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Our File No.: 12276-98

December 15, 2016

VIA EMAIL

Yukon Utilities Board
Box 31728
Whitehorse, YK
Y1A 6L3

Att: Mr. Robert Laking
Board Chair

Dear Mr. Laking:

Re: ATCO Electric Yukon 2016-2017 General Rate Application
Reply Argument

Please find attached ATCO Electric Yukon's ("AEY") Reply Argument with respect to the above proceeding.

We trust the foregoing is satisfactory. Should you have any questions or concerns do not hesitate to contact the undersigned.

Yours truly,

BENNETT JONES LLP

Blake Williams

Encl.
cc: Interested Parties

YUKON UTILITIES BOARD

IN THE MATTER OF the Public Utilities Act, R.S.Y. 2002, c. 186;

AND IN THE MATTER OF an application by ATCO Electric Yukon seeking approval of its 2016-2017 General Rate Application.

REPLY ARGUMENT OF ATCO ELECTRIC YUKON

I. INTRODUCTION

1. Having reviewed the arguments filed by the City of Whitehorse ("City"), Yukon Energy Corporation ("YEC"), Mr. John Maissan ("Maissan"), the Yukon Conservation Society ("YCS"), and the Utilities Consumers' Group ("UCG") (together the "Interveners"), ATCO Electric Yukon ("AEY") respectfully submits the following arguments in reply. Where capitalized terms are used herein, but are not defined, they bear the meaning attributed to them in AEY's Argument. AEY's silence on any issues raised in argument by the Interveners should not be taken as its agreement therewith. To the contrary, unless expressly stated, the positions advanced by AEY in its GRA, IR Responses, Update Filing, undertakings, additional filed materials, oral testimony and Argument remain its views on the matters before the Board in this proceeding.

2. AEY notes that it anticipated many of the arguments that have been advanced by the Interveners in their respective Arguments and does not intend to repeat the submissions it has already made on those points. Instead, AEY will focus on providing its reply to new matters raised in argument that it has not yet addressed. AEY will again try to follow the format outlined in the Table of Contents to its GRA. Overall, as outlined in further detail below, AEY respectfully submits that the record demonstrates that it has provided comprehensive support for, and justification of, all approvals requested as part of its GRA.

3. A number of the Interveners have, in their Arguments, requested arbitrary caps on, or reductions to, certain components of AEY's forecast Revenue Requirement over the 2016-2017 test period ("Test Period"). AEY submits that these requests are without any evidentiary support and should be rejected by the Board.

4. AEY also notes that there are numerous instances of assertions made in argument by the Interveners that are without any foundation in evidence. While some of these instances are highlighted in further detail below, AEY respectfully asks that the Board exercise caution in reviewing the Arguments filed by the Interveners to separate legitimate argument from baseless assertions. In AEY's submission, such unsubstantiated and baseless statements and arguments cannot be relied upon by the Board as a basis for arriving at any decision regarding the matters to be adjudicated upon in this GRA.

5. At paragraphs 39 to 64 of its Argument, UCG discusses the timing of the filing of AEY's GRA and argues that filing the application within a test year amounts to retroactive ratemaking. This argument was previously made and ruled upon by the Board in Decision 2014-06.

Furthermore, there is no evidence before the Board as to what the practice may be in other jurisdictions or the underlying rationale that may support the conclusions reached in other jurisdictions as to the timing of filing applications. In particular, there is no evidence before the Board as to the underlying statutory framework in Ontario upon which the Ontario regulator reached the conclusions in the decisions cited by UCG. AEY does not agree with the suggestion that its GRA was filed late or that its GRA results in any impermissible retroactive ratemaking. In fact, the GRA was filed earlier within the Test Period than the 2013-2015 general rate application, which resulted in Board Decision 2014-06. As set out on page 104 of that Decision:

> The Board rejects the submissions of UCG and WL with respect to retroactive ratemaking for the following reasons. Section 29 of the *Public Utilities Act* authorizes the approval of a revenue requirement for a whole year in which a proceeding is initiated. In this case, the Board had before it 2012 actual results available to test the 2013 and later test years which, in the view of the Board, results in regulatory efficiency because the Board has before it the latest and best information.

6. AEY respectfully submits that it is just and reasonable to approve its full revenue requirement for the 2016 period, including that period prior to July 1, 2016 when its interim rates became effective.

7. Similarly, AEY wishes to also briefly address the issue of Performance Based Regulation ("PBR") and its feasibility in the Yukon given UCG's comments in paragraphs 247 to 250 of its Argument. In addressing these comments, AEY wishes to highlight that there is absolutely no evidence on the record to support UCG's assertions that there would or should be a considerable reduction in regulatory costs if PBR were to be implemented. In the submission of AEY, this fact alone is reason for the Board to dismiss the PBR-related comments made by UCG.

8. At paragraphs 65 to 71 of its Argument, UCG outlines the need for consulting with stakeholders when developing a rate application. AEY agrees that consultation and stakeholder input are important components in the development and preparation of a successful regulatory filing. AEY's consultation activities were outlined in response to UCG-AEY-1 as well as discussed during AEY's oral testimony.[1]

9. At paragraph 72 of its Argument, UCG has also suggested that submissions related to revenue requirement and rates approval in the Yukon should be joint undertakings between AEY and YEC. In response, AEY submits that it and YEC each must individually assess whether their respective forecast revenue and revenue requirements will afford them an opportunity to recover prudently incurred costs and earn a fair return in non-test years. The two utilities have different cost drivers, which may, or may not, result in them coming before the Board for the same test period. As such, AEY submits UCG's recommendation should be dismissed.

10. In response to UCG's suggestion, at paragraph 240 of its Argument, that AEY has been over-recovering from Yukon ratepayers, AEY submits such a claim is entirely unsubstantiated and illogical, given that AEY implements and operates under rates that are fully reviewed, tested and approved by the Board.

[1] 1T152-159

11. Further, UCG suggests at paragraph 243 of its Argument, that AEY should be directed to develop and implement a policy to address bill mitigation. AEY submits that it has already addressed this matter in response to UCG-AEY-16(d), where it stated its policy is to limit the rate impacts of a rate change to 10%. The record clearly demonstrates that the proposed rate increases in this GRA are well within such a level. AEY submits that it has the appropriate policies in place and no further direction from the Board is required. As such, AEY requests that the Board dismiss the recommendation of UCG.

II. BOARD ORDERS OR LEGISLATIVE PROVISIONS DEFERRAL ACCOUNT

Reply to the Maissan recommendations regarding the applied-for Board Orders or Legislative Provisions Deferral Account (pages 1-2)

12. At pages 1 and 2 of his argument, Maissan has cited the Micro-Generation Program, the Independent Power Production Program ("IPP Program"), and the Commercial Energy Incentive Program ("CEIP") to attempt to demonstrate that such programs do not pose a risk to AEY and to buttress his argument that the Board should not approve the Board Orders or Legislative Provisions Deferral Account.

13. To begin, Maissan states that JM-AEY-5(c-d) Attachment 1 "shows that the Micro-Generation Program provided net benefits to AEY". AEY does not necessarily agree with this statement. The Attachment 1 table does not provide a full accounting of the impact of the Micro-Generation Program on AEY as it does not include costs incurred by AEY, such as administrative costs. Furthermore, AEY has no certainty that the Micro-Generation Program will continue to operate in the manner that it currently does. For instance, AEY has no certainty that the electricity generated by way of this program and exported onto the grid will continue to come at no cost to AEY. AEY is not opposed to the "net benefit" of the Micro-Generation Program being included in this deferral account.

14. In relation to the IPP Program, Maissan is correct in that AEY has been consulting with stakeholders in relation to the development of this program; however, the actual implementation of the IPP Program is not within the control of AEY. The Yukon Territorial Government may determine that it will not backstop the impact of a Standard Offer Price greater than the cost of fuel that would have been incurred if the IPP Program participant did not generate. If that were the case, between now and the next AEY general rate application, AEY bears all of the increased costs. Therefore, a deferral account is required to ensure AEY is not exposed to losses or gains of a substantial magnitude as a result of the policy directives stemming from Board orders or legislative provisions.

15. Finally, turning to the existing CEIP, its impact is captured in AEY's sales forecast as the program is in place and is known. What AEY intends to capture in the proposed Board Orders and Legislative Provisions Deferral Account is new programs and policies as they are put in place. AEY is not able to foretell what new programs or policies will arise and it is the case that further and new DSM programs can arise and be put in place quickly.

16. As stated in paragraph 12 of AEY's Argument, programs such as those discussed above can impact AEY either through a variance related to sales or costs and, regardless of the level of

AEY's involvement in their development, AEY generally has no control over their implementation and cannot reasonably forecast, with certainty, the impact related to these programs.

III. SALES AND REVENUE

Reply to UCG arguments in relation to sales and revenue (paras. 73-86)

A. Industrial Customers

17. At paragraph 19 of its Argument, UCG indicates:

> …that the industrial rates established by the Yukon government do not recover the full cost of service for that class, then UCG submits that the Yukon government, not the non-industrial ratepayers, should be held liable for the revenue deficiency in the event that the preferred policy is to continue to charge industrial customers artificially lower rates.

18. And at paragraph 80 of its Argument, UCG states:

> To the extent that industrial and or larger commercial loads make up part of AEY's load requirement, UCG submits that the needs of those loads must necessarily be treated separate and apart from AEY's non-industrial load. UCG submits that utility revenue volatility created by transient industrial loads in the Yukon is a significant issue.

19. AEY submits that it does not currently have any industrial customers nor is it forecasting any industrial customers during the Test Period. As such, AEY submits that UCG's recommendations are not applicable to AEY's GRA. As well, AEY submits that UCG's misunderstanding of AEY's customer base and service area is not helpful to this process in this regard.

B. Sales and Revenues

20. While the City, YCS, and YEC did not submit an Argument with respect to AEY's Sales and Revenue forecast and, notably, Maissan, at page 2 of his Argument, recommends that the Board accept AEY's sales forecast as presented in its GRA, UCG provided comment and recommendation, at paragraph 81 of its Argument, stating the following:

> …AEY should use weather normalization for load forecasting as well as results reporting so that load variances resulting from the weather can be isolated. UCG submits any disconnect between methods used for forecasting and results reporting causes confusion and uninformed decisions.

21. As clearly outlined at page 2-5 of AEY's GRA, AEY has continued to utilize weather-normalization for purposes of forecasting sales for the Test Period.

C. Demand Side Management

22. At paragraph 82 of its Argument, UCG states the following:

> While AEY's application did not incorporate the impact of DSM programs, UCG submits that not only will these impacts need to be incorporated into the compliance filing, but AEY should be directed to ensure that impacts are not only included in forecasts going forward but also a full analysis is provided on how these impacts are determined.

23. UCG's claim regarding the impact of DSM on AEY's sales forecast is not correct. As AEY has stated in its Application, and as it has stated in its Argument, AEY updated its forecast methodology to utilize a shorter timeframe with regard to running its regression model for purposes of forecasting UPC in order to better reflect some of the conditions that have impacted UPC in recent years, such as DSM.[2] Further, as indicated during the hearing, although AEY has considered the impacts of DSM in its forecast, any further adjustments related to DSM would result in AEY having to reduce its sales forecast.[3]

D. Secondary Sales

24. With respect to Secondary Sales, UCG correctly indicates in its Argument that the rates AEY charges to Secondary Sale customers are a Phase II issue whereby the amount charged to Secondary Sales customers is 1.1 cents per kWh above the amount at which Secondary Sales are purchased from YEC. Once line losses of more than 6% are accounted for, the impact to AEY's revenues and margin is highly immaterial.

25. With respect to the Secondary Sales forecast, AEY uses a combination of information from YEC, historical actual levels of energy sales sold to Secondary customers, as well as expected levels to be sold to Secondary customers during the Test Period. This approach is reasonable and is consistent with how AEY has forecast Secondary Sales in previous general rate applications.

IV. PURCHASE POWER

Reply to UCG argument regarding purchased power (paras. 87-89)

26. At paragraphs 87 to 89 of its Argument, UCG appears to support AEY's request for a Power Purchase Flow-Through Deferral Account when it states the following:

> UCG submits that while a deferral account is a reasonable way to track unforeseen changes in costs related to purchased power, UCG submits that AEY must ensure that it does as much as possible to limit the charges from YEC including actively participating in reviews of YEC revenue requirements and implementing DSM initiatives that reduce the need for purchased power.

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[2] Exhibit BB-1, page 2-5 and AEY Argument, paragraphs 15-27

[3] 2T233

27. In response, AEY has in the past and will continue into the future, to participate in YEC regulatory applications that impact both AEY's customers and its shareowner. AEY also expects it will continue to collaboratively work with YEC on initiatives that impact Yukon electricity customers.

28. At paragraph 89 of its Argument, UCG states the following:

> UCG submits that the incremental purchased power costs to be considered for capitalization should only be related to a planned capital project and not maintenance or projects that were not included in the capital budget reviewed by the Board.

29. AEY submits its understanding of Board Decision 2009-02 is consistent with UCG's on this matter.

V. FUEL COSTS

Reply to UCG argument regarding LNG Fuel Deferral Account (paras. 90-96)

30. At paragraph 96 of its Argument, UCG asserts that the Board cannot approve the requested LNG Fuel Deferral Account without changing the Fuel Adjustment Rider & Deferred Fuel Price Variance Policy and without having Section 8 of the Rate Policy Directive Order in Council (1995/90) changed to account for LNG. AEY does not agree with this position and believes it has addressed this matter in paragraphs 49 and 50 of its Argument.

31. As stated on page 1-5 of the GRA, AEY submits that the LNG Fuel Deferral Account meets the criteria for the establishment of a deferral account as LNG fuel prices, similar to diesel fuel prices, are not under the control of AEY, can be volatile in the short term, and are not reasonably forecastable for purposes of a two year test period forecast; or, an error in forecasting could produce a loss or a gain of a substantial magnitude. AEY recognizes that Section 8 of the Rate Policy Directive Order in Council (1995/90) provides for fuel price adjustments and sets out that the Board must allow AEY and YEC to adjust their rates to retail customers, major industrial customers, and isolated industrial customers to reflect fluctuations in the price for diesel fuel, without the requirement for specific application to and approval from the Board. However, simply because AEY is entitled to flow through diesel fuel prices without Board approval, does not mean that it is somehow prevented, upon Board approval, from flowing through the impact of changes to LNG prices.

VI. OPERATIONS AND MAINTENANCE EXPENSES

Reply to the City's recommendations regarding O&M reductions (para. 40)

32. In the City's argument it has recommended a 15% reduction to Production O&M. This is based on a 14.9% variance of total production costs in 2013-2015. Similarly, the City has recommended that the Board limit Distribution and General O&M costs to their historical three

year average cost per customer, which the City contends would result in a reduction of $272,000 in 2016 and $369,000 in 2017.[4]

33. AEY has already addressed these recommendations in paragraphs 51 to 61 of its Argument. AEY wishes to reiterate those arguments, but also wishes to point out that the City has provided no evidence as to why these methods of forecasting are appropriate for only these O&M categories. Moreover, as discussed in paragraph 59 of the AEY Argument, these methodologies fail to account for inflationary increases. As stated in paragraph 60 of AEY's Argument, AEY submits it is appropriate to look at the total level of O&M costs rather than look to only those areas with cost variances. In viewing O&M costs at that level, it is apparent from both line 49 of Schedule 5.1 and the table provided at paragraph 60 of the AEY Argument, that AEY has a history of accurately forecasting its O&M expenses. Simply stated, the Bell Evidence and the recommendations put forward by the City are trying to address a problem that does not exist and, as such, the City's recommendations should be denied.

Reply to Maissan recommendation that the Board order AEY to remove the name change costs from this account and order AEY to restate its higher actual ROE in a compliance filing (pages 3-4)

34. This topic was discussed extensively by Mr. Grattan in his oral testimony in response to questions from Maissan.[5] These costs were not recovered from customers and were excluded in the development of the forecast 2016 and 2017 costs. These costs were prudently incurred and should be treated as utility costs and not excluded as suggested by Maissan.

Reply to Maissan recommendation that the Board order AEY to reduce forecasted O&M costs for the 2016 and 2017 test years by 1.1% (page 4)

35. On page 4 of his Argument, Maissan highlights that over the 2013-2015 test period O&M costs were under the forecasted levels by 1.1% and, therefore, recommends that the Board reduce forecasted O&M by 1.1%. As stated on the record during oral testimony, AEY uses historical actuals as the basis for its forecast and adjusts for known changes throughout the forecast period.[6] In doing so, the forecast AEY put forward for 2016 and 2017 already accounts for the 1.1% reduction from previously approved amounts Maissan has recommended.

36. An across the board reduction of 1.1% ignores inflation as well as the known increases in excess of inflation provided for each O&M item in IR Responses YUB-YECL-40 to 45. AEY submits that inflationary increases as well as those noted in the aforementioned IR Responses are appropriate and reasonable and therefore requests that the Board approve the 2016-2017 forecast as presented.

Reply to UCG argument that forecast amounts of affiliate charges for 2016 and 2017 should be reduced by 25% (para. 100)

[4] Note the amounts put forward by the City are derived from CW-YECL-13(b) Attachments 1 and 2; however, these have been updated by AEY's November 10, 2016 filing that corrected CW-YECL-13(b). As such, the reductions the City is recommending would amount to $168,000 in 2016 and $213,000 in 2017.

[5] 2T272-275

[6] 3T444, lines 2-25 and 3T410, lines 5-10

37. In paragraph 100 of its Argument, UCG notes that the actual affiliate charges included in Schedule 5.3 of the GRA amount to $4.591 million between 2013 and 2015, as compared to the $6.081 million in approved affiliate costs. UCG then argues that the forecast amounts of affiliate charges for 2016 and 2017 should thus be reduced by 25%. AEY does not agree with this position.

38. The main difference between 2014-2015 actual and approved affiliate costs is due to the sale by ATCO Ltd. of ATCO I-Tek in 2014. This matter was detailed by AEY in Schedule 5.3 (Notes 1 and 2) when explaining the variances in lines 7 and 8 of this Schedule and was further explained in detail during the oral testimony of Mr. Grattan in response to a question from UCG.[7] As explained by Mr. Grattan, these changes have resulted in savings to AEY that have been fully incorporated into the 2016-2017 forecast as shown in Schedule 5.1, within Account 71300 (Customer Billing and Accounting).

39. Given these reductions have been accounted for and included in AEY's forecast for the Test Period, AEY submits that UCG's recommended reduction in forecast affiliate O&M is not warranted.

Reply to UCG argument regarding Administration and General O&M costs per customer (para. 102)

40. At paragraph 102 of its Argument UCG raises the concern that AEY is forecasting Administration and General O&M costs per customer in 2017, which are just as high as such costs in 2015, despite a nearly 3% increase in the number of customers. In response, AEY wishes to point UCG to the corrected tables filed on November 10, 2016 to replace CW-YECL-13 Attachments 1 and 2. As per the corrected Attachment 2, the Administration and General O&M costs per customer for 2017 are forecast to be $228.59, as compared to $234.75 actual in 2015, representing a 2.6% decrease.

Reply to UCG argument that Financial Reporting and Regulatory Support affiliate costs should be capped at currently approved rates (para. 106)

41. The need for AEY's financial professionals included within Financial Reporting and Regulatory Support affiliate costs was discussed by Mr. Grattan in his oral testimony.[8] This small group of accounting professionals is responsible for AEY's financial reporting, accounting, business plans and forecasting, internal controls, and all other tasks that relate to accounting, tax, and reporting matters required to operate a utility with over $200 million of assets. The group is also responsible for preparing and submitting all of AEY's regulatory filings. It is important to note this is done without the involvement of external consultants except in areas where specialized experts are required such as Concentric in the area of Cost of Capital. With actuals of $588,000 in 2013, the last year AEY filed a GRA, AEY submits its forecast costs of $561,000 for 2016 and $578,000 for 2017 are reasonable. In AEY's submission, this is particularly true given 2016 is once again a GRA filing year and 2017 will include compliance filing requirements as well as the expected need to address ongoing regulatory matters tied to the DCF/ERA, a YEC general rate application, and AEY's next test period.

[7] 2T209-211
[8] 2T372

Reply to UCG argument that RID claims should be borne by shareholders or insurance (paras. 107-108)

42. In paragraphs 107 to 108 of the UCG's Argument, it is stated that the costs resulting from the Beaver Creek House Fuel Spill are not something that should be recovered from ratepayers and should be covered by insurance coverage and/or AEY shareholders. In support of this claim, UCG cites the testimony at page 141 of the hearing transcripts as its source for the statement that it is "clear that this fuel spill was clearly an incident resulting from the actions of AEY's contractor". In a review of this page of the transcripts, or any other page, nowhere does AEY state that the fuel spill was the result of a contractor or, for that matter, an employee, rather, the cause of the leak is unknown and occurred despite regular maintenance.[9] Similarly, in paragraph 108 of its Argument, UCG goes on to state that the $100,000 insurance deductible with respect to the Fish Lake Ditch #1 Spillway Failure should be to the account of shareholders.

43. This position advanced by UCG with regard to the allocation of these expenses to the RID are misplaced and contrary to the historical and long-standing practice of the Board. The RID is a well-established mechanism that provides financial advantages over paying significantly higher insurance premiums in order to reduce deductibles or to insure items, which carry prohibitively high premiums. The Board has consistently approved a RID account for both AEY and Yukon Energy to address these very circumstances. This is demonstrated in the following excerpt from Board Decision 2013-01 at paragraphs 142 and 167:

> The RFID is an account maintained as approved by the Board, to address uninsured and uninsurable losses as well as the deductible portion of insured losses. The RFID allows:
>
> a. For a balance to be struck between purchasing additional insurance vs. using a self-insurance type approach via the RFID; and
>
> b. The costs of unforeseen events to be smoothed out over a number of years to avoid rate instability for ratepayers.
>
> …
>
> Further, the Board recognizes that the current deficit in the RFID arises from charges made either to pay for the deductibles for insurable incidents or uninsurable incidents. In either case, the Board finds that customers have benefitted from the RFID either through lower insurance rates or a lower revenue requirement. Since customers have benefitted from the RFID, the Board finds it fair that customers pay for the deficit.

44. Therefore, in the submission of AEY, the Beaver Creek House Fuel Spill and the deductible associated with the Fish Lake Ditch #1 Spillway Failure are costs that should appropriately be included in the RID account and the Board ought to reject UCG's Argument, in this regard.

[9] 1T141-145 and 2T266-267

Reply to UCG argument regarding additional detail on costs of services (paras. 233-236)

45. UCG, in paragraphs 234 and 236 of its Argument, has requested that AEY provide a "financial schedule clearly showing the itemized detail on where these unrecoverable regulatory costs have been recorded such that they are not included in rates". In response, all of AEY's O&M costs have been sufficiently detailed throughout the record and, in AEY's submission, it is clear from the record that no such costs are included in the proposed revenue requirement.[10] In AEY's view, no further assurances or further financial schedules are warranted to appease UCG that these costs are not included in rates. Furthermore, AEY is unclear as to the relevance of providing, to UCG, a schedule of costs not included in the revenue requirement.

Reply to UCG argument regarding performance and reliability benchmarks (paras. 229-232)

46. At paragraphs 229 to 232, UCG recommends that the Board establish reliability benchmarks and AEY be directed to report its actual performance against these benchmarks. In response, AEY wishes to refer UCG to AEY's Key Performance Indicators Reports, which are filed annually and can be retrieved on the Board's website. The last such report for the year 2015 was filed on May 4, 2016.

VII. TAXES OTHER THAN INCOME

Reply to UCG argument that AEY should not be granted an increase to property taxes for the test years (paras. 109-113)

47. At paragraph 113 of its argument, UCG has taken the following position regarding property taxes paid by AEY:

> UCG submits that AEY should not be granted any increase to property taxes for the test years given the over-collection since base rates were last set and the lack of evidence indicating that assessments and the resulting property taxes will actually increase during the test period.

48. In support of this position, UCG has brought in new evidence in paragraph 111 of its Argument in relation to the frequency of property assessments in the Yukon and the assessment process.

49. To begin, AEY submits that all new evidence and any argument or position based upon such evidence should be struck from the record and given no weight by the Board. UCG had ample opportunity to lead such evidence on its own behalf and did not avail itself of this opportunity. It cannot now be permitted to lead evidence without providing AEY the opportunity to test or even review the evidence. Such a practice is inconsistent with the rules of procedural fairness and natural justice.

[10] Exhibit BB-1, Schedule 5.1, Schedule 5.2, and Schedule 5.3; YUB-YECL-40 to 45; CW-YECL-13 to 14; 3T411-421

50. Regardless, UCG appears to have raised the point that properties in the Yukon are assessed every two years to support its position that there is a "lack of evidence indicating that assessments and the resulting property taxes will actually increase during the test period". In AEY's submission, however, whether the assessed value of a property is static does not necessarily mean the property tax will be static, as the tax rate is also a relevant variable. UCG is also misrepresenting the record in stating that there is no evidence indicating that property taxes will increase during the Test Period. In response to YUB-YECL-18, AEY has clearly stated that property tax increases throughout the 2013-2015 test period were primarily due to inflation. As described on page 6-1 of the GRA, this historical trend has been used to forecast property taxes in the Test Period.

51. AEY also wishes to address paragraph 112 of UCG's argument where they have identified that in 2014 and 2015, AEY recovered $31,000 in rates over the amounts required to be paid for property taxes; however, UCG fails to mention that in 2013, AEY paid an additional $16,000 in property taxes over the amounts recovered.[11]

VIII. DEPRECIATION

Reply to UCG argument regarding depreciation recovery and depreciation rates (paras. 114-124)

52. In paragraph 115 of its Argument, UCG states that AEY has over-recovered $1,129,000 in depreciation and suggests that the requested increase in depreciation expense over previous years should be denied. AEY has already noted in its response to YUB-YECL-19 that, net of contributions and CCA, the 2013-2015 actual depreciation expense was $7,295,000 vs. a forecast of $7,541,000 or $247,000 (3.3%) lower than what was approved.

53. AEY also notes that an arbitrary denial of incremental depreciation expense fails to allow AEY to recover the cost of capital projects deemed prudent and respectfully submits that UCG's suggestion be denied.

54. UCG also asserted in paragraph 117 of its Argument that AEY failed to provide how the depreciation rates submitted were developed and through paragraphs 118-124 submits that AEY has not requested the appropriate approvals to change the depreciation rates.

55. To begin, AEY explicitly stated within its Application that the depreciation rates were developed using the Board approved depreciation parameters that were included in the 2013-2015 general rate application[12]. In addition, AEY suggests that UCG has misinterpreted previous Board decisions where the Board has approved the depreciation parameters (i.e. methodology) rather than the rates.[13] AEY reiterates that the parameters which were used to determine the depreciation rates are as approved by the Board and submits that reverting back to the rates included in its 2013-2015 Compliance Filing deviates from these parameters. Therefore, AEY submits the depreciation rates should be approved as filed.

[11] YUB-YECL-18
[12] Exhibit BB-1, page 7-1
[13] YUB Decision 2009-02, page 22 and YUB Decision 2014-06, page 46

IX. RETURN ON RATE BASE

A. Return on Equity and Equity Ratio

Reply to the City and Maissan's position that the Board should not approve AEY's requested risk premium

56. In formulating its argument against a risk premium, the City has mischaracterized the Concentric Risk Assessment as it relates to the Stand-Alone Principle. In doing so, the City states at paragraph 13 of its Argument that "the Concentric Report and YECL's entire approach to this question are founded on this principle" and further, at paragraph 17, it states that the Stand-Alone Principle is "the whole foundation of YECL's request for a risk premium".

57. In raising these points the City has made two fatal errors. First, the City appears to be under the assumption that absent the Stand-Alone Principle, a risk premium cannot be awarded. This is simply not the case. In the very decision the City cites at paragraph 16 of its argument, the Board rejected the Stand-Alone Principle, but awarded a risk premium.[14] Second, the City is under the mistaken impression that the Risk Assessment produced by Concentric is "founded" on or is somehow based on the Stand-Alone Principle. Again, this is not the case. While Concentric certainly acknowledges the Stand-Alone Principle, it clearly states that AEY's relationship with Canadian Utilities Inc. is to be taken into consideration when developing a reasonable ROE risk premium:

> The estimate of a reasonable ROE risk premium for AEY should take into consideration the benefits and cost savings that AEY customers receive through AEY's ability to access debt and equity capital through CUI instead of on its own.[15]

58. This clearly indicates that Concentric’s analysis and recommendation were not found on a strict interpretation of the Stand-Alone Principle and, in the submission of AEY, undermines the entirety of the City's argument on this point.

59. In continuing its argument, at paragraph 20 of its Argument, the City appears to be misinterpreting Board Decision 2014-06 as it relates to the granting of a risk premium. The City implies that the Board determined a risk premium was "not necessary" in that decision. This is used to support the following tenuous argument: "If AEY's business risk has not changed materially since 2009, then that statement is equally true of the period since 2014, when no risk premium was found to be necessary. Therefore, if it was not necessary then, neither is it necessary now."

60. This is, however, a misstatement of the Board's ruling. The Board did not state that a risk premium was "not necessary" or that there was no incremental business risk. What the Board in fact ruled was that based on the evidence before it, "the determination of whether a risk premium should be applied is not clear".[16] Moreover, the Board went on and directed AEY to

[14] Board Decision 2009-02, pages 26 and 29
[15] Exhibit BB-1, Attachment 8.1, page 10, lines 5-8
[16] YUB Decision 2014-06, page 51

"provide justification for a risk premium relative to the BCUC GCOC standard in its next GRA".[17]

61. As a result, there was no finding in relation to the existence or non-existence of a business risk and the City's leap in logic that a risk premium is not necessary in relation to the current context, is entirely baseless.

62. Finally, at paragraphs 21-26 of its Argument, the City has attempted to argue against the Risk Assessment by focusing its attention on only one of the factors which were used by Concentric in developing its recommendation. The City focuses on the relatively higher risk for companies that own generation, as opposed to transmission and/or distribution utilities and makes the point that AEY generates approximately 9% of its load, as compared to Maritime Electric, where the number is 24%. This was acknowledged and clearly set out in Concentric's Risk Assessment; however, the argument being made by the City ignores all of the other factors considered by Concentric. For instance, in the submission of AEY, the size differential between the two companies[18] more than offsets the generation load differential and therefore, Maritime Electric is an example of where the risks between two entities are in fact comparable.

63. Mr. Coyne addressed this issue directly in response to questioning from UCG, and responded:

> In terms of generation, Maritime Electric has – generates more of its own power, but it's also a much larger utility. And it has a more diverse service area than does ATCO Electric Yukon.[19]

64. Similar to the City, Maissan has also argued that the applied-for risk premium should not be granted. Maissan's position can be found at pages 4 to 6 of his Argument. Maissan has stated that because AEY has historically over-earned its approved ROE that a risk premium is not justified.

65. As evidenced by the table produced at the bottom of page 5 of Maissan's Argument, AEY earned a return of 8.85% in 2014 and 7.40% in 2015 with an approved ROE of 8.75% in both years. Therefore, in AEY's submission, its recent history has not borne out what Maissan claims. Regardless, over or under earning an approved ROE is not an established test the Board has used in the past to determine or even consider whether or not a risk premium is required.

66. Maissan has put forward the position, on page 6 of his Argument, that a fair ROE is the BCUC benchmark of 8.75% and has stated that "any risk premium [for AEY] is more than adequately covered by its equity thickness of 40% as compared to BCUC's 38.5%". In making this statement, Maissan appears to have ignored all of the evidence on the record that clearly shows the BCUC benchmark of FortisBC Energy has significantly lower business risk than AEY:

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[17] YUB Decision 2014-06, page 51

[18] Maritime Electric has 78,000 retail customers and a rate base of $330 million, as compared to AEY who has 17,600 retail customers and a rate base of $83 million (see Exhibit BB-1, Attachment 8.1, Attachment JMC-2, pages 1 and 5)

[19] 1T37, lines 7-11

The benchmark utility, FortisBC Energy, has lower business risk than AEY. FortisBC Energy is substantially larger than AEY, both in terms of retail customers served and regulated rate base. FortisBC Energy serves 56X more retail customers and its rate base is 33X larger than AEY's. FortisBC Energy also has more cost recovery protection through deferral and variance accounts and more revenue stability through a weather normalization clause than AEY.[20]

67. This evidence clearly demonstrates that AEY possesses incremental business risk in relation to FortisBC Energy. Moreover, as stated by the Board in Decision 2009-02: "The Board accepts that when using the BCUC generic cost of capital, a risk premium is required for Yukon utilities."[21]

68. Based on the foregoing and all previous submissions, AEY submits the Board ought to dismiss the arguments put forward by both the City and Maissan in relation to the applied-for risk premium.

Reply to UCG argument that AEY's equity ratio and ROE should match those established by the Alberta Utilities Commission for its benchmark utility (para. 136)

69. At paragraphs 125 to 150, UCG argues that the Board should establish AEY's capital structure with a 37% equity component with a related ROE equal to the 8.3% for 2016 and 8.5% for 2017 established as the Alberta GCOC benchmark.

70. In making this argument, UCG has ignored the past decisions of the Board entirely and has specifically ignored the clear statements of the Board as they relate to equity ratio and ROE in Decision 2014-06.

71. In relation to the establishment of an equity ratio, the Board has been unwavering in its approach of not looking outside of the Yukon in establishing equity thickness. In the submission of AEY, such a practice provides both the Board and stakeholders with regulatory efficiencies. As stated by the Board at page 54 of Decision 2014-06:

In terms of equity thickness, this Board has not relied upon the results of generic proceedings from other jurisdictions. Although past references have been acknowledged regarding other North of 60 utilities, the Board has used utilities within Yukon in its decision-making.

72. Further, UCG mischaracterizes the AUC’s approach to the cost of capital and risk adjustments. As indicated in its recent GCOC decision, and consistent with the AUC’s past practice, the AUC adjusts for risk in the capital structure (ranging from 37% to 41% for AltaGas), and not in the ROE, as has been the practice for both the Board and the BCUC.[22] The AUC cited AltaGas’ small size in setting its equity ratio 400 basis points higher than the other Alberta utilities.[23] Therefore, a ROE risk premium would not be applied to ATCO Electric’s

[20] Exhibit BB-1, Attachment 8.1, page 27, lines 11-15
[21] YUB Decision 2009-02, page 29
[22] 1T43, lines 13-23
[23] Exhibit C2-7, provided in its entirety by UCG, pages 128 and 130-136

ROE or any other Alberta utility and the lack of an ROE risk premium in Alberta has no relevance to the approach taken by the Board.

73. In the submission of AEY, UCG has provided no evidence or justification for the Board to depart from its long-standing practice.

74. Similarly, the use of the BCUC GCOC in AEY's GRA is consistent with the long-standing practice of the Board to use the BCUC GCOC as its benchmark. Notably, this precedent was departed from in Decision 2013-01, but only due to the out-of-day nature of what was the most recent BCUC benchmark at the time. This is not the case here, where the relevant BCUC decision was issued in August of 2016. In the submission of AEY, the BCUC GCOC has been recognized and affirmed by this Board as being the relevant precedent and there has been no evidence or justification for the Board to depart.

75. Furthermore, AEY's use of the BCUC GCOC was in accordance with the direction of the Board in Decision 2014-06, where the Board stated at page 51: "YECL is directed to provide justification for a risk premium relative to the BCUC GCOC standard in its next GRA." UCG has provided no explanation or rationale as to how or why a switch from the BCUC model to the AUC model should be made given the clear direction from the Board to use the BCUC model.

76. In conclusion, AEY submits the Board ought to dismiss this argument raised by UCG.

Reply re YEC recommendation that Board award a ROE of 8.75% and a risk premium of 48.5 basis points

77. On page 2 of its Argument, YEC states that "[t]he approach adopted by YECL deviates from the simplified approach used in the past." With respect, this is simply not correct. The approach taken by AEY and Concentric is entirely consistent with the approach taken in AEY's application that resulted in Board Decision 2009-02 and is consistent with utilizing the established BCUC GCOC benchmark. Moreover, the approach was taken in direct response to the directive provided by the Board on page 51 of Board Decision 2014-06, which directed AEY to "provide justification for a risk premium relative to the BCUC GCOC standard".

78. In the submission of AEY, the type of analysis presented could be further simplified in the future, should the Board not require a full risk assessment to be undertaken each GRA to demonstrate the appropriateness of the ROE risk premium.

79. In addition, YEC has commented on the impact a 60 basis point risk premium would have on its own risk premium. However, what YEC may or may not ultimately end up with for a risk premium is not a determining test or factor for what the appropriate premium should be for AEY. What is appropriate for AEY should be based on the Risk Assessment evidence prepared in response to the Board's direction and provided on the record of this proceeding.

80. Finally, YEC commented on pages 4 and 5 of its Argument that AEY's business risk has not changed since it was last assessed in detail in 2009. For this, it relies on the conclusions of Concentric's Risk Assessment, but ignores Concentric's statement that there has been a change in

AEY's usage per customer, particularly among the residential class.[24] As stated by Concentric, "[f]luctuations in customer usage have made it more difficult for AEY to accurately forecast sales.[25]

Reply to UCG argument that "formulaic approach" for forecasting future costs of debt should be used and the City's recommendation that the forecast cost of new debt be reduced by 0.50%

81. At paragraphs 151 to 155 of its Argument, UCG argues that the historical formulaic approach for forecasting future costs of debt, which the Board adopted for YEC in Decision 2013-01 should be used for AEY. However, in the submission of AEY, such an approach of using 120 basis points above long-term Canada bonds is not supported by the detailed evidence provided by AEY in this proceeding.

82. AEY has set out support for its applied-for debt rates in paragraphs 96 to 99 of its Argument. Moreover, in response to YUB-YECL-73(a), AEY has detailed the actual credit spreads over the period 2011-2015. In each year they have exceeded 120 basis points. In the submission of AEY, its recommended credit spread of 180 basis points is reasonable based on the detailed evidence included in this GRA.

83. Turning to the recommendation put forward in the Bell Evidence and supported by the City in its Argument, that the forecast cost of new debt for 2016 and 2017 should be reduced by 0.50%. The basis for this reduction is apparently to "reflect the historic over forecasting". However, as made clear in AEY's Argument, at paragraph 98, this basis is flawed and, in fact, non-existent. Regardless, and as stated in paragraph 99 of AEY's Argument, the updated debt rates provided by AEY in response to YUB-YECL-73(c) are 0.58% lower for 2016 and 0.78% lower for 2017, than the rates used in the Bell Evidence. Therefore, in AEY's submission, providing any further reductions is entirely unreasonable, inappropriate, unwarranted, and is not supported by the evidence on record in this proceeding.

B. Deferred Charges and Credits

Reply to Maissan recommendations regarding the Renewable and Alternative Energy Feasibility Study (pages 10-12)

84. In relation to the Renewable and Alternative Energy Feasibility Study ("Renewable Study"), Maissan makes the unsupported claim, at page 11 of his Argument, that "[i]t is not realistic to think that AEY could prudently spend the entire proposed study budget subsequent to a Board decision". Where Maissan derives this belief or on what information it is based is not clear. Regardless, AEY does not agree. Mr. Tenney made clear in his oral testimony that a competitive process to award the Renewable Study would get underway "this week or early next week".[26] This is consistent with the evidence introduced by Maissan at page 10 of his Argument, where he stated that a Request for Proposals for the Renewable Study had been published. In the

[24] Exhibit BB-1, Attachment 8.1, page 31, lines 6-7
[25] Exhibit BB-1, Attachment 8.1, page 31, lines 10-11
[26] 2T292, lines 15-22

submission of AEY, as the competitive tendering process has already begun, it is an entirely reasonable proposition that the successful party or parties will complete their work within 2017.

85. Maissan continues at page 11 of his Argument taking the position that it is "inappropriate" for AEY to be in competition with the private sector to develop and implement renewable or alternative energy into the Yukon grid. This is indeed a curious position to take. As AEY understands it, Maissan is an advocate for the implementation of more renewable and alternative energy options into the Yukon for the benefit of both the environment and rate payers. To suggest that the very utility who is responsible for providing electric services to those rate payers and to ensure these services are provided in a safe and reliable manner, should not participate in that implementation is, in AEY's respectful view, entirely illogical. AEY has an obligation to serve and, in doing so, to provide safe, reliable service to customers at just and reasonable rates. As such, it is obligated to continually pursue solutions that may lead to lower costs. In the submission of AEY, the Renewable Study represents such a pursuit.

86. On page 11 of his Argument, Maissan expresses his belief that the work to be undertaken by way of the Renewable Study will duplicate a "body of knowledge" that already exists or that can already be obtained through endeavors that are currently funded. As AEY confirmed for Maissan in oral testimony, it is aware of the body of knowledge to which he refers in his argument and it will be incorporated into any decisions made in relation to renewable or alternative projects.[27] However, the reality is that each community, particularly when it comes to Northern communities, is different with differing renewable resource potential, differing existing generation to connect to, and differing load characteristics and needs. One cannot simply transpose specific knowledge from one community/system/jurisdiction to another, as Maissan appears to imply. Furthermore, in relation to the Industrial Research Chair in Northern Energy, AEY customers have not funded this position and it is unclear to AEY as to why that entity would be expected, or relied upon, to deliver the information to be obtained from the Renewable Study.

87. As such, AEY submits that the Board should dismiss the arguments put forth by Maissan in relation to this matter and not accept his recommendations.

Reply to UCG argument regarding deferred study costs (paras. 166-174)

88. In paragraphs 166-174, UCG has stated that the deferred study costs should be removed from rate base and held in Work in Progress ("WIP"). At the outset, AEY wishes to point out that a portion of the deferred study costs are for programs or costs that have been previously approved by the Board, such as those related to DSM and the Pension Deferral Account adjustments.

89. With respect to the Smart Grid and Renewable Study costs, which have also been included in deferred study costs, it is expected that these studies will be completed within the test period and will identify projects that may be technically and economically feasible. AEY therefore considers it appropriate to include these costs in the deferred study costs rather than WIP. Regarding future projects that AEY may bring forward as a result of the Renewable Study, AEY would seek to have costs spent on the construction of those projects to be held in WIP until

[27] 2T285, lines 15-20

such time as they have been tested and approved. AEY believes such treatment is appropriate for feasibility study costs, as such studies may not result in the construction of a project, or a near-term project, and AEY submits that such studies, regardless of their findings, are used or required to be used to provide service to the public.

Reply to YCS recommendation regarding the public sharing of the Renewable and Alternative Energy Feasibility Study (page 5)

90. As stated by Mr. Tenney in his oral testimony, AEY is prepared to share the Renewable Study publicly in connection with any resulting application or earlier in the appropriate form, such as AEY's website.[28] As stated by Mr. Tenney, at this stage in the process, it is unclear what, if any, confidential or proprietary information may be contained in the final Renewable Study and any public disclosure would be subject to resolving those issues.

X. CAPITAL ADDITIONS

Reply to the City's recommendation that the Board reduce the forecast for Net New Extensions by 47.7%

91. In response to this recommendation from the City, AEY wishes to simply refer the Board to paragraphs 128-134 of its Argument and to reiterate the point made by Mr. Massie in oral testimony, that the 2016 cost for new extensions, as of October 31, 2016, are 98% of the 2016 forecast.[29]

Reply to the City's recommendation that the Board direct AEY to put forward a proposal, supported by evidence, in relation to the conversion to LED streetlights (para. 42)

92. AEY is not clear as to what additional information the City is proposing AEY put before the Board for it to be able to render a decision on the treatment of the wholesale conversion of streetlights from high-pressure sodium to light emitting diode. In the submission of AEY, the decision is relatively straightforward in that either the conversion costs are treated as a system cost or the local municipality must pay for the conversion cost as a contribution in aid of construction.

93. In the event of a conversion, in whole or in part and regardless of whether the conversion costs are to the account of the system or the local municipality, AEY would retire the existing high-pressure sodium assets consistent with past retirement practice. AEY notes the remaining NBV of these high-pressure sodium assets, as of June 30, 2016, is $33,400 for the Thermal Zone and $215,000 for the Hydro Zone, as detailed in AEY's response to the Undertaking provided to Board counsel[30] and filed November 9, 2016.

94. AEY submitted the economic analysis of both treatments as well as the total estimated costs involved and all parties had an opportunity to ask Information Requests and to cross

[28] 2T329-331
[29] 3T509-510, lines 25 and 1-2
[30] 3T494, lines 2-8

examine AEY on such information.[31] AEY submits that the record is complete and the Board has ample information to render a decision on the treatment of costs for streetlight conversions.

95. Moreover, the treatment of such costs will likely inform the decisions of the relevant communities and/or municipalities with regard to such conversions. In the submission of AEY, requiring such decisions to be made and AEY to come forward with a "fully-supported proposal" is entirely unnecessary and would only serve to add inefficiencies to the regulatory process.

Reply to Maissan recommendation that the Board order AEY to provide detailed information on capital projects that have been deferred or dropped (pages 6-7)

96. In his argument, on page 7, Maissan has claimed that "[m]any projects must have been dropped or deferred, but AEY provided no information on them". In response to this, AEY would direct Maissan to YUB-YECL-11(b) Attachment 1, where a spreadsheet has been provided, which includes a list of all projects approved and deemed as capital projects from the 2013-2015 period. In this spreadsheet, projects with variances of 10% and greater than $50,000 are accompanied with an explanation. In addition, AEY has resubmitted updated business cases for significant projects that were previously approved in the 2013-2015 general rate application, but have been deferred to the 2016-2017 test period.[32]

Reply to Maissan recommendation that the Board reduce the "controllable" capital budget, after any and all other adjustments, by 3% (pages 6-7)

97. On page 6 of his Argument, Maissan notes that AEY's controllable capital in 2013-2015 was 3.2% lower than the approved controllable capital and later on page 7 recommends that the board reduce the "controllable" capital budget, after any and all other adjustments, by 3%. For the reasons that follow, AEY submits that the Board reject this recommendation.

98. To begin, an across the board and arbitrary reduction of the capital forecast, such as that advocated by Maissan, ignores the significant amount of evidence on the record supporting the need and prudency of the capital projects included within the capital forecast.

99. Moreover, throughout the 2013-2015 period, the capital program for AEY was significantly higher than what had been experienced in recent years. As expressed by Mr. Massie in his oral testimony, AEY has gained learnings from this experience, which it has incorporated into its capital forecast by making the necessary adjustments in its forecasting methodology and assumptions.[33]

100. In AEY's submission, the reduction recommended by Maissan is not supported by the evidence on the record and would amount to an arbitrary reduction.

Reply to Maissan recommendations in relation to the Old Crow Plant Expansion and, particularly, the recommendation that the Board disallow $1 million of the $2.616 million costs overrun and remove it from rate base (page 8)

[31] YUB-YECL-10(b) Attachment 1 and CW-YECL-27(a)
[32] Exhibit BB-1, Appendices 1 and 4
[33] 3T479, lines 7-22

101. At the outset, despite Maissan's statements to the contrary, AEY wishes to reaffirm that this project was prudently managed throughout. As Maissan acknowledges, the relevant business case was comprehensive. Project timing was, however, restricted given the timing of the construction of the ice road, which was used in relation to the Project. Further, while AEY has been serving Old Crow for many years, there has not been a project of this magnitude in the last 30 years. Thus, while AEY was aware and planned for the logistical and project execution challenges that are present in this isolated community, the magnitude and extent of the many challenges that arose could not have been foreseen. As a result, AEY concedes the original budget for this Project was too low. That reality does not, however, have any bearing on the reasonable or prudent nature of the final costs.

102. AEY has provided extensive detail on the cost variances for this Project at Attachment 11.2 of the GRA.

103. Maissan claims, at page 8 of his Argument, that "[w]hen AEY ran into design cost overruns and/or local logistical difficulties because of the other projects underway in Old Crow, the project should have been suspended and re-assessed". AEY agrees. Throughout the Project, scope and costs were reviewed and revisited.[34] This occurred for each scope change and variance.

104. At page 8, Maissan also states that the Project should have been stopped and brought back to the Board before proceeding. AEY does not agree and will point out that the original business drivers from the previously approved business case, referenced by Maissan, did not change. As the business and community need did not change, AEY proceeded with the Project knowing the costs would be fully examined in a future general rate application. It is AEY's position that submitting a Post Completion Summary of the Project, that clearly indicates the variances, and giving the Board and Interveners an opportunity to examine the Project during the entirety of a regulatory proceeding is the most appropriate process, without putting the supply of power to the community at risk.

Reply to Maissan recommendation that the Board order AEY to provide the required business case type description for the Old Crow Unit 4 Addition, as required by previous Board order, in its compliance filing (pages 8-9)

105. At page 9 of his Argument, Maissan recommends that the Board order AEY to provide a business case type description for the Old Crow Unit 4 Addition. Maissan's justification for this recommendation is that the project was completed in 2015 for a total cost of $612,000, or $112,000 over the $500,000 approved forecast. The relevant Board direction in relation to such matters is found at page 64 of Board Decision 2014-06, where the Board states:

> For clarity, for project costs overruns that are (collectively) 100 percent over and $100,000 greater than the original estimate, YECL is to provide business case type descriptions in the Application, to alert interveners and the Board to the cost overruns, thereby allowing a more efficient process to examine the cost overruns.

[34] Exhibit BB-1, Attachment 11.2, page 3

106. While the Old Crow Unit 4 Addition costs exceeded the original estimate by more than $100,000, they did not exceed 100% of the approved forecast. As such, in AEY's submission, the business case type description of the cost overrun sought by Maissan is not required and AEY submits there is sufficient information on the record to deem the project useful and prudent.

Reply to Maissan recommendation, in relation to the Old Crow Unit #3 Replacement, that the Board reject the plan to install a 600 kW generator in Old Crow and instead authorize the installation of a 400 kW unit at a cost of $612,000 plus $100,000 for cost increases since 2014 to 2015 (pages 9-10)

107. At pages 9 to 10 of his Argument, Maissan has questioned AEY's decision to replace the undersized 170 kW unit with a new 600 kW unit. Maissan has taken the position that the 600 kW unit is not necessary and in support of that claim has discussed the low end plant loads based on the load distribution chart provided on page 2 of Appendix 5 to the GRA. What Maissan has ignored, however, is the peak loading table on page 1 of Appendix 5, which clearly demonstrates the need for a 600 kW unit.

108. Maissan has further questioned the decision given the solar PV generation being developed in the community. In the submission of AEY, it is common practice for a utility to have a long-term planning horizon when adding long life assets such as generating plants. It is not prudent or common practice for a utility to reduce the installed capacity of its generation facilities as a result of the possible installation of a non-dispatchable renewable resource, regardless of whether it is owned and operated by a third party or the utility itself. It would not be prudent for AEY to invest in assets, such as lower capacity units, which do not meet long-term generation needs, based on the assumption that a non-dispatchable renewable resource may potentially be installed. There is no evidence that the possible installation of a solar generation resource, even with battery storage, will supply any firm capacity to be relied upon to meet the capacity needs of the community.

109. In the approved business case for the Old Crow Plant Expansion, which was Business Case 8 in the 2013-2015 general rate application, the main business driver was to provide full contingency to this isolated fly in only community. This project has met that business driver and ensures a continued safe, reliable power source for the community.

Reply to Maissan recommendations in relation to the Destruction Bay Units 2 and 3 Replacement (pages 14-15)

110. The Destruction Bay Unit 3 replacement project was scheduled to be completed in 2014 and was approved in the 2013-2015 general rate application. The unit was installed and operational in 2014 with final acceptance in 2015. These details were clearly explained in Appendix 11 of the GRA and shown in Schedule 9.2, line 41. AEY included Appendix 11 in the GRA as the actual costs of the Project exceeded $500,000 and to provide details of cost variances. The Project was completed as scheduled and approved, and is providing power to the Destruction Bay and Burwash communities. As such, AEY does not understand, nor agree with Maissan’s assertion that the installation of this Project is “a mockery of the GRA process.”

111. As clearly explained in IR Response JM-AEY-27(a), the Replacement Projects were scheduled, and in the case of Destruction Bay Unit 3 Replacement completed, prior to the recent installation of the increased amount of solar PV generation in the communities. The Burwash Landing wind project has been in progress for a number of years and does not have a firm in service date. The project may eventually be a source of renewable energy on the Destruction Bay/Burwash micro grid, but, in the submission of AEY, it does not impact firm capacity requirements. Therefore, the timely replacement of generators to provide firm capacity in an isolated community must proceed on schedule to ensure the continued safe and reliable operation of the electrical system.

112. Maissan has further questioned the sizing decision given the wind generation being developed in the community. In the submission of AEY, it is not prudent or common practice for a utility to reduce the installed capacity of its generation facilities as a result of the possible installation of a non-dispatchable renewable resource, regardless of whether it is owned and operated by a third party or the utility itself. It would not be prudent for AEY to invest in assets, based on the assumption that a non-dispatchable renewable resource may potentially be installed. There is no evidence that the possible installation of a wind generation resource will supply any firm capacity to be relied upon to meet the capacity needs of the communities.

113. As explained in Appendix 11 of the GRA, prior to tender of the new Unit 3 in 2014, a review of current community loading and plant operation was carried out. From this review the recommendation was for the purchase of a 250 kW unit. The competitive tendering process included the specification of a 250 kW unit but none of the bidders in the RFP process submitted bids for a 250 kW unit.

114. Instead, AEY received proposals for two units rated at 285 kW and 315 kW. From these proposals, AEY carried out a full life-cycle cost comparison and selected the 315 kW unit as the low cost option and the preferred solution.

115. In determining the sizing of Unit 2, AEY considered two sizing requirements:[35]

(a) Capacity Requirements: The new unit must have sufficient capacity to ensure that the Firm Capacity of the Destruction Bay plant is equal to or greater than 110% of the predicted peak load for at least 10 years. Firm capacity is the sum of all the kW ratings of the unit installed within the facility minus the capacity of the largest unit.

(b) Operational Efficiency Requirements: The dispatch of units within the plant must ensure that engines are not being either under or overloaded during automated dispatch operation of the plant. Prolonged low load operation of a unit is detrimental as it results in carbon buildup with the cylinders and the formation of acids within the engine oil which can lead to premature wear or damage to engine components.

116. High load operation leads to overload conditions which reduce the life expectancy of engine parts and can reduce the overall time between maintenance intervals. Dispatching a unit

[35] CW-YECL-6 and CW-YECL-11

offline near its peak rating leaves little room for load swing which can result in brown out situations.

117. Although the replacement of Unit 2 with a new unit of the same size (300 kW) would have allowed the plant to meet the planned firm Capacity Requirement over the next ten years, it would not have allowed for AEY's units to meet the Operational Efficiency Requirement as units would have been under or overloaded during automated dispatch. As discussed in Appendix 6 of the Application, at the current dispatch level there are times in which Unit 2 is operated at an overload condition in respect to its prime rating. The only solutions to this overload issue are to de-rate the unit or replace it with a larger unit. If the de-rate option was selected, it would negatively impact the operation of Unit 1, forcing it to run in a low loading mode. Selecting a larger unit allows Unit 2 and Unit 1 to be dispatched in a more efficient manner.

118. Contrary to Maissan's assertions, none of the sizing considerations were done to allow AEY a stronger negotiating position or to frustrate or obstruct the development of renewable or IPP Program generation development, but were rather done to meet firm capacity requirements and to allow for an efficient dispatch of the units. All of which, is in line with AEY's obligation to serve customers with safe and reliable electricity.

Reply to UCG argument that cost overruns caused by poor planning or lack of consultation were not prudently incurred and should not be recovered (paras. 156-161)

119. In response to UCG's statements regarding the need for evidence to demonstrate prudency, AEY submits that it has provided an abundance of evidence to demonstrate that any cost overruns have been prudently incurred. Evidence supporting the prudency of such costs can be found within Exhibit BB-1. Specifically, the following information has been provided in accordance with prior Board direction:

(a) project completion summaries, found at Attachments 11.1 to 11.6, for all projects forecast in the 2013-2015 general rate application where actual costs were 100% and $100,000 greater than the original forecast;

(b) business cases, found at Attachments 11.7 to 11.13, for completed projects where the actual costs were in excess of $100,000 and for which no business case was provided in the 2013-2015 general rate application;

(c) a business case for Destruction Bay Unit 3 Replacement, found at Appendix 11, which had an approved forecast of $450,000 in the 2013-2015 general rate application, but had actual costs in excess of $500,000; and

(d) YUB-YECL-11(b) Attachment 1, which provides a comparison of forecast and actual costs for all capital projects approved in AEY's 2013-2015 general rate application and also provides an explanation for projects with variances of 10% and greater than $50,000.

120. Taking the foregoing into account, AEY submits there should be no question that it has provided the evidence required to demonstrate the prudency of such costs.

121. At paragraph 161 of its Argument, UCG has argued that cost overruns caused by poor planning or lack of consultation were not prudently incurred and should not be recovered from ratepayers. In the submission of AEY, none of the cost overruns it has put forward for approval have been caused by poor planning or a lack of consultation. As explained in detail on the record, the majority of the cost overruns experienced by AEY are the result of the normal and efficient progression of detailed project engineering and planning and/or events and delays that were not within the control of AEY. As evidenced by AEY's response to CW-YECL-2(c) and Mr. Massie's oral testimony[36], AEY has a planning process in place to ensure capital projects are completed in a safe, timely, and cost effective manner. This practice is applied to all capital projects to ensure that the needs of the project are met and all costs are prudently incurred.

Reply to UCG argument regarding capital budget and detailed asset management plans (paras. 162-165)

122. In response to UCG's comments contained in paragraphs 162 to 165 of its Argument, AEY submits that it does not "arbitrarily" add capital projects to rate base. Customer and system needs determine what capital projects AEY must advance to meet its obligation to serve customers and provide safe and reliable service. AEY forecasts these capital expenditures based on the best available information at the time of its general rate applications. For any costs that are unknown at the time of such applications, or which arise thereafter, AEY includes those as actuals in future applications providing the Board and interveners with the opportunity to assess the need and prudency of the costs. In the submission of AEY, there is no evidence on the record indicating that the capital projects put forward by AEY are not needed or that they have not been completed prudently.

123. Moreover, contrary to UCG's statements in paragraph 162 of its Argument, AEY submits that it has provided a substantial amount of evidence to "clearly explain and defend all of the capital expenditures that have been made on projects that have not been specifically approved by the Board". In addition to the information listed above, AEY has also provided Appendices 1-10, as well as Attachments 9.1 and 9.2 of the GRA[37], in addition to numerous IR Responses, in support of its capital projects.

124. UCG has also stated, at paragraph 163 of its Argument, that AEY's capital budget is "over-forecasted"; however, as previously discussed in relation to page 6 of the Maissan Argument, AEY's 2013-2015 controlled capital actual spend varied by only 3.2% from the approved forecast and adjustments in AEY's forecasting methodology and assumptions have been made to address this variance.

125. Turning to UCG's request that AEY should be required to submit detailed asset management plans and/or distribution system plans, it is AEY's submission that such an undertaking is beyond the scope of this proceeding and, regardless, is being put forward by UCG with limited explanation and no evidence to justify such a request.

Reply to UCG argument regarding a 40% reduction in the distribution plant additions forecast (paras. 175-176)

[36] 3T477-482
[37] Exhibit BB-1

126. In response to this argument put forth by UCG at paragraphs 175 to 176 of its Argument, AEY wishes to direct UCG to paragraph 132 of AEY's Argument, which indicates that, as a result of AEY's forecasting, the 2016 forecast represents a 41% reduction over the 2015 approved forecast.

Reply to UCG argument regarding cost overruns for McIntyre Subdivision – Replacement Stage 1 (paras. 177-182)

127. UCG has questioned the project planning and forecasting of the work carried out in relation to the McIntyre Subdivision Replacement Stage 1 Project. AEY disagrees with UCG's assertions, claims, and arguments in that regard. In the submission of AEY, it has carried out and executed this Project in a responsible and prudent manner, using the best available information to inform its decisions and Project scoping. Despite the claims by UCG, AEY submits there is ample evidence on the record to demonstrate that all costs have been prudently incurred.[38]

128. With regard to the McIntyre Subdivision Stage 1 Project, Mr. Massie stated in oral testimony that an adjacent subdivision has already been converted to 25 kV and there is a future development also in the area.[39] The upgraded 25 kV cable, questioned by UCG, will serve customers in the area presently, while ensuring prudent planning for future load growth and power system development as these adjacent subdivisions are connected together within the electric system. As Mr. Massie described during his oral testimony, AEY weighed the benefits of the capacity upgrade at the time of installation against the costs to upgrade the cable at a later date.[40] AEY submits that this scope change was evaluated and the decision to proceed was prudent.

129. In AEY's submission, the Project planning was comprehensive and followed a set process as described in CW-YECL-2(c). During the progression of the Project scope, many assumptions were validated while other unforeseen conditions, that AEY could not have predicted, caused the Project scope to be adjusted. Project planning and execution was constantly reviewed and updated with the best available information, all while ensuring the customer and Project needs are addressed.

130. AEY submits that the business driver in the 2013-2015 general rate application approved business case[41] for the Project did not change and has been met by the Project that is in service. The Project work completed and the future, planned work addresses the business driver to provide a reliable and operable underground distribution system. Given that the approved Project needs were met, cost variances have been clearly identified and explained, and the Project is in service providing safe, reliable power, AEY submits the Project should be approved as filed.

Reply to UCG argument seeking Part 3 review for McIntyre Subdivision Replacement Project Update, Watson Lake Bi-Fuel Project, Watson Lake Unit #2 Replacement, Downtown Whitehorse Capacity Improvement, Old Crow Unit #3

[38] Exhibit BB-1, Attachment 11.4 and Appendix 8
[39] 1T129, lines 5-22
[40] 1T133, lines 9-21
[41] CW-YECL-8(a)

Replacement, Whistle Bend Subdivision – Stage 3C, Fish Lake Ditch 3 Diversion Replacement

131. Throughout its Argument, UCG has stated that the above noted projects should be "subjected to a Part 3 review before any consideration is given to adding it to AEY's rate base". AEY is well aware of the *Public Utilities Act* legislation, particularly Part 3, and the requirements that arise in relation thereto. As always, AEY will abide by that legislation and those requirements. With that said, the Yukon Territorial Government has not designated any of these projects as regulated projects pursuant to Part 3 of the *Public Utilities Act*. As such, UCG's recommendation is clearly outside the scope of this proceeding.

132. UCG raised this same issue in AEY's 2013-2015 general rate application and in response the Board stated at page 85 of Board Decision 2014-06:

> With respect to UCG's submission that the Fish Lake unit #1 and the Watson Lake bi-fuel capital projects be reviewed pursuant to part 3 of the *Public Utilities act* [sic], the Board notes that the Minister has not designated either of these projects as regulated projects. Moreover, the Board cannot designate the projects as such. Accordingly, the Board rejects UCG recommendation.

133. In the result, AEY submits the Board ought to dismiss the requests made by UCG in this regard.

Reply to UCG argument that the perceived benefits of the Fish Lake Ditch 3 Diversion Replacement and Fish Lake #2 Head pond Spillway Replacement Projects are not worth the expenditures (paras. 218-220)

134. These projects are being completed on water management structures that direct and control water and water flows in the Fish Lake system in compliance with AEY's Water License, HY12-065.[42] As indicated in the Water License, there are maximum and minimum flows that must be maintained throughout the system. Also, a condition of AEY's Water License is that all works associated with the License will be maintained to a sound engineering standard (condition 27 of the Water License). As Mr. Massie indicated during oral testimony[43], the specific recommendations for these projects can be found in the 2014 Dam Safety Report.[44] They are recommendations 2014-09 (Headpond #2 Spillway Replacement) and 2013-02 (Ditch #3 Diversion).

Reply to UCG argument seeking clarification on how meter purchasing arrangement with ATCO Electric was determine to be the least cost alternative supply point (paras. 221-222)

135. As noted by UCG, Mr. Massie testified that all AEY meters are purchased from ATCO Electric's Federally Accredited meter shop in Grande Prairie, Alberta. As stated by Mr. Massie, AEY purchases those meters from ATCO Electric at cost and, in doing, so is able to take

[42] YUB-YECL-14(a) Attachment 2
[43] 3T474-476
[44] YUB-YECL-14(a) Attachment 1

advantage of the economies of scale realized by ATCO Electric in its meter purchases.[45] As further stated by Mr. Massie, this is a "significant benefit" to AEY and its customers.

136. As such, AEY submits this is undoubtedly the least cost alternative given that it is able to purchase its meters, but with the buying power of a utility the size of ATCO Electric. Furthermore, other than AEY and its customers benefiting from this relationship, AEY is unclear what benefit could be derived by the "ATCO family of companies" given that the meters are purchased at cost.

Reply to UCG argument regarding a new DSM plan and the treatment of DSM costs as capital costs (paras. 223-228)

137. In response to UCG's submission at paragraph 228 of its Argument, that the deferred DSM costs should not be treated as a capital asset, AEY submits the DSM plan has been implemented and customers are receiving deemed benefits associated with the program. Therefore, it is appropriate for these costs to be moved to the deferred account, capitalized, and should be recovered over the next 5 years. In AEY's submission, this is consistent with the findings on page 101 of Board Decision 2014-06, which state:

> The Board orders YECL to capitalize the amounts spent in 2011, 2012, and 2013 related to "development of the plan or policy paper" and the pro-rata amount of the costs already spent in 2011, 2012, and 2013 but not related to the "development of the plan or policy paper," and to amortize these costs over the 2014 to 2018 period.

Reply to YCS recommendation that the Board not approve the Watson Lake Bi-Fuel Project (pages 1-5) and Reply to Maissan recommendation that the Board not approve the Watson Lake Bi-Fuel Project and that the costs expended to date by AEY be amortized over a 5 year period (pages 12-14)

138. YCS and Maissan have both recommended that the Board not approve the Watson Lake Bi-Fuel Project. Both YCS and Maissan have attempted to downplay the business case that has been put forward in support of this Project, with YCS also providing commentary relating to environmental considerations. Notably, such positions were absent from the arguments for the City, UCG, and YEC.

139. To begin in reply, on page 12 of his Argument, Maissan states that, in his view, "the positive financial margins for LNG over diesel are thus small". With respect, AEY does not agree with the characterization used by Maissan. By any objective measure, the NPV's set out in Tables 2 and 3 of Appendix 3 to the GRA, and updated in response to YUB-YECL-13(b), are significant amounts of money in a small community such as Watson Lake. Maissan provides no basis for his characterization of these positive financial margins and he has certainly provided much more fulsome advocacy in relation to much smaller amounts.

140. Both Maissan and YCS go on to question the commodity price forecast utilized by AEY in producing its business case. As noted on page 6 of Appendix 3 to the GRA, the commodity

[45] 2T258, lines 19-23

price forecast that was used by AEY was obtained from Sproule – Worldwide Petroleum Consultants ("Sproule"). Sproule is a widely recognized, independent energy consulting firm who prepares monthly product price and market forecast tables for the Canadian oil and gas industry. Nonetheless, Maissan and YCS have criticized the commodity price forecast by making general, sweeping statements without having any evidence to support such statements or even a rational explanation for their criticism. In AEY's submission, such criticisms must be dismissed by the Board as they are no more than uninformed and unsubstantