC's overall grid loads.

Request:

- (a) What is the impact (\$) to YECL if Fish Lake hydro generation is above long-term average?
- (b) What is the impact (\$) to YECL if Fish Lake hydro generation is below long-term average?

YUB-YECL-19

Reference: YECL DCF-ERA filing, page 2

Issue/sub-issue: DCF

Quote: The DCF was designed to apply narrowly based on the specific circumstances of the time.

Request:

- (a) Do the circumstances as known then for the DCF exist today? Please explain.
- (b) Please provide YECL's interpretation/definition of a drought condition.

YUB-YECL-20

Reference: YECL DCF-ERA filing, page 2.

Issue/sub-issue: ERA

Quote: The ERA allowed YEC to flow-through its incremental diesel generation costs – as determined by the DCF – to YECL when actual wholesale sales varied from the companies’ joint Board-approved forecast.

Request:

- (a) Has the Board in the past directed the Companies to provide joint “sales forecasts”? Please explain.
- (b) If the answer to part A is affirmative, have the Companies complied with that direction? Please explain.

YUB-YECL-21

Reference: YECL DCF-ERA filing, page 3.

Issue/sub-issue: ERA

Quote: If actual wholesale sales were higher (or lower) than the joint forecast, then one company would benefit to the detriment of the other. Given this arrangement, the ERA was developed to facilitate the two companies sharing sales forecast risk.

Request:

- (a) Is it the Companies that assume all risks with the sales forecasts? Please explain.
- (b) Please explain through an illustrative example how one company benefits to the detriment of the other.
- (c) In terms of detriment to YECL, please explain what the potential impact would be on YECL.

YUB-YECL-22

Reference: YECL DCF-ERA filing, page 3.

Issue/sub-issue: ERA, OIC 1995/90

Request:

- (a) Please provide YECL’s interpretation of OIC 1995/90 as it relates to recovery of wholesale costs.

YUB-YECL-23

Reference: YECL DCF-ERA filing, page 5.

Issue/sub-issue: Secondary Sales

Quote: Additionally, the suggestion that diesel is now “always” on the margin appears to be flawed.

Request:

Please explain the relationship between secondary sales and diesel on the margin.

YUB-YECL-24

Reference: YECL DCF-ERA filing, page 5.

Quote: A further flaw in YEC's proposals is that it will create a regulatory structure where Yukon Electrical's actual sales revenue will be no greater or no less than what YEC forecasts in a YEC GRA.

Request:

- (a) Should the incremental generation costs (costs greater than forecast volumes) for incremental sales (sales volumes greater than forecast) be matched to the incremental sales revenue? Please explain.
- (b) Is YECL proposing that it should retain the incremental sales revenue dollars, but that customers should pay the incremental costs of the generation? Please explain