

**IN THE MATTER OF YUKON
ENERGY CORPORATION
APPLICATION TO REVISE
THE DCF & RELATED
AMENDMENTS TO THE ERA**

REPLY ARGUMENT

YUKON ENERGY CORPORATION

November 13, 2014

TABLE OF CONTENTS

INTRODUCTION.....	1
1.0 DCF PURPOSE: CONTINUATION VERSUS REPLACEMENT	2
2.0 ERA PURPOSE: LIMITS ON AEY FLOW THROUGH TO RATEPAYERS.....	8
3.0 UPDATING AND REACTIVATING THE DCF	12
3.1 YECSIM MODEL ISSUES.....	13
3.2 INCENTING OPTIMAL USE OF THE HYDRO RESOURCE.....	16
3.3 DCF CAP	18
3.4 DCF REPORTING AND REVIEW.....	22
4.0 UPDATING AND REACTIVATING THE ERA	24
4.1 LOAD FORECAST ISSUES	25
4.2 MONTHLY CALCULATIONS FOR ERA	27
5.0 CLOSING COMMENTS	29

INTRODUCTION

The Yukon Utilities Board ("YUB" or "the Board") in Order 2014-08 established a revised schedule for the Yukon Energy Corporation Application to Revise the Diesel Contingency Fund ("DCF") and Related Amendments to the Energy Reconciliation Adjustment ("ERA") that included provision for Final Argument to be provided October 29, 2014 and Reply to be provided November 13, 2014.

In addition to Final Argument submitted by Yukon Energy Corporation ("YEC" or "Yukon Energy"), Final Arguments were received from ATCO Electric-Yukon ("AEY" or formerly "YECL") and Utilities Consumers' Group ("UCG") regarding the Application to Revise the DCF and Related ERA Amendments. Each intervenor argument was fundamentally different in terms of its focus and scope of relevant issues addressed.

1. AEY's Final Argument asserts that the current proceeding was intended to test the continued relevance of the DCF, and concludes that the DCF is no longer relevant or appropriate and should be replaced by a diesel volume deferral account. With regard to the ERA, AEY argues that if the DCF is eliminated an ERA charge to YECL is no longer required, but that if there are any ERA charges to AEY these should be fully deferred or flowed through to ratepayers.
2. UCG's Final Argument does not challenge the continuation or relevance of the DCF or the ERA, and addresses specific issues regarding the mechanics of each mechanism and the process to update and reactivate each. With regard to the ERA, UCG argues that any deferral of ERA charges to ratepayers must be limited only to costs not otherwise recovered by the utilities through incremental increased load revenues.

Yukon Energy's Reply Argument firstly addresses intervenor arguments on the following two fundamental initial issues raised by AEY which challenge the basis for any proposal to update and reactivate the DCF and/or the ERA:

1. DCF Purpose: Continuation versus Replacement.
2. ERA Purpose: Limits on AEY Flow Through to Ratepayers.

Secondly, Yukon Energy's Reply Argument then addresses specific issues raised in intervenor arguments regarding the mechanics of the updated DCF and ERA mechanisms as proposed by Yukon Energy.

1.0 DCF PURPOSE: CONTINUATION VERSUS REPLACEMENT

Intervenor Arguments

AEY

AEY argues that the current proceeding was intended to test the DCF, that the DCF is no longer appropriate, and that it should be replaced by a diesel deferral account:

1. **Current proceeding intended to test DCF:** AEY argues that the Board instructed the utilities "to jointly complete a comprehensive examination of the DCF and ERA mechanisms as designed in the 1990s to determine if they remain appropriate and make sense today." AEY also argues that it "...interpreted the Board's comments that the DCF had never been fully tested to mean that the Board was looking to ATCO Electric Yukon and other intervenors, as part of the DCF-ERA proceeding, to take the opportunity to thoroughly understand and test the DCF mechanism." (Paragraph 6).
2. **DCF no longer appropriate:** AEY argues in conclusion that the DCF is "overly complex for no beneficial reason", "untestable", and "does not send appropriate price signals to encourage conservation in years of drought". (paragraph 52) AEY argues that change in grid size and complexity render the DCF mechanism "no longer reasonable or appropriate" in that "...understanding, never mind testing and relying upon a model that purports to be able to fully isolate the impact of water flows on diesel generation at different load levels at different locations appears to be very problematic." (Paragraphs 12 and 14).
3. **Recommend diesel volume deferral account to replace DCF:** AEY recommends that the Board "...direct YEC to develop a much simpler and more practical diesel volume deferral account, similar to that utilized in the NWT, to handle fluctuations in diesel volumes." (Paragraph 58) AEY argues that this mechanism could be "trued up to actuals". (Paragraph 57).

UCG

UCG "...agrees that the purpose of the DCF is to protect ratepayers from diesel generation cost impacts caused by fluctuation of hydro generation due to water conditions..." (page 6), and that any changes to the DCF mechanism "...should reflect the current integrated grid system and any YUB directions regarding long-term average hydro generation forecasts when setting diesel generation costs" (page 10). UCG recommends continuation rather than replacement of the DCF, and includes (among others) the following elements to reflect current conditions (pages 10 to 12):

- DCF calculation must consider diesel always to be on the margin.
- Determine diesel for the DCF using long-term average grid hydro generation forecast as last approved by the YUB.
- DCF operation to reflect actual water conditions, i.e., if actual diesel generation costs are less than forecast due to utilization of higher water than the forecasted water flows, then the DCF balance is increased by that amount; and if actual diesel generation costs are greater than forecast caused by low water conditions, the DCF is decreased by that amount.

Yukon Energy Reply

On the fundamental initial issue regarding continuation versus replacement of the DCF, UCG and Yukon Energy arguments each focused on what is needed for continuation of the DCF, with changes as needed to reflect the current grid and YUB directions regarding long term average hydro generation forecasts when setting diesel generation costs for rates. In this regard, Yukon Energy and UCG arguments each respected the specific purpose and value of the DCF as a ratepayer trust fund to smooth customer rate changes driven by changes in actual thermal generation costs caused by variances from long term average (LTA) levels of hydro and wind generation due solely to water and wind availability.¹

In contrast, AEY's argument in essence dismissed continuation as an option and recommended replacement of the DCF with something very different, i.e., a diesel volume deferral account that Yukon Energy should be directed to develop similar to that utilized in the NWT. In this regard, AEY's argument ignores the specific purpose and value of the DCF, provides no useful recommendations related to revising and re-activating the DCF as required at this time, fails to provide any sound basis for its recommendation to replace the DCF, and in the final analysis does not even provide a specific new deferral account option for the Board to consider.

Yukon Energy replies below in more detail to certain elements of the AEY argument on this matter:

1. **Current proceeding intended to test the DCF:** Yukon Energy submits that if a comprehensive examination and test of the DCF was required at this time (rather than a focus on finding ways to update and reactivate the DCF), AEY has not in fact provided anything useful for the Board on this matter. Contrary to AEY's argument, and as reviewed below, Yukon Energy has addressed at length the purpose of the DCF and its continued relevance today.²

AEY's "confidential and without prejudice" draft of October 2013, with its attack on the DCF plus YECL's proposal for a new diesel deferral account, was the first indication to YEC that AEY saw any relevance (let alone any Board direction) in this proceeding to discuss in detail the need for a DCF,³ Yukon Energy submits that AEY's October 2013 draft did not provide any useful "test of the DCF" as regards its purpose and ongoing relevance today - and, as reviewed at some length in Yukon Energy's June 30, 2014 Supplementary Filing (and addressed further below), AEY's proposal in this regard as filed on January 31, 2014 simply ignored (and continues to ignore) the long established purpose of the DCF and in no way attempts to provide a new mechanism to meet this purpose.⁴

Yukon Energy further notes that AEY's argument, in suggesting that the DCF has never been tested, ignores the fact that the DCF (as well as the prior Low Water Reserve Fund, based on the

¹ YEC Argument, section 2.1.2, page 5.

² YEC Argument, section 2.1.

³ YEC's understanding was that AEY sought to remove the ERA, and was not aware that AEY also sought to replace the DCF. The record of YEC's understandings, and AEY comments and submissions, is set out in YUB-YEC-1-10(c) Attachment 1, YUB-YEC-1-10(d), Attachment-1, Attachment A, YUB-YEC-1-6(a) with Attachments 1, 2 and 3), and YUB-YEC-1-11(a) (which specifically noted that YECL raised the DCF as an issue very late in the process, i.e., in its October 2013 proposal to YEC).

⁴ YEC June 30, 2014 Supplementary Filing (letter and Attachment 1, especially section 1.3).

same regulatory premises) was in fact subject to comprehensive reviews in the 1990s by both utilities as well as by the YUB.⁵

2. **DCF no longer appropriate:** AEY provides no useful argument or evidence to support its assertion that the DCF is no longer appropriate and should be replaced by a diesel volume deferral account that cannot continue to address the purpose of the DCF. Yukon Energy replies as follows to the only two points raised in this regard by AEY:

- a. **Complexity and testability of YECSIM model:** Although restated many different times and ways, AEY's argument to terminate the DCF basically relies on assertions about the complexity and non-testability of the YECSIM model used to determine LTA hydro generation at different grid loads as the basis for suggesting that the DCF as such is no longer appropriate. This argument is without merit, in that it fails to recognize the specific basis upon which the Board approved current rates as well as essential features of any DCF, and it therefore provides no basis for concluding that the DCF is no longer relevant or appropriate. More specifically, the following are also noted in reply to AEY's argument:

- Decision 2013-1, and approval of subsequent YEC Compliance Filings related to Decision 2013-1 (where adjustments to forecast diesel generation were required in response to adjustments in the load forecast as directed by the Board), relied upon and approved forecast hydro and diesel generation for different grid loads based on the YECSIM model. There is therefore no basis now for AEY to argue that the Board can (let alone must) reject ongoing use of the same model to determine "expected diesel generation" at any given grid load for the purpose of annual DCF determinations.⁶ [Any YECSIM issues related to DCF implementation as addressed separately in section 4 of this Reply do not provide a basis for arguing that the DCF as such is no longer relevant].
- The suggested test of "testability" or "true up to actuals" as proposed by AEY has no relevance to past or current DCF mechanisms. In contrast to a normal deferral account mechanism intended to track actual costs relative to a prior assumed cost or price, DCF mechanisms (as approved in the past as well as proposed today) must rely on an "expected diesel generation" amount based on either an assumption or a model's analysis of LTA hydro generation. "Testability" in this context typically arises only in checking actual diesel generation costs (to exclude from DCF determinations any actual diesel generation costs not related to the availability of water or wind resources for LTA hydro or wind generation), and this level of testability is not altered from the past in the current DCF proposal.

