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**IN THE MATTER OF THE YUKON ELECTRICAL COMPANY
LIMITED 2008 – 2009 GENERAL RATE APPLICATION**

Heard before the

YUKON UTILITIES BOARD

October 7-9, 2008

**REPLY ARGUMENT OF JOHN MAISSAN
LEADING EDGE PROJECTS**

Overall Comments

The Final Arguments of the Yukon Electrical Company Limited (YECL) and the other intervenors have been read carefully. There is nothing in any of these Final Arguments that would cause the author to change any of his Final Argument positions. There are some issues raised by YECL and other intervenors that the author believes deserve further comment. These matters are presented below under appropriate headings starting with issues arising out of other intervenors' Final Arguments. Leading Edge is still concerned that YECL's Application requests increases in staffing levels and virtually every category of cost that is well in excess of inflation even considering customer and sales growth rates.

Specific Comments

Carcross diesel generator

The Utilities Consumers' Group (UCG) and Yukon Energy both argue that the Carcross diesel generator project should be denied. The author respectfully disagrees with the position that this project should be disallowed. Yukon Energy raises valid points with regard to the poorly prepared justification and the lack of examination of alternatives (such as a used diesel generator) and cost benefit analyses. However, the fact still remains that Carcross is Yukon's only long established community of any size that does not have a standby diesel generator. Even Stewart Crossing's diesel plant is being maintained as a standby plant. The Carcross – Tagish area does experience a lot of outages and YECL should be doing something about that, but regardless, any outage in winter, regardless of cause, could do very serious damage to homes and businesses and harm to people. In my view the project should proceed but YECL should be required to ensure that they do it at the lowest reasonable cost.

AMR project

The City of Whitehorse was the only intervenor to support this project – but with a cap on the capital cost. The author still believes that with the weak economic justification (9 years to the crossover with the status quo, and only a modest NPV revenue requirement benefit after 20 years) the project should be deferred due to other significant cost increases being requested by YECL.

ELG vs. ASL depreciation

Yukon Energy argues for the rejection of the Equal Life Group (ELG) approach and for the adoption of the Average Service Life (ASL) approach that Yukon Energy has chosen. In the hearing we heard evidence that the ELG was the existing approach used YECL approved by the Yukon Utilities Board (the Board) when it was last before the Board, and that this approach provides the best intergenerational equity as well as being most compatible with the coming International Financial Reporting System (IFRS). We also know that due to service life updates the actual depreciation cost would decrease relative to what it would have been absent the depreciation review in this GRA. Yukon Energy argues that the benefit of the ASL approach is lower depreciation cost and lower

customer rates in the short term. The author is of the view that the short term benefits of the ASL approach would be outweighed by the future higher ratepayer costs when who knows what other cost pressures there might be. The ASL is likely to be short term gain for long term pain. The better intergenerational fairness and the reduction in depreciation expense actually being realized should make it easy to stay the course and continue to use the ELG approach.

Fish Lake reduced generation during overhaul

Yukon Energy argues that YECL should include the cost of purchased power during the overhaul in capital costs to be depreciated over time. YECL agrees that this is a grey area in terms of accounting. The author believes that it would be a very ease matter for YECL to include the power purchase costs in capital as they would recover their actual costs and the whole process of allocating actual costs would be transparent.

Diesel fuel costs

The author notes with some surprise that no other intervenor raised the fact that diesel fuel expense at over 10% of YECL's costs, is not subject to any meaningful reduction effort. The current high diesel fuel price is costing customers 1.86 cents per kWh (almost 19% of base rates). The lack of action on this issue is deplorable. The lack of action is because all costs flow directly through to the customers through the fuel rider F and so there is no financial impact on YECL – it is no surprise that YECL requests that this fuel price flow through deferral account be continued. If YECL cared about customer costs they would be doing something about fuel costs, and the author requests the Board to instruct YECL to address this issue.

Evidence on the record

YECL argues that the Board is constrained by the evidence on the record in this proceeding and there by seems to be arguing that their past performances (high ROEs, underestimating sales forecasts, vacancy rates, etc) cannot and should not be taken into account. The author is of the view that all of the information discussed in the hearing whether from the application, the IR responses, the exhibits, or the testimony is all relevant and should be considered by the Board. It is the author's view that YECL's past performance is indeed very relevant to the Board deliberations and their decisions as it shows more clearly than any written or oral statement how YECL does manage and operate its affairs to achieve its various goals. Furthermore, the author believes that it is very much within the Board's mandate (perhaps even obligation) to take the current economic situation and trends (whether in Yukon, Alberta, Canada, or internationally) into account when making decisions on matters such as appropriate inflation rates to be allowed YECL.

O&M cost increases

In its Final Argument YECL has stated that they provided detailed justifications for increases on O&M expenses in the schedules of Section 5 of their application. Yet a reading of these schedules shows that the justifications are largely explained to be due to

inflation, labour cost increases, and labour fringe cost increases, or similar general statements. Such general statements are virtually impossible to test by intervenors and the author suggests that this reduces their credibility.

Labour costs, vacancy rates, and FTEs

YECL vigorously defends their large increases in labour costs and decreases in vacancy rates. It is possible that Yukon does benefit from YECL's affiliation with ATCO Electric in terms of ability to hire (transfer in) technical and managerial staff. If that is the case Yukon ratepayers are paying a high price for the privilege – in labour costs. With the increases in wages and benefits, plus lower projected vacancy rates, the author suggests that the only reasonable way the Board can keep a handle on the costs is to limit the allowed FTEs that YECL can include in revenue requirement.

Brushing

YECL point to a reduction in the number of tree related outages (do we have the statistics to show that?) since they introduced their new brushing standard (7.5 m on either side of the centre line of a three phase line vs. the 5 m of the old standard). The same effective benefit in terms of tree clearance could be achieved by the installation of poles 10 feet taller – and there would not be the increased ongoing brushing costs – and perhaps might allow for less frequent brushing. Yet YECL does not appear to have considered this – particularly on the vulnerable Carcross and Tagish area lines on which there are also a significant amount of pole replacements being proposed. It would seem that there is an opportunity for long term benefits in reliability improvements and reduced brushing costs. The Board should instruct YECL to consider all options and to provide documented justification for the chosen approach.

Taxes other than income

The author is of the view that YECL is not entitled to keep the difference between 3.8% actual taxes and the 7.5% projected in their Application. This would only encourage YECL to round up in their own favour any estimate they provide in the preparation of future GRAs. The difference never has been nor should it ever be YECL's. The author strongly encourages the Board to allow only the actual cost of 3.8%.

Capital structure and return on rate base

YECL defends the positions taken in their Application, but the author does not find the arguments convincing. Contrary to the position advanced by YECL that YECL is a higher risk distribution utility (p25 and 26 of YECL Final Argument), the Board has determined on more than one occasion in the past that they view YECL as a high grade or low risk utility. Furthermore, it is the author's belief that the Board has no grounds for treating YECL any differently than other Canadian utilities are treated by their regulators, regardless of whether utilities in the USA are generally awarded a higher ROE. We simply cannot be aware of all the reasons why things are different in USA. The author submits that the position put forward in the author's Final Argument of 8.75% return on 47.5% equity OR 9.25% return on 42.5% equity is fair to the shareholder.

Cost of debt

YECL defends their cost of debt estimates despite evidence that they must have known that CU obtained debt at substantially lower interest long before they filed their GRA. YECL is now requesting that they be allowed to pocket the difference between their projected 6.6% and the actual 5.623% for 2008. YECL should not be rewarded for rounding estimates up in their own favour. The author strongly encourages the Board to allow only the actual cost of 5.623% for 2008 and to allow a debt rate for 2009 of no more than the cost of new CU debt plus 0.05%, or 6.00%, whichever is less.

Miscellaneous capital

Similar to the difficulty in testing O&M cost increases due to general statements, a great portion of capital costs are almost impossible for the intervenors to test because it is all lumped together in capital projects under \$75,000. The intervenors simply do not have the information to judge what is prudent and what is 'nice to have but not necessary'.

Income tax deferral account

YECL states in its Final Argument in part: "...Yukon electrical is requesting an income tax rate deferral account in order to ensure that it can pass through the benefits of anticipated reductions in income tax rates to customers over the Test Period" (p34). The author contends that this is not a credible statement. Any such benefit could have been passed on by including in the Application the anticipated lower tax rate or returning it in another fashion at their discretion (e.g. as no cost capital). Furthermore, if YECL really wanted to return benefits to their ratepayers they would not be seeking to pocket the differences between estimated and actual costs of both the 'taxes other than income' and the 'cost of debt'. Furthermore they would have returned the rate case reserve (absorbed by YECL) to the rate payers (the author's request to the Board to do this still stands) and they could have returned the large gain on the sale of properties to the ratepayers. In reality we have seen that YECL looks after their shareholder first and foremost.

Respectfully submitted,

John Maissan
Leading Edge Projects
November 10, 2008