⁵ See record provided in response to YUB-YEC-1-1(f), Attachments 1 and 2 [re: YEC/YECL 1993 and 1996/97 GRA submissions] and YUB-YEC-1-2, Attachment 1 and 2 [re; YUB filings from 1996 to 1999, and Order 1999-3].

⁶ This applies to all elements of AEY's argument related to the YECSIM model (paragraphs 29 to 41). In effect, AEY is arguing that YECSIM should not be used for forecasting LTA hydro and diesel generation and this argument has no merit given Decision 2013-01 and its direction to set YEC's 2012-2013 revenue requirements based on 100% of LTA hydro generation determined per the YECSIM model.

- b. **DCF not send appropriate price signals during drought:** Contrary to AEY's assertions (paragraphs 7, 11, and 39), Yukon Energy addressed directly in its Supplementary Filing and in responses to interrogatories any potential concerns regarding masked price signals and intergenerational inequity⁷. Yukon Energy's submission is that discontinuing a DCF based on forecast LTA water conditions would increase rate instability, mask rather than display the expected long-term cost of power, and frustrate rather than facilitate intergenerational equity and fair treatment related to the benefits provided by hydro generation over its long-term economic life.⁸
- On this matter, there is no fundamental difference for a DCF today versus when it was established in the 1990s. AEY's argument simply rejects the entire regulatory premise for any useful DCF mechanism at any time (i.e., to mitigate against rate instability that arises due to fluctuations in water availability), and also ignores the practical reality today that with the proposed cap of \$8 million it can be expected that the DCF will be forced in any event to have added rate rider impacts during an actual severe drought condition⁹.
3. **Recommend diesel volume deferral account to replace the DCF:** Aside from failing to address the fact that the DCF continues to be relevant today, AEY has provided no reasonable basis for the Board to consider establishing any diesel volume deferral account to replace the DCF. In Yukon Energy's view, the available evidence continues to confirm that a deferral account such as that proposed by AEY would frustrate rather than facilitate the purpose and regulatory premise for the DCF, and therefore should not be considered further by the Board at this time.

Yukon Energy's June 30, 2014 Supplementary Filing and Argument addressed in detail the assessment of AEY's proposed diesel deferral account,¹⁰ and AEY has not provided any new evidence to change or address Yukon Energy's assessments.

AEY's argument continues to reference the "NWT" as having a diesel deferral account that the Board should consider in this regard. The following are noted on this specific matter:

- a. As reviewed in YEC's June 30, 2014 Supplementary Filing,¹¹ AEY's January 31, 2014 filing referenced a NWT Taltson Dam deferral account. Yukon Energy showed why this example has no relevance to the Yukon grid situation today, and provides no basis for a mechanism to replace the DCF.
- b. Without reference to YEC's Supplementary Filing on this matter, AEY's argument now references (paragraphs 24 and 25) only the Snare-Yellowknife deferral account rather than a Taltson deferral account. Yukon Energy notes the following with regard to the Snare-Yellowknife grid and rate stabilization mechanism:

⁷ See YEC June 30, 2014 Supplementary filing, Attachment 1, page 1-6 (re; long established purpose of DCF) and Attachment 2, pages 2-6 to 2-8); also AEY-YEC-1-10(a and b).

⁸ YEC Argument, section 2.1.3 (items 2 and 3, and related sources referenced therein).

⁹ See YEC Argument, section 2.2.2, item 2 on "Updated Caps for DCF" where it is noted that drought conditions can lead to adverse cost impacts exceeding \$30 million with diesel generation and exceeding \$20 million with LNG-based generation. At \$8 million, a cap would still provide rate stability over a wide number of water conditions as compared to a DCF with a much smaller cap.

¹⁰ YEC June 30, 2014 Supplementary Filing, letter and Attachment 1; Argument, section 2.3 with related references.

¹¹ YEC June 30, 2014 Supplementary Filing, Attachment 1, Appendix 1-A.

- Yukon Energy's Rebuttal Evidence as referenced by AEY¹² focused on assessing context for various orders and comments from other jurisdictions as provided by UCG, including NWT orders and filings, in order to assess any potential relevance to the current DCF proceeding. With regard to NWT, Yukon Energy's Rebuttal Evidence noted that NTPC rate stabilization mechanisms related solely to water variability are premised on the same principles as the DCF when diesel is on the margin under long term average water conditions. After noting that the Taltson grid water fund is inactive due to very low loads, Yukon Energy's Rebuttal Evidence also noted the NTPC tests for use of the Snare-Yellowknife water stabilization fund, and noted that current Snare-Yellowknife loads are not at a level today where diesel is on the margin under LTA water conditions (which means that reference to current operation of any fund on that NWT grid has no relevance to the current DCF situation on the Yukon grid). Yukon Energy's Rebuttal Evidence did not address the extent to which a diesel volume deferral account for the Snare Zone also addresses non-water related variances that have no relevance to water variances and therefore no relevance to the current DCF proceeding. This matter is addressed below, with reference to NWTPUB Decision 1-2013.
- AEY's argument reference to NWTPUB Decision 1-2013, page 91 fails to note the context of the NWTPUB direction on this matter at pages 93 to 95. This specific Decision has also been referenced by UCG argument (page 7) with regard to concerns about a fund that flows through all diesel costs resulting in lack of incentive to utilize hydro resources to minimize use of diesel generation. Yukon Energy notes a need in both instances to review more closely the full context of this NWTPUB Decision (see below).

Under the current situation on the Snare-Yellowknife grid (where diesel is not on the margin under LTA water conditions), the NWTPUB noted that NTPC was proposing a fund for the Snare Zone that would capture all diesel cost variances relative to the GRA forecast - and the NWTPUB then stated as follows: "...the Board considers the reference to the long-term average water forecast of 220 GWh per year, made by NTPC in its description of the fund operation, is redundant. Accordingly, the Board approves a revised wording for operation of the fund, as applicable to the Snare Zone, as follows:

"For the Snare Zone, the fuel costs for diesel generation built into base rates will not be charged via the fund, but fuel costs for diesel generation which are greater or less than this level are charged or credited to the fund."

The NWTPUB went on to note that, in this context, "The Board continues to be concerned by an RSF mechanism which allows pass through of all diesel costs as this may not provide the appropriate incentive for NTPC to maximize use of the hydro resource. The Board directs NTPC to address the feasibility of NTPC

¹² YEC Rebuttal Evidence, October 15, 2014, page 4 (see also pages 5 and 6).

assuming forecast risk on diesel volume variances for the Snare Zone at the time of the next GRA."

In Yukon Energy's submission, the context of the NWT Snare Zone current grid load (where diesel is not on the margin at LTA water conditions) removes any useful relevance, with regard to the Yukon DCF as proposed today, to references to this portion of NWTPUB Decision 1-2013. Placed in context, NWTPUB Decision is also raising similar concerns as Yukon Energy has raised with regard to a volume diesel deferral account that has no direct relationship to water availability variances, i.e., a volume diesel deferral account not tied to water variances shifts to consumers volume variance risks that the utility should normally bear.

2.0 ERA PURPOSE: LIMITS ON AEY FLOW THROUGH TO RATEPAYERS

Intervenor Arguments

AEY argues that any ERA charges to AEY should be fully deferred or flowed through to ratepayers.¹³

UCG argues that any deferral of ERA charges to ratepayers must be limited only to costs not otherwise recovered by the utilities through incremental increased load revenues.¹⁴

Yukon Energy Reply

On the fundamental initial issue regarding any limits on deferral of ERA charges to ratepayers, UCG and Yukon Energy arguments each recommend limiting such deferral of ERA charges to ratepayers only to what is not otherwise recovered through incremental revenues received by the two utilities.¹⁵ Based on this argument, Yukon Energy submits that there is continued relevance for an updated ERA.

In contrast, AEY's argument continues to seek full flow through to ratepayers of any ERA charges or rebates arising from variances in its wholesale purchases (net of any Fish Lake variance impacts), without any consideration of AEY's incremental revenue impacts related to the same wholesale variances. In this regard, AEY's argument ignores the specific purpose and history of the ERA,¹⁶ provides no useful recommendations related to revising and re-activating the ERA as required at this time, and fails to provide any sound basis for its recommendation to change past practice in order now to flow through all ERA charges or rebates to ratepayers. Full AEY flow through to ratepayers of ERA charges would, in Yukon Energy's submission, remove any basis for an updated ERA, i.e., this would amount to adopting Option B rather than Option A from Yukon Energy's January 31, 2014 Application.

Yukon Energy replies below in more detail to four elements of the AEY argument on this matter:

1. **AEY concerns re Rider D and YECL Purchase Power Flow Through deferral account:**
AEY's argues that, during joint discussions, Yukon Energy changed its position on the YECL Purchase Power Flow Through deferral account by proposing netting of AEY's incremental revenues - and that "Changes such as this were unhelpful in moving towards common ground and jointly supported solutions that were fair and reasonable to all parties." (Paragraphs 9 and 42) AEY is ignoring the fact that YEC was attempting to address AEY's stated concerns about implementation of any Rider D for the Purchase Power Flow Through deferral account in a way that would be fair and reasonable to all parties (including ratepayers).

¹³ See AEY Final Argument, paragraph 59: In the event the ERA mechanism as proposed by YEC is approved, AEY requests that the Board also approve the continuation of its Purchased Power Flow Through deferral in order to capture the change in the wholesale purchase rate resulting from ERA charges flowed through from YEC - and states that these charges would then be flowed through to customers through Rider D, which AEY will apply for approval of in a future application.

¹⁴ See UCG Final Argument, Recommendation 5 at page 11: The ERA must address cost sharing between YEC and AEY by determining the amount of YEC incremental diesel generation costs to AEY and to customers directly served by YEC - and that this mechanism "...must fully utilize AEY's revenue offsets as well as the exclusion of YEC's net cost impacts for industrial and retail variance (i.e., to ensure ratepayers are protected from the two utilities' incremental costs which are recovered though incremental increased load revenues)."

¹⁵ See YEC Argument, section 3.1.2.

¹⁶ Yukon Energy addressed in its Argument (sections 3.1 and 3.2) the purpose and history of the ERA, and how the key elements of the ERA as now proposed are consistent with long established ERA mechanisms in Yukon.

In further support of this reply, Yukon Energy notes the following:

- **AEY's concerns re: Rider D:** AEY in argument states "During YEC's 2012-2013 GRA, YEC stated that ATCO Electric Yukon would be entitled to recover all ERA charges under Rider D, which would apply to all Yukon customers."¹⁷
 - Review of the transcript references provided confirms that Yukon Energy's statement was based on its understanding of the Board's prior rulings¹⁸ - and that Yukon Energy historically was on the record noting its concerns in this regard.¹⁹
 - AEY's argument in this regard, also fails to note AEY's ongoing stated concern (prior to and during the current proceeding) that objections to Rider D may result in YECL-AEY being unable to flow through ERA charges to ratepayers - and its interest therefore in having YEC remove its objections to this specific Rider D mechanism.²⁰

Absent these AEY concerns about the ultimate effectiveness of Rider D due to grounds for future objections, Yukon Energy is not aware of any reasonable basis for AEY's stated and ongoing concerns about potential ERA impacts on YECL-AEY.

- **YEC's change during discussions with YECL:** AEY's argument goes on to state (paragraph 9): "YEC is now proposing an update to the ERA mechanism that nets any 'incremental revenues' for ATCO Electric Yukon (based on YEC's as opposed to ATCO Electric Yukon's test year forecast of wholesale purchases that is used in developing ATCO Electric Yukon's approved rates) against ERA charges." In reply, Yukon Energy notes that this change was provided to AEY well before the January 31, 2014 filings (i.e., in September 2013) as part of the ongoing discussions - and that this change was proposed by YEC specifically to address YECL concerns about securing YEC support for an effective Rider D to protect YECL against being unable to recover from incremental revenues its ERA charges.²¹ This material change in YEC's position was developed after discussion, in recognition of the current gap between retail rates and incremental diesel generation costs per kW.h.²²

2. **YEC attempts to address AEY concerns:** Yukon Energy rejects AEY's assertion that Yukon Energy did not address in joint discussions any of AEY's concerns with the ERA (paragraph 42).

¹⁷ AEY Final Argument, paragraphs 9 and 42.

¹⁸ YEC's January 31, 2014 Application at Appendix 2, page 2-3 references Board Order 2009-2 and Order 2010-13. YEC issues with Rider D emerged in discussions with YECL as part of the proceeding leading to Order 2010-13.

¹⁹ YEC 2012-2013 GRA transcript, Volume 1 at p. 127 line 19 to p. 128, line 9.

²⁰ See AEY January 31, 2014 Filing, Appendix A, p. 1 which references YECL's Final Argument in the YEC 2012-2013 GRA and includes, as YECL listed concerns, that "the ERA as proposed by Yukon Energy may not allow Yukon Electrical to recover its prudently incurred costs" and "the ERA charges may have a material impact on Yukon Electrical and its customers." In order for YECL not to recover ERA costs, the Purchase Power Flow Through deferral account and proposed Rider D mechanism would have to end up not protecting YECL as originally envisaged and/or assumed in YEC's evidence.

²¹ See YEC January 31, 2014 Submission, Appendix 2 and responses to YUB-YEC-1-12 and YUB-YEC-1-30.

²² See YEC Argument, section 3.2.1, item 2; also YUB-YEC-1-8(f) for earlier run out rates; YUB-YEC-1-5(c and d), step 5.

As reviewed in Yukon Energy's Argument,²³ the evidence shows that Yukon Energy understood that the core disagreement between the utilities throughout this proceeding related to continuation of the ERA charges as part of the two step mechanism included in Rate Schedule 42, that AEY sought to protect in future any incremental increased margin derived by YECL from increased sales, and that Yukon Energy accordingly worked to develop for Board review two options for the ERA (Option A assuming continuation of the ERA with updates as required, and Option B being a serious attempt to set out what would be needed to address the YECL-AEY objective to avoid any future ERA impacts).

Prior to developing Option B in January 2014 for review by YECL-AEY (in an effort to provide one submission for the Board), Yukon Energy had focused during August/September 2013 on addressing YECL-AEY concern about its potential inability to recover all ERA charges - including concerns related to Rider D and the gap today between retail rates in the Hydro zone and YEC's incremental diesel generation costs. As a result, Yukon Energy provided a modified ERA proposal to YECL in September 2013 whereby it could support a Rider D recovery of any ERA charges not otherwise recovered from AEY-YECL incremental revenues.

3. **AEY arguments re: forecast risk and ability to recover costs:** Yukon Energy submits that none of AEY's asserted concerns regarding forecast risk and AEY's opportunity to recover costs²⁴ go to the core issue here, i.e., the overall AEY argument that any ERA charges to AEY should be fully deferred or flowed through to ratepayers (as opposed to having such flow through limited only to costs not otherwise recovered by the utilities through incremental increased load revenues).

In Yukon Energy's submission, the core issue here is to ensure that AEY has a mechanism whereby it can recover from ratepayers any ERA-specific costs not otherwise recovered through its incremental increased load revenues - and Yukon Energy submits that such a mechanism is provided for in its Option A ERA proposal. AEY has provided no argument or evidence to show that this mechanism will be inadequate, and has offered no proposals to improve the ERA implementation mechanisms. (Yukon Energy's Reply will address below any specific issues raised in arguments regarding ERA implementation).

Specific reply regarding load forecast risk issues raised regarding the ERA mechanism are addressed in Section 4.1 of this Argument.

4. **AEY arguments to retain all incremental revenues:** AEY argues that an ERA as proposed by YEC will not allow for AEY sales margin growth to offset AEY's incremental costs incurred when non-test year sales are higher than the last approved sales forecast, and would thereby limit AEY's ability to avoid costly GRAs. (Paragraphs 49 and 50).

In reply, Yukon Energy notes that AEY's sole argument in support of retaining its full "sales margin growth" related to incremental sales fails to address YEC's assessment of Option B versus Option A, and the material added impact on ratepayers that will occur for certain under Option B if the ERA was to be discontinued as AEY proposes in order for AEY to retain sales margin growth and avoid GRAs. This AEY argument is without merit, is inconsistent with the long established

²³ YEC Argument, section 3.3.

²⁴ AEY Argument, paragraphs 44 to 48.

ERA mechanisms as previously proposed by both utilities and as previously approved by the Board, and appears simply to reflect AEY's ability to avoid regulatory review during the period when there was a hydro surplus on the Yukon grid. Now that thermal generation is once again on the margin, as determined in Order 2013-1, AEY's argument fails to recognize the need once again to amend and reactivate the ERA to allow flow through to YECL-AEY of YEC fuel cost changes due to actual YECL-AEY wholesale purchase variances, as part of the approved two step mechanism included in Rate Schedule 42.

Yukon Energy also notes that AEY's argument fails to address the situation where incremental changes result in a negative variance in AEY wholesales, i.e., where disbanding the ERA as proposed by AEY will fail to protect AEY from situations when incremental revenue losses exceed incremental wholesale purchase cost savings under current rates.²⁵

²⁵ See YEC Argument, section 3.1.2, pages 16 and 17.

3.0 UPDATING AND REACTIVATING THE DCF

Overview of Intervenor Arguments

UCG

Although UCG's argument supported continuation of the DCF, it included at pages 1 through 8 a wide range of comments regarding the DCF that are not relevant to the current proceeding or matters currently before the Board. By way of example, the following are noted:

- UCG provides comments on, and attaches for reference, material to its Final Argument (Attachment 1 and Attachment 2)²⁶ that is not on the record of the current proceeding and that Yukon Energy has not previously had an opportunity to review or comment on. The material has no relevance or value for the matters currently under review by the Board and should be disregarded. The documents do not appear in any way to be related, each appears to be prepared separately to address separate issues, and neither appears to support UCG arguments at page 4.²⁷
- UCG, without any evidence on the record of the proceeding, asserts that with the exception of 2008, Yukon Energy did not submit annual reports to the YUB regarding additions and deletions to the DCF between 2001 and 2011. (Page 5).
- UCG, without any evidence, asserts that the utilities benefited from the DCF after closure of the Faro mine and that YEC "unilaterally suspended the operation of this fund which resulted in additional revenue from sales growth". (Page 5).
- UCG makes reference to "DCF-like mechanisms" that "have been proposed and/or implemented in other jurisdictions." In certain cases UCG's summary of Board Directions provided in other jurisdictions is misleading. (Page 7).

UCG's argument at pages 10 through 13 provides specific recommendations to the Board regarding the DCF. Yukon Energy in its Reply has focused on responding specifically to the UCG recommendations on updating and reactivating the DCF relating to the following four areas of focus:

- YECSIM Model Issues - Recommendations regarding the use and review of the YECSIM model (Recommendation #3);
- Incenting Optimal Use of Hydro Resource - Recommendations regarding incenting the optimal use of the hydro generation resource (Recommendation #1 and #7);
- DCF Cap - Recommendations regarding the requirement for and quantum of the DCF cap (Recommendation #10, #11 and #12);
- DCF Reporting and Review - Recommendations and comments regarding the process for implementing reporting and review of the DCF calculations (Recommendation #2, #4, #9, and #13).

²⁶ See comments at page 4 of UCG's Final Argument where material is referenced.

²⁷ UCG argues at page 4 that these documents show different estimates for actual diesel expenses in 1997. Contrary to UCG's assertions, Attachment 1 is a filing by both utilities (and not only YEC) and appears to relate to Rider F for all of Yukon (and not to the DCF for WAF). These documents do not confirm any point that UCG is attempting to assert.

AEY

As previously noted, AEY's argument was directed at replacing rather than continuing the DCF and therefore did not address specific measures to update or reactivate the DCF. The AEY argument made a range of assertions regarding the YECSIM model, and Yukon Energy's Reply addresses these below under the heading of YECSIM issues.

3.1 YECSIM MODEL ISSUES

Intervenor Arguments

UCG raises concerns regarding transparency and accessibility of the YECSIM model due to YEC's "proprietary model claim" and recommends that the YECSIM model must be provided to all parties whenever it is used to develop DCF and ERA calculations.²⁸

AEY specifically asserts (paragraph 29) that the current proceeding "casts doubt" on "YEC's need for YECSIM for planning, and certainly does not justify the use of YECSIM for billing ERA charges to ATCO Electric Yukon," and identifies the following concerns: (1) YECSIM cannot be tested or independently verified;²⁹ (2) YECSIM cannot be proven to produce accurate results;³⁰ and (3) diesel consumption is affected by more than water and wind availability.³¹ AEY concludes that issues with YECSIM and the complexity of forecasting diesel-hydro generation mix suggest "an even greater need for YEC's diesel volumes to be trued up to actuals" (paragraph 37).

Yukon Energy Reply

On the transparency and accessibility issues as raised by UCG, Yukon Energy rejects UCG's assertion that YEC has been "hiding behind a proprietary model claim." To the contrary, Yukon Energy submits that the record in this proceeding provides extensive responses to all interrogatories regarding YECSIM results, assumptions, methods and other key elements, e.g., see in particular the responses to YUB-YEC-1-3 and AEY-YEC-1-5 (c and d).³² The issue of the proprietary nature of YECSIM model arose only in response to one sub question (i.e., AEY-YEC-5(d)), and then only when it was noted that a response to what was specifically asked for would have required YEC to provide a copy of the full model.³³ In responding to this specific sub question, YEC did in fact provide an extensive review of the data included as inputs to the YECSIM model. In summary, Yukon Energy submits that reasonable transparency and accessibility as relevant for these regulatory proceedings does not require that parties in fact have access to a copy of the YECSIM model.

²⁸UCG Final Argument, Recommendation #3, page 11. UCG states "...that it is detrimental to the review efforts of the YUB and stakeholders to have YEC refuse to provide all data, calculations and assumptions used to derive the YECSIM model by hiding behind a proprietary model claim."

²⁹AEY Argument, paragraph 30, e.g. "insufficient information has been provided to facilitate the testing of the model".

³⁰AEY Argument, paragraph 31, e.g., AEY asserts that YEC did not fully respond to the Board's request to "rerun the YECSIM model using actual grid load and actual hydro availability and provide results for forecast diesel generation requirements" and concludes that YEC did not respond to the request "...because the model does not produce accurate results".

³¹AEY Argument, paragraph 32, e.g., AEY asserts that YEC statements that DCF determinations reflect only diesel generation variance due to hydro and wind generation variance from long term average availability are not consistent with evidence that the DCF and ERA calculations vary with YEC system losses, load profile and industrial forecast variance.

³²Other interrogatory responses include: YUB-YEC-1-1(d), YUB-YEC-1-4, YUB-YEC-1-7(c), YUB-YEC-1-9(a), YUB-YEC-1-26(b).

³³AEY-YEC-3-(d) requested YEC to "provide a copy of all data, calculations and assumptions used to derive the YECSIM model(s) used to calculate the DCF/ERA amounts for 2012 and 2013 as filed by YEC in its January 31, 2014 submission."

With regard to AEY's broad assertions that the current proceeding "casts doubt" on YEC's need for YECSIM, Yukon Energy re-iterates that Decision 2013-01 and approval of subsequent YEC Compliance Filings related to Decision 2013-1 (where adjustments to forecast diesel generation were required in response to adjustments in the load forecast as directed by the Board), relied upon and approved forecast hydro and diesel generation for different grid loads based on the YECSIM model. There is therefore no basis now for AEY to argue that the Board can (let alone must) reject ongoing use of the same model to determine "expected diesel generation" at any given grid load for the purpose of annual DCF determinations.³⁴

With regard to specific concerns raised by AEY that YECSIM cannot be tested or independently verified and cannot be proven to produce accurate results, Yukon Energy re-iterates the following points made in interrogatories and in argument:

1. The suggested test of "testability" or "true-up to actuals" as proposed by AEY has no relevance to past or current DCF mechanisms.³⁵
2. There is no merit or relevance to AEY's suggestions that YECSIM is "inaccurate" (i.e., fails to forecast actual diesel generation in any specific year), or that it needs to be "trued up to actuals". These comments simply fail to understand the basic difference between "actual diesel" for a test year (as such was forecast in YEC's 2012-2013 GRA using short term models and then current water conditions) and LTA "expected" diesel as forecast by the YECSIM model and as used by the Board to set YEC's revenue requirements for 2012-2013 per Order 2013-01.³⁶
3. Finally, on the specific credentials and testability of the YECSIM model, Yukon Energy has consistently noted in evidence (as summarized below) that a planning model such as YECSIM is not structured in a way that lends itself to retrospective verification³⁷ - and that this fact does not in any way negate the relevance and value of such models.
 - a. The model was designed by experts with considerable experience in the field of hydrological modeling (including developing hydrological models for hydro-electric power systems in Canada and elsewhere)³⁸ and follows other well established precedents in the

³⁴ This applies to all elements of AEY's argument related to the YECSIM model (paragraphs 29 to 41). In effect, AEY is arguing that YECSIM should not be used for forecasting LTA hydro and diesel generation - and this argument has no merit given Decision 2013-01 and its direction to set YEC's 2012-2013 revenue requirements based on 100% of LTA hydro generation determined per the YECSIM model.

³⁵ As noted earlier in Section 1 of this Reply: In contrast to a normal deferral account mechanism intended to track actual costs relative to a prior assumed cost or price, DCF mechanisms (as approved in the past as well as proposed today) must rely on an "expected diesel generation" amount based on either an assumption or a model's analysis of LTA hydro generation. "Testability" in this context typically arises only in checking actual diesel generation costs (to exclude from DCF determinations any actual diesel generation costs not related to the availability of water or wind resources for LTA hydro or wind generation), and this level of testability is not altered from the past in the current DCF proposal.

³⁶ This fundamental AEY misunderstanding was reviewed at length in response to YUB-YEC-1-4(a and b). YECSIM in this regard is no different than the models used in the 1990s to forecast "expected" hydro and diesel generation" at LTA hydro water conditions versus forecasts of actual hydro and diesel generation in a specific year based on then current water conditions.

³⁷ YUB-YEC-1-3(c) and YUB-YEC-1-9(a).

³⁸ YUB-YEC-1-3(c) notes, KGS Group staff have been actively involved in understanding and applying similar models that have been used for similar purposes in other hydro-thermal electric power systems, including the Pacific Northwest Power Pool Model (PNPP) that represents the operation of the Columbia River hydroelectric power system and the Itaipu Power Development in the south-central Brazil power system. The PNPP was the basis also for planning and optimizing the design and operation characteristics of the Itaipu Power Development in the south-central Brazil power system. The latter was a model that simulates the operation of over

field. The model developers have also conducted a peer review of a similar hydrological model used by Manitoba Hydro (another hydro-based Canadian utility),³⁹ and conferred with Manitoba Hydro at the outset of the YECSIM development to confirm various concepts of modelling that Manitoba Hydro had deployed.

- b. YECSIM was custom-made by the developers to acknowledge all significant factors that affect the operation of the YEC power system. This includes the complex rules of operation and the regulatory demands on YEC.⁴⁰ The YECSIM model incorporates the operation rules and license requirements that specifically apply to each site. In the development stages simulations were carried out to verify in general that the model results properly correspond to the operation of the WAF system.⁴¹
- c. The YECSIM model is not designed to replicate the past, but to simulate system operation within the conditions imposed by physics, regulation and operational priorities, in order to supply the estimated loads with the available hydrologic inputs.⁴² As such, a detailed verification of a test year would not normally be seen as a verification that is required or appropriate for this type of planning model.⁴³ The accuracy of individual components of the model, such as energy generation for given flows and heads have been verified individually.⁴⁴

With regard to AEY assertions that the DCF is flawed due to YECSIM because actual results are affected by more than water and wind availability, Yukon Energy notes the following:⁴⁵

- The purpose of DCF determinations for any past or future year continues to be to define thermal generation variance due solely to water and wind variability from GRA approved LTA conditions. To this end, the DCF determination for any year focuses on the variance of actual diesel generation (with adjustments as noted below) from "expected diesel generation" (adjusted to reflect actual load) under GRA approved LTA conditions for hydro and wind generation.
- For DCF purposes, "actual" thermal generation is adjusted to remove thermal generation due to emergencies, line outages and capital projects and these factors do not affect DCF determinations.
- DCF determinations for "actual diesel generation" also adopt approved GRA fuel prices and thermal generation efficiencies (i.e., these factors do not affect DCF determinations).
- In the past, and in the current DCF proposal, actual diesel generation for DCF determination is not adjusted for changes from GRA approved load or generation forecasts due to changes in industrial loads, load shape over the year, or overall system losses - and therefore each of these

50 reservoirs in Brazil as well as the Itaipu facility, which at the time (1980's) was the largest single power plant in the world. The simulation model used by KGS staff members in engineering of that plant is similar in structure to YECSIM.

³⁹ YUB-YEC-1-3(c) notes, KGS Group staff have also been involved in peer review of Manitoba Hydro's SPLASH model used for planning the expansion of the Manitoba Hydro system. The SPLASH model is similar in nature to YECSIM, which adds to the confidence that the procedures being used are appropriate.

⁴⁰ See AEY-YEC-1-5(c) and (d) for specific information provided.

⁴¹ AEY-YEC-1-5(c).

⁴² AEY-YEC-1-5(c).

⁴³ YUB-YEC-1-3(c) and YUB-YEC-1-9(a).

⁴⁴ YUB-YEC-1-3(c).

⁴⁵ See YUB-YEC-1-7 and YUB-YEC-1-3(b).

factors can affect DCF results (a point which has nothing to do with YECSIM per se, and which in no way invalidates past or proposed DCF mechanisms).⁴⁶

- "Expected diesel generation" as provided by past DCF determinations based on the LTA hydro generation models of that time, and as now provided for DCF determinations based on YECSIM, reflects the extent to which LTA diesel generation changes as actual grid load changes, e.g., it responds as needed to changes from the approved GRA forecasts as regards retail loads, industrial loads and/or overall load shape over the year. In this regard, the only difference today as compared to when the Faro mine was operating is that under current load conditions LTA diesel generation accounts for less than 100% of any variance in grid generation requirements.
- In summary, DCF determinations under past conditions (with Faro mine operation) and under current conditions with YECSIM output do not allow the DCF to fund the non-water-related diesel generation impacts of grid load variances from approved forecasts.⁴⁷ The fact that DCF determination change in response to load or other changes on the grid simply reflects the extent to which actual and LTA expected diesel generation change in response to changed load conditions, and was a factor in past DCF determinations during the 1990s, i.e., it is not something new related to the YECSIM model.

3.2 INCENTING OPTIMAL USE OF THE HYDRO RESOURCE

Intervenor Arguments

UCG in its Final Argument (Recommendations #1 and #7) asserts that "allowing all diesel costs to be recovered from ratepayers does not provide incentive for the utilities to maximize the optimal use of hydro generation", and the DCF "must ensure that YEC and AEY are given the appropriate incentive to maximize optimal use of Yukon's Hydro generation resources". On this matter, UCG's argument at page 7 says that this lack of incentive is the same as what was referenced in NWTPUB Decision 1-2013 where that Board expressed concern that the Snare Zone rate stabilization fund mechanism, which allows pass through of all diesel costs, may not provide appropriate incentive for the utility to maximize the use of the hydro resource.

UCG also recommends (Recommendation #7) that the "Fuel Adjustment Rider must be incorporated into the DCF/ERA mechanism. Only fuel cost variances from the YUB-approved forecast diesel consumption will be permitted."

Yukon Energy Reply

Contrary to what is asserted by UCG, "all diesel costs" are not recovered from ratepayers through the DCF and ERA mechanisms, i.e., as reviewed in YEC's Application and in all of the evidence, the DCF only recovers diesel generation costs related to water variability. Volume related variance in diesel generation continues to be charged to the utilities (including ERA charges to AEY) based on approved LTA expected diesel generation requirements for actual grid loads. With YEC's preferred Option A, incremental revenues for YEC and YECL are offset against incremental costs prior to any amounts being charged to ratepayers by YECL through a Rider D mechanism.

⁴⁶ Response to AEY-YEC-1-3(a and d) reviews actual system loss variance for 2008 to 2013 as well as potential impacts on expected diesel from varying system loss assumptions.

⁴⁷ See YUB-YEC-1-3(b) for elaboration with examples.

Yukon Energy also notes that there is no evidence in this proceeding before the YUB to show any basis for concern about YEC lacking incentive to use its hydro generation resources on the Yukon grid. In this regard, Yukon Energy also notes that the situation on such matters today does not in principle differ from that which existed when the DCF was initially established in 1996.

Finally, with regard to UCG's reference to NWTPUB Decision 1-2013,⁴⁸ that decision was specific to the facts on the record of that proceeding and in Yukon Energy's submission has no relevance to the current DCF proceeding. Unlike the Yukon grid situation today and the DCF as proposed, the following need to be noted with regard to the NWT Snare Zone as addressed in NWTPUB Decision 1-2013: (a) unlike the Yukon grid, this NWT grid does not currently have diesel generation on the margin; (b) unlike YUB Decision 2013-01 with regard to the Yukon grid, the NWTPUB determined that any reference to long-term average water forecast hydro generation for this grid fund is "redundant" as it has no relevance to actual fund determinations (or GRA rates) at this time; and (c) unlike the DCF as proposed in YEC's Application, the Snare Zone fund is in fact currently affected by any variance in diesel volume from GRA forecast (regardless of the fact that such variance may not in any way relate to water availability).⁴⁹

Separate from the above, it is unclear to YEC exactly what UCG means with regard to its recommendation to incorporate the fuel adjustment rider into the DCF/ ERA mechanism. Yukon Energy submits that there can be no reasonable basis to limit fuel cost variances only to the specific YUB-approved forecast diesel consumption, i.e., this is not how Rider F is determined today and has nothing to do with the scope of the current DCF proceeding. In addition, Yukon Energy notes the following:

- The current Rider F (or Deferred Fuel Price Variance Account mechanism [DFPVA]) was not in dispute in the current proceeding and no evidence has been provided to suggest any issues regarding the fund's operation.
- Rider F and the DFPVA were exhaustively addressed in a separate written proceeding in 2011 (with Board direction provided in Board Order 2011-15).
- Outside of examples referenced by UCG (Newfoundland⁵⁰ and NWT⁵¹), no evidence has been provided on the record of the current proceeding regarding the feasibility of incorporating the fuel adjustment rider in the DCF mechanism, or reviewing potential impacts, alternatives or consequences of proceeding in this manner. There is nothing on the record to suggest this would be beneficial or necessary in the Yukon context.

⁴⁸ Page 94 of NWTPUB Decision 1-2013 notes as follows: "The Board continues to be concerned by an RSF mechanism which allows pass through of all diesel costs as this may not provide the appropriate incentive for NTPC to maximize use of the hydro resource. The Board directs NTPC to address the feasibility of assuming forecast risk on diesel volume variances for the Snare Zone at the time of the next GRA."

⁴⁹ See earlier section 1 of this Reply Argument for more details regarding NWTPUB Decision 1-2013 on this matter.

⁵⁰ Yukon Energy Rebuttal Evidence (page 8) notes, that the 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.

⁵¹ Yukon Energy Rebuttal Evidence (page 4) notes the new NWT consolidated fund and its potential future operation does not offer any information relevant to the current DCF proceeding in Yukon – further, there is limited operating experience to date in NWT with the new consolidated RSF.

Overall, the available evidence confirms that the DFPVA, the DCF and the ERA were each developed for separate purposes, address separate risks, and as a consequence, the mechanics of each are necessarily very different (including in the case of the DCF and the DFPVA fund caps⁵² and timing of fund dispersal).⁵³ Yukon Energy submits that the thresholds and parameters established for Rider F (with the policy objective to adjust DFPVA balances over a 12-month period when balance exceeds +/- \$200,000)⁵⁴ are not compatible with the objectives and required parameters for the DCF.⁵⁵

3.3 DCF CAP

Intervenor Arguments

UCG in its Final Argument asserts that if a DCF cap is required it should be set at \$4 million (or no larger than \$5.2 million, or "one year cost of average drought condition"); UCG also asserts that a lower cap of \$2.5 million was considered by the NWT PUB as "prudent" and "more advantageous to ratepayers."⁵⁶

UCG argues that no risk analysis was provided by either YEC or AEY to demonstrate a +/- cap for the DCF, and recommends that a joint utility risk analysis be undertaken to determine if and when the cap should be altered, and that this analysis should be reviewed as part of a public process.⁵⁷

UCG recommends that any refund/recovery related to DCF balances be divided into equal monthly amounts to all non-industrial customer classes rather than be linked to a consumption-based per kWh rate rider, and "this type of approach will help to incent energy conservation."⁵⁸ Earlier in its argument, UCG cites as an example, the Newfoundland Power Rate Stabilization Plan Surplus which it asserts Order No. P.U. 9(2014) directed "shall be refunded to all ratepayers with the exception of the Island Industrial customers in the form of direct payment or rebate..."⁵⁹

AEY did not support continuation of the DCF. On the matter of a cap related to a diesel volume deferral fund, AEY recommended (paragraph 41) a threshold approximately equal to 5% of YEC's revenue

⁵² Order 2011-15 (see Attachment A) regarding the approval of the YEC & YECL Rider F -Fuel Adjustment Rider & Deferred Fuel Price Variance Policy, directed as follows regarding Rider F: "when the balance in the DFPVA approaches or reaches the \$200,000 threshold, the Companies must inform the Board and interested parties of the Companies' intentions to implement a Rider F rate change to address the outstanding balance."

⁵³ UCG-YEC-1-1 reviewed the specific purpose of Rider F, the DCF and the ERA. The DCF and Rider F are each designed to meet rate stability objectives related to water variability or related to fuel price fluctuations. The ERA addresses specific flow through of incremental costs as required between YEC and YECL.

⁵⁴ Board Order 2011-15, Appendix A: Reasons for Decision, page 16.

⁵⁵ Yukon Energy's Rebuttal Evidence, page 1 notes "In contrast to the fuel price rate stabilization mechanism in Yukon (i.e., Rider F mechanism), comparatively large minimum and maximum caps were established for the DCF to establish a fund large enough to provide rate stabilization in response to varying water flow availability above and below long-term average conditions".

⁵⁶ UCG Final Argument, Recommendation #10 and #11, page 12. UCG recommends that "if a threshold/cap is required for the DCF", that it be set at the current +/- \$4 million threshold or "at the very extreme +/- \$5.2 million or a one year cost of average drought condition (as taken from YEC's Supplementary Evidence dated June 30, 2014, page 2-4 - 'At an assumed diesel fuel cost of 28.71 cents per kW.h, the long-term average diesel fuel generation cost of \$5.2 million represents the average ranges of possible water conditions...')". However, UCG also notes the PUB NWT Findings in Decision 16-2010 (page 24) that directed NTPC to set the trigger point for the consolidated rate stabilization fund at \$2.5 million.

⁵⁷ UCG Final Argument, Recommendation #11, page 12 and Recommendation #12, page 13. UCG's recommendation is presumably based on its review at page 7 of its argument of determinations of the Manitoba Public Utilities Board.

⁵⁸ UCG Final Argument, Recommendation #9. Recommendation #11 also assumed DCF refund rate ride applies only to firm retail customers (i.e., non-industrials). See also, page 7 where UCG asserts the utilities should be incented to get industrial loads off the grid and serviced through on-site generation for the limited time that they are operating in Yukon.

⁵⁹ UCG Final Argument, page 7 (emphasis as per the argument). Reference to an order of the Newfoundland Board of Commissioners of Public Utilities.

requirement (about +/- \$2 million), and noted that either a DCF mechanism or a diesel volume deferral account does not preclude disbursement or collection of the prescribed balance over either a shorter or longer time period which can be assessed and presented to the Board for approval based on the circumstances at the time with consideration to any other rate changes that are occurring at that time.

Yukon Energy Reply

Yukon Energy submits that the AEY recommendation with regard to DCF cap amounts at only about +/- \$2 million has no relevance for an updated and reactivated DCF. In fairness, it is noted that AEY seeks to terminate the DCF and proposes to replace it with a fund that has no relationship to the rate stabilization purposes of the DCF. It remains relevant to note, however, that reducing the DCF cap as proposed by AEY below the approximate +/- \$4 million last approved by the Board in 1996 would render the DCF unable to provide any useful rate stabilization as regards impacts of hydro generation variance due to water availability variance from LTA conditions.⁶⁰

- In providing this Reply, Yukon Energy agrees with AEY's observation that a DCF mechanism does not preclude disbursement or collection of the prescribed balance over either a shorter or longer time period which can be assessed and presented to the Board for approval based on the circumstances at the time with consideration to any other rate changes that are occurring at that time.
- However, when a severe drought occurs, material swings in thermal generation can result in a single year with fuel costs exceeding \$30 million and with prospects for extended low water conditions to occur over six consecutive years.⁶¹ Accordingly, the Board's ability to consider a rate rider over a longer time period will remain very relevant even with a DCF cap of +/- \$8 million and such options for extending a rate rider provide no reasonable basis to consider smaller DCF caps today such as proposed by AEY.

With regard to UCG's argument on DCF cap amounts and processes to determine such amounts, Yukon Energy submits that the evidence from this proceeding supports at this time the proposed DCF cap of +/- \$8 million (which was already reached at the end of 2013) and does not support UCG's recommendation for a lower DCF cap. Given the extreme impacts of drought water conditions as shown in the evidence, Yukon Energy submits that it would not be reasonable to set the maximum DCF cap as proposed by UCG on the basis of the forecast LTA diesel requirement adopted for a test year, e.g., at +/- \$5.2 million as UCG suggests when LTA diesel is forecast at 18.2 GW.h/year.⁶² Yukon Energy also submits that UCG's reference to a lower cap recommended by the NWTPUB for a specific NWT grid (where diesel is not currently on the margin) has no relevance or usefulness for the current DCF proceeding's review of the cap for the DCF related to the current Yukon grid.

⁶⁰ See also YEC Final Argument section 2.2.2, section 2 which notes (page 12) that even a +/- \$4 million cap will tend to provide frequent rather than infrequent rate riders while also failing to provide useful relief when the low water years occur with their very high fuel cost impacts.

⁶¹ As reviewed in YEC's Final Argument at pages 12 and 13.

⁶² UCG's recommendation is not in fact the "cost of an average drought condition" - the \$5.2 million as referenced to page 2-4 of YEC's June 30, 2014 Supplementary Filing reflects a LTA diesel generation forecast of 18.2 GW.h as initially forecast for 2013 at a forecast grid firm load of 430.4 GW.h; the full quote from the YEC filing noted that this LTA reflects an average of possible water conditions (for that year and load) where diesel generation fuel cost (actual generation) could range from zero to over \$28 million.

Yukon Energy has addressed in its Argument the principles underlying the requirement for sufficiently large caps for the DCF and the requirement at this time to increase the DCF cap from \$4 million to \$8 million, including the material cost impacts that will occur on the Yukon grid during extreme drought years of record and the fact that relatively low caps will tend to provide frequent rate riders (i.e. rate volatility) and fail to provide useful relief when there are very high fuel cost impacts in low water years.⁶³

The following are also noted in Reply to the UCG argument:

- YUB-YEC-1-1(b and c) provides an example for various different load levels of potential thermal generation sensitivity over 28 recorded water years. As reviewed in YEC's Final Argument:
 - The worst year drought conditions are currently expected to require more than 100 GWh of diesel with single year fuel costs at current approved diesel fuel prices exceeding \$30 million. There are prospects for extended low water conditions to occur over six consecutive years.
 - Even at lower LNG fuel costs of (i.e., 14 c/kWh) the same one year worst case impact would cost \$15 million if it could in fact all be supplied by LNG-fueled generation (in practice, diesel generation could be required in such a worst drought year for generation over some limit such that costs could exceed \$20 million). Even at the lower LNG costs, these deficits would result in significant rate impacts for Yukoners.
- Yukon Energy's Rebuttal Evidence reviewed the recent example in NWT that demonstrates the material impacts that may occur in drought conditions.⁶⁴
- Yukon Energy submits that it would not be useful to adopt the UCG recommendation that a joint utility risk analysis be undertaken to determine if and when the cap should be altered, and that this analysis should be reviewed as part of a public process. Aside from review of issues arising from such joint reviews for the current proceeding, Yukon Energy notes that this UCG suggestion appears to arise from reference to a recommendation in the Manitoba Public Utilities Board (PUB) Order 116/08. Yukon Energy's Rebuttal Evidence stressed the importance of understanding the context in each jurisdiction and the dangers of cherry-picking elements of approaches from certain jurisdictions without understanding the overall context.⁶⁵ The Manitoba PUB's direction to provide a quantified risk analysis in Order 116/08 cited by UCG does not relate specifically to water variability or drought risks, but also to the Board's concerns related to Manitoba Hydro's capital spending program, as well as other risks such as failure of major infrastructure, interest

⁶³ Yukon Energy Final Argument, Page 12 and 13 notes the Application proposes to increase the fund cap from +/- \$4 million to +/- \$8 million in recognition of Board Order 2013-1 setting rates at 100% of LTA, high fuel costs per kWh, and the material potential swings related to thermal generation that can exceed \$30 million in a single worst drought year with the prospect for extended low water conditions over six consecutive years.

⁶⁴ Yukon Energy's Rebuttal evidence noted reservoir levels on the Snare-Yellowknife system near record loads and recent 2014 inflows below all previous records. NTPC's fund went from a balance of zero in April 2014 to a balance owing from ratepayers of \$3.4 million at the end of September 2014, with the expectation that by September 2016 ongoing drought conditions would increase the balance owing from ratepayers to \$20 million.

⁶⁵ At page 6 of Yukon Energy's Rebuttal Evidence noted the material differences in context between Manitoba Hydro and Yukon Energy. Unlike Yukon Energy, Manitoba Hydro has extensive connections to several neighbouring jurisdictions, including interconnection with the US grid; has no formal rate stabilization fund(s) for water change impacts or fuel price changes from GRA forecasts - and does not do any formal accounting to track such variances; uses rate revenues as approved by its regulator to build up equity/retained earnings to fund all of its major risks (including drought); and is not rate base regulated (the overall ratemaking context for Manitoba Hydro requires consideration of long-term financial targets and projections of 10 to as much as 20 years).

rate increases, currency changes, loss of the export market, levels of debt (forecast at that time to reach \$20 billion by 2022), and the understanding at that time the Manitoba Hydro did not forecast achieving its debt: equity targets within the next decade. In short, Yukon Energy can see no relevance here to the Yukon situation today regarding assessment of the appropriate DCF cap.

- Yukon Energy submits that there is no basis for the Board to require, as recommended by UCG, that any refund/recovery related to DCF balances be divided into equal monthly amounts to all non-industrial customer classes rather than be linked to a consumption-based per kWh rate rider.
 - Diesel generation costs are currently reflected in rates through a consumption-based per kWh charge, and the same treatment applies to fuel related Rider F rate riders and past DCF rate riders. It would be completely contrary to sound rate regulation principles and precedents to change this approach in future as proposed by UCG, i.e., to divide DCF rebates or charges (keeping in mind what will be needed during severe drought conditions) into equal monthly amounts.
 - Excluding industrial customers would also be rate discrimination and contrary to all past Yukon practice as well as normal rate regulation principles. Industrial customers similar to commercial and residential customers are currently paying rates that reflect diesel generation costs based on 100% long term average hydro generation. There is no basis for treating this customer class differently than any other customer class in the circumstances.

With respect to the reference to the Newfoundland Board of Commissioners of Public utilities Order No. P.U. 9(2014) referenced by UCG in Argument it is noted that the referenced direction⁶⁶ is taken out of context and does not support, or provide a precedent for, any assertion that rate stabilization fund balances should not be collected (or refunded) to industrial customers.⁶⁷ In context, Order No. P.U.9(2014) is dealing with an Order in Council direction regarding how the RSP surplus is to be distributed amongst Newfoundland Hydro customers. In that Order the Board notes as follows:

- “The Rate Stabilization Plan Surplus has been allocated by Government direction without reference to the impact the normal operation of the Rate Stabilization Plan would have had on rates for that period,” and
- With regard to industrial customers, the Order notes OIC government direction to allocate “an amount of \$49 million of the Rate Stabilization Plan Surplus to the Island Industrial customers” in the form of a three year phase in of new rates (“an amount estimated to be required to offset future rate increases for Island Industrial Customers”).⁶⁸

In sum, the material filed on the record by UCG regarding the Newfoundland RSP indicates that industrial customers are actually included in the RSP, not excluded.

⁶⁶ “That the Newfoundland Power Rate Stabilization Plan Surplus shall be refunded to all ratepayers with the exception of the Island Industrial Customers in the form of direct payment or rebate.”

⁶⁷ The background provided at page 1-2 of the Order provides specific context for the Board direction in that Order which notes Order in Council direction provided to the Board of Commissioners that “Hydro’s general rate application process include a Rate Stabilization Plan surplus refund plan to ratepayers” as follows: (1) direct payments or rebates to ratepayers not in the form of an electricity rate adjustment (excluding Island Industrial Customers); and Island Industrial Customers were excluded from the refund plan as they “will receive Rate Stabilization Plan surplus funds through the three-year phase in of new rates”.

⁶⁸ See Order No. P.U 9(2014) page 2 and 11 as included in UCG’s Evidence at Tab 12.

3.4 DCF REPORTING AND REVIEW

UCG makes the following comments or recommendations regarding the process for implementing, reporting and review of the DCF calculations:

- UCG recommends as follows regarding expected diesel generation for use in DCF calculations:⁶⁹
 - "For DCF calculations, diesel must always be considered 'on the margin' and determined by using a combined long-term average grid hydro generation forecast (i.e., minimum of 28 years) for all hydro and wind generation facilities and the total grid-approved forecasted diesel consumption for each year."
 - "any year for which the forecasted diesel consumption has not been specifically approved by the YUB, the forecast last approved by the YUB must be used", and
 - "...if there are material changes expected in load shape and/or capacity of renewable generation, YEC must be directed to seek prior YUB approval of its diesel consumption forecast."
- UCG recommends as follows for annual DCF calculations to reflect actual water conditions, and reporting for review by interested stakeholders and the Board:
 - "If actual diesel generation costs are less than forecast due to utilization of higher water than the forecasted water flows, then the DCF balance is increased by that amount. If diesel generation costs are greater than forecast caused by low water conditions, the DCF is decreased by that amount. All DCF adjustment reports must be circulated to all interested stakeholders for comment and then the Board will approve all adjustments."⁷⁰
 - "The DCF must be used for all prudent diesel fuel used for electricity generation unless the costs can be charged to capital projects or the diesel-fuelled generation requirements arise due to transmission line outages (such as may occur due to forest fires) which must be funded by the Reserved for Injury and Damages (RFID) or insurance."⁷¹
 - "A pre-determined schedule must be established for reporting continuity schedule to the regulator (e.g., quarterly or semi-annually, including full Excel spreadsheets with formula intact and explanatory narratives) with the Board overseeing / setting any rate adjustments after a full audit by a pre-approved independent expert paid for by the utilities. The Board will determine the amounts to be added or deleted from the DCF."⁷²

Yukon Energy Reply

In reply to UCG recommendations as noted above regarding the process for implementing DCF calculations, Yukon Energy notes that these generally appear, in many aspects, to be consistent with the updated and reactivated DCF as proposed in the Application, subject to the following clarifications:

⁶⁹ UCG Final Argument, Recommendation #2.

⁷⁰ UCG Final Argument, Recommendation #4.

⁷¹ UCG Final Argument, Recommendation #13.

⁷² UCG Final Argument, Recommendation #9; this recommendation goes on to address actions when DCF balances exceeds or falls below the caps (section 3.3 of YEC's Reply Argument has addressed any issues relating to this portion of the recommendation), and also recommends that the DCF attract interest based upon short-term bond rates, and any negative balance must attract interest at the lowest short-term borrowing rate available to the utilities.

- "Expected diesel generation" provided for DCF calculations for any past year must use LTA grid hydro generation for all hydro and wind generation facilities as proposed in UCG Recommendation #2 - however, this LTA grid hydro generation must also be done, in the same way as was done in YEC's 2012-13 GRA Compliance Filing to reflect Board directed changes in grid load forecasts, to reflect the actual firm grid load rather than the prior GRA forecast grid load. The gap between total actual grid load and LTA grid hydro and wind generation as so determined will provide the relevant "expected diesel generation" for DCF calculations related to the referenced past DCF year, i.e., this result will normally differ from "the total grid-approved forecasted diesel consumption for each year" [as referenced in UCG Recommendation #2] but will in fact be determined on the same basis as the grid-approved forecasted diesel generation (adjusted for changes in the relevant firm grid loads).
- Yukon Energy agrees that changes to the stated formulas for determining default or expected diesel generation, such as may be required for material changes in load shape and/or capacity of renewable generation, will require YUB approval. Yukon Energy anticipates that, excluding new GRAs, such changes would be proposed by YEC as needed as part of the annual DCF filing and reporting process. Absent an approved change as so described, Yukon Energy agrees that it would be required to use the expected diesel generation formulas as last approved by the YUB (e.g., as provided in Tables 1.1-1 and 1.1-2 in YEC's January 31, 2014 Application) - however, Yukon Energy notes that this is not the same as saying (per UCG Recommendation #2) that YEC will use the specific diesel generation forecast (e.g., the specific GW.h/year forecast) last approved by the YUB, i.e., requirement to use the last approved diesel generation forecast would in fact not be consistent with the DCF as proposed (or as implemented in the past) and would prevent adjustment as required of the expected LTA diesel generation to reflect final actual firm grid load.
- As experience is gained with each annual review and at future rate proceedings, Yukon Energy can address any outstanding questions or concerns regarding DCF and ERA implementation mechanisms, and further adjustments can be made to improve each mechanism and reporting on each mechanism.

In reply to UCG recommendations as noted above regarding the process for reporting and review of the DCF calculations, Yukon Energy notes the following:

- Yukon Energy's Final Argument (page 28) notes that the Application provides for ongoing reporting and review of the DCF, including provision for annual updates as required on specific matters that would be subject to review and approval of the Board after opportunity for review and comment by interested parties. In this regard, Yukon Energy re-iterates that any interim determinations prior to a fiscal year end would only be placeholders and that only the year end determinations will in fact have ongoing relevance, i.e., quarterly reports as proposed would simply provide updates on apparent trends and issues.
- Yukon Energy sees no need or basis for UCG's recommended requirement for "a full audit by a pre-approved independent expert", and accordingly submits that the Board should not support the proposal for this added cost to ratepayers.

4.0 UPDATING AND REACTIVATING THE ERA

Overview of Intervenor Arguments

UCG

Although UCG's argument supported continuation of the ERA, it included at pages 1 through 8 a wide range of comments regarding the ERA that are not relevant to the current proceeding or matters currently before the Board. By way of example, the following are noted:

- UCG asserts at page 2 that approvals requested effective January 1, 2012 should be considered retroactive ratemaking and not allowed, and "to implement changes to cost allocation and recovery 3 years after the fact causes confusion, bill instability and affordability issues that Yukon ratepayers are looking to avoid".⁷³ It is noted that UCG-YEC-1-5(c and d) and YUB-YEC-1-19 confirm deferral accounts with accumulating balances are an accepted practice with no element of retroactive ratemaking. It is further noted that YUB-YEC-1-25 shows that, under the DCF/ERA as proposed in the Application, inclusion of 2012 will in fact add \$3.715 million funds to the DCF and have no impact on retail or industrial ratepayers, i.e., no basis for any YECL Deferral account or Rider D charge.
- UCG asserts at page 8 that "despite the fact that the proposed ERA is expected to have significant impacts on AEY's customers, YEC has not provided any alternative approaches to this mechanism that eliminates more of the risk for which YEC receives compensation through the allowed return on equity." and "...YEC's ERA proposal has not been evaluated against alternatives so there is no way to know if this is the best approach. Given the direct impact on Yukon ratepayers of any costs passed through to AEY, UCG recommends that the YUB not approve this proposal until more time has been put into evaluating available alternatives".⁷⁴

Yukon Energy notes that these assertions and recommendation at page 8 are not consistent with UCG's final recommendations as provided at pages 10 through 13. Yukon Energy also notes that, contrary to these UCG assertions, the evidence in this proceeding clearly shows that YEC advanced two alternatives (Option A and Option B) in its January 31, 2014 Filing and clearly outlined the impacts of each approach on YEC, AEY and ratepayers.⁷⁵ Contrary to these UCG assertions, the evidence also shows that YEC's proposed approach (Option A) results in minimal if any impacts for AEY's customers.

- UCG asserts at page 8 that YEC has changed its position (taken during the 2012/13 GRA) regarding attributing diesel costs to a specific customer, and that charging AEY the full amount of an ERA reflecting incremental diesel generation costs amounts to rate discrimination.⁷⁶ Yukon Energy submits that there is no basis for UCG's accusations regarding rate discrimination or that YEC somehow changed its position on this matter (for elaboration, it is noted that this issue was

⁷³ UCG Final Argument, page 2.

⁷⁴ UCG Final Argument, page 8.

⁷⁵ See Yukon Energy's January 31, 2014 Filing, pages 3 to 7 for summary and review of impacts of Option A and Option B. See Table 2 (which reviews Option A), Table 3 (which reviews Option B) and Table 4 (which summarizes the impacts of Option A and Option B on YEC, YECL and Ratepayers). YUB-YEC-1-25 provided updates to Tables 2 and 3.

⁷⁶ UCG Final Argument, page 8.

addressed in response to AEY-YEC-1-8). Yukon Energy also notes that this assertion is not reflected in UCG's final ERA recommendations as provided at pages 10 through 13.

UCG's argument at pages 10 through 13 provides specific recommendations to the Board regarding the ERA. As reviewed in section 2 of this Reply Argument, UCG Recommendation #5 in effect supports YEC's Option A ERA proposal regarding limiting any deferral of ERA charges to ratepayers only to costs not otherwise recovered by the utilities through incremental increased load revenues. Yukon Energy in its Reply has focused below on responding specifically to the remaining UCG recommendations on updating and reactivating the ERA relating to the following areas:

- Load Forecast Issues - Recommendation that YEC and AEY must jointly file an annual load forecast for all generation/ distribution areas for YUB approval so that the ERA will more accurately share the sales forecast risk by the two utilities. This report must include the forecast available hydro generation and forecast grid diesel consumption for the upcoming year. (Recommendation #6)
- YEC Monthly calculations for the ERA - Recommendation that YEC's monthly calculations for the ERA and full explanatory narratives must be circulated to stakeholders so that issues can be addressed sooner rather than later. (Recommendation #5)

AEY

As noted previously, AEY's argument was directed at replacing rather than continuing the ERA and therefore did not address specific measures to update or reactivate the ERA. The AEY argument (paragraphs 44 to 48) made a range of assertions regarding the ERA subjecting AEY to forecast risk and thereby not giving AEY an opportunity to recover prudently incurred costs, and Yukon Energy's Reply addresses these below under the heading of load forecast issues.

4.1 LOAD FORECAST ISSUES

Intervenor Arguments

AEY asserts that the ERA passes on load forecast risk from YEC to AEY due to the ERA being based on YEC's own approved wholesale sales forecast rather than AEY's approved forecast.⁷⁷ AEY further argues that it cannot verify any ERA charges to be accurate and reasonable due to the ERA being based on YEC'SIM, and all such ERA charges are after-the fact charges beyond AEY's control and not reasonably forecastable by AEY.⁷⁸ AEY argues that the impact of not allowing it to recover all of these costs from customers is that AEY would have no opportunity to earn a fair return.⁷⁹

UCG recommends that YEC and AEY be directed to "jointly file an annual load forecast for all generation/distribution areas for YUB approval so that the ERA will more accurately share the sales forecast risk by the two utilities", and "this report must include the forecast available hydro generation and forecast grid diesel consumption for the upcoming year".⁸⁰

⁷⁷ AEY Final Argument, paragraph 44.

⁷⁸ AEY Final Argument, paragraphs 46 and 47.

⁷⁹ AEY Final Argument, paragraph 48.

⁸⁰ UCG Final Argument, Recommendation #6, page 11.

Yukon Energy Reply

In reply to both AEY and UCG arguments with regard to load forecast issues, Yukon Energy submits that AEY has incorrectly argued that load forecast issues are the basis for its concerns regarding the ERA - and UCG has, as a result, argued that the solution to this issue is for YEC and AEY to jointly file an annual load forecast for YUB approval. As reviewed below, Yukon Energy submits that the Board should not adopt UCG's recommendation regarding annual joint filing of annual load forecasts for YUB approval - absent related changes to rates (e.g., some form of concurrent GRA adjustment), joint filing of annual load forecasts will do nothing to address the concerns raised by AEY.

AEY has reviewed in detail why joint preparation and filing of load forecasts prior to a GRA by either utility will not serve to mitigate AEY's concerns regarding load forecast risk issues (YUB-YECL-1(c)) - and suggesting that such an effort be undertaken each year (regardless of a GRA process occurring) would be a waste of resources and costs that would also not address AEY's ultimate concerns.

In addition to the reservations noted by AEY in this regard, Yukon Energy notes that the requested information and annual review process as suggested by UCG would be of no actual value with regard to addressing the ERA or (as UCG suggests) ensuring that the "ERA will more accurately share the sales forecast risk by the two utilities." The ERA is a flow through of actual changes in wholesale sales compared to the Yukon Energy GRA forecast wholesales - consequently, forecasts for subsequent years (outside of YEC GRA test years) have no bearing on the determination of the ERA, and will not address the concerns raised by UCG in Recommendation #6.

When YEC and YECL jointly filed GRAs in the 1990s, the central point was that the Board determined rates on a concurrent basis for both utilities rather than the two utilities jointly prepared the load forecasts.

- As a result of concurrent rate determinations, there was a single approved load forecast and a clear relationship between all retail and industrial rates as then established, the two step wholesale Rate Schedule 42 affecting YEC-YECL interactions, and the allowed fair return for each utility.
- Load forecasts at that time remained subject to ongoing risks that varied between the two utilities - and resulting actual wholesale sales variances specific to YECL were addressed in the resulting ERA determinations without threatening either utility's fair return.

In contrast to the 1990s, today each utility's GRA may occur at different times and for different years. As a result, absent prior clarity as to how the two step wholesale Rate Schedule 42 will be implemented, there is ample opportunity for YEC-AEY disconnects to occur simply due to different timing for each utility's GRAs. This fact, rather than load forecast risk issues, is the central point of relevance today as regards AEY's stated concerns.

This point is amply demonstrated by AEY's example (response to UCG-YECL-14) referenced at page 18 of its Argument. Even though AEY's example has not been reviewed for consistency with YEC's updated determinations in YUB-YEC-1-25 or various other possible considerations, it is clear from this example that YECL-AEY's last GRA filing for the year 2015 (which filing was made after YEC's 2012-13 GRA filing and Board Order 2013-01 determinations on YEC's GRA) failed to consider the ERA impacts that AEY now forecasts for 2015 in its response to UCG-YECL-14. As a result, AEY has now forecast an adverse impact on its ROE due solely to the difference between its approved 2015 GRA purchase power volume and

YEC's 2013 GRA approved wholesales and the assumption that YEC's ERA proposal would not allow AEY to recover any of this ERA charge through its Purchase Power Flow Through deferral account. However, with clarity on the DCF/ERA mechanism as a result of the current proceeding, AEY's response confirms that future AEY GRA forecasts can in fact address forecast ERA costs on a basis consistent with AEY's latest GRA load forecast and YEC's last approved GRA - and if AEY had in fact made such provision for the forecast ERA purchase power costs in its GRA filing, these ERA costs would have been fully covered in the YECL-AEY revenue requirements and rates approved by the Board for 2015.

In summary, Yukon Energy submits that the long established ERA mechanisms can continue to apply notwithstanding the fact that the utilities may now file their respective GRAs at different times and with different load forecasts. The ERA charge as such must continue to be defined at the time of Yukon Energy's GRA's, as the ERA is an integral element of YEC's Rate Schedule 42 dealing with firm wholesales cost recoveries from YECL-AEY - and YEC's GRA load forecasts for the ERA will continue to be as approved by the Board, after review of all submissions by AEY and others. In the event that a subsequent AEY GRA occurs, the Board can then fully consider the impact on AEY of YEC's then approved Rate Schedule 42 and ensure that all parties receive fair treatment.

Rather than fixate on differences in load forecasts (and attempts to resolve such differences), Yukon Energy submits that the key requirement in this regard is to ensure that any future AEY GRA as filed and approved reflects what can then be forecast with respect to the ERA determinations. In the context of the updated ERA determinations set out in Table 2 of YUB-YEC-1-25, the ultimate impact of a new AEY GRA thereafter would be to re-set the YUB-approved forecast used to determine AEY incremental revenue and cost impacts on the YECL-AEY Purchase Power Flow Through deferral account and Rider D charges.⁸¹

In the event that transition adjustments are needed today (due to the failure to reflect these considerations in AEY's last GRA), adjustments can be considered to the AEY Purchased Power Flow Through deferral account solely to reflect (at approved AEY GRA forecast Purchased Power amounts) the forecast adjustment for Rate Schedule 42 costs that includes forecast ERA charges.

4.2 MONTHLY CALCULATIONS FOR ERA

Intervenor Arguments

UCG recommends that YEC's monthly calculations for the ERA and full explanatory narratives be "circulated to stakeholders so that issues can be addressed sooner rather than later".⁸²

Yukon Energy Reply

Preparing a monthly filing (including a narrative) would be administratively burdensome and, with stakeholder interactions also potentially costly, and would not provide any further assistance or clarity in identifying or addressing issues as they arise.

⁸¹ More specifically, at rows R and S of Table 2 in YUB-YEC-1-25, the variance for AEY revenues and costs would be determined from the last approved AEY GRA forecast.

⁸² UCG Final Argument, Recommendation #5, page 11.

Yukon Energy in its January 31, 2014 Filing (See Attachment 1.1) has highlighted the importance of annual filings and notes that addressing the ERA and DCF through annual reporting is appropriate for the following reasons:

- Any final ERA determinations must be made based on YEC annual costs incurred for actual diesel generation and/or DCF-related payments, i.e., based on the DCF as updated, YEC annual costs related to YEC grid loads (and grid load changes) would be determined as provided for in the updated DCF.
- As reviewed in response to YUB-YEC-1-1(d) and YUB-YEC-1-4(c), any monthly calculation of expected hydro or diesel generation will only be a placeholder with ultimate final calculations only made on the annual values. This same point is made in the Revised DCF Term Sheet included in Yukon Energy's January 31, 2014 Filing (Attachment 1.1), which notes as follows regarding annual and monthly reporting: "Due to imprecision in forecast long-term average YEC hydro monthly distributions it is possible that inappropriate values may arise during monthly estimating but these will not be part of final annual DCF calculations. Monthly calculations of YEC expected hydro and diesel generation will therefore be a placeholder with ultimate final calculations performed only on the annual values".⁸³

⁸³YEC's January 31, 2014 Filing, Appendix 1, page 1-5 notes that there are limits to the ability to permit each month to have its own formula or polynomial, and differing monthly distributions may permit occasional odd values that resolve themselves in annual calculations. This same factor applied in the DCF calculations in the past.

5.0 CLOSING COMMENTS

Throughout this review process AEY's approach has been to fundamentally challenge the continued requirement for a DCF and for the ERA and as such, AEY has not provided any comment or practical proposal regarding how to modernize the DCF/ERA in order to implement these mechanisms nor have they offered any substantial evidence to support the position that these mechanisms are no longer required.

In Final Argument, UCG has supported the continuance of the DCF and ERA mechanisms and has directed a number of its comments towards the mechanics of each of these mechanisms. While Yukon Energy does not agree with all UCG comments or recommendations, UCG has directed its comments towards the scope of the Board's directive.

As Yukon Energy outlined in its Final Argument, it is important now to move forward with a resolution on the fundamental decision as to whether the DCF and the ERA are to be sustained with updates as proposed by Yukon Energy, or discontinued and replaced with some other option as proposed by YECL-AEY. Once this core issue is resolved, and the relevant financial accounts settled for 2012 and 2013, there will be ample opportunity to assess options for ongoing improvement to the details of the mechanisms adopted.

In summary, after review of the AEY and UCG final arguments, Yukon Energy submits that the evidence confirms that the DCF and the ERA should be reactivated and updated or amended as proposed in the Application, effective January 1, 2012, and that the YECL Purchase Power Flow Through deferral account should be impacted by any subsequent ERA charges or rebates only as proposed in Option A in the Application, i.e., limited to what is not otherwise recovered through incremental revenues received by the two utilities. As noted in this Reply Argument, in the event that transition adjustments are needed today (due to the failure to reflect forecast ERA charges in AEY's last GRA), adjustments can be considered to the AEY Purchased Power Flow Through deferral account solely to reflect (at approved AEY GRA forecast Purchased Power amounts) the forecast adjustment for Rate Schedule 42 costs that includes forecast ERA charges.

As outlined in its Final Argument, Yukon Energy respectfully requests that its Application be approved as filed January 31, 2014 (and as updated by the response to YUB-YEC-1-25 – which provides final versions of Table 1, 2 and 3 from Yukon Energy's January 31, 2014 filing),⁸⁴ including the four specific items set out at pages 27 and 28 of YEC's Final Argument.

ALL OF WHICH IS RESPECTFULLY SUBMITTED



P. Jeter Landry
Counsel for Yukon Energy Corporation

November 13, 2014

⁸⁴ Tables 1, 2 and 3 from Yukon Energy's January 31, 2014 filing were updated based on final actuals for 2012 and 2013, and included modifications to ERA determinations in Table 2 to better reflect Fish Lake impacts as well as the determination of expected diesel in Table 1 for actual grid loads (i.e., for the DCF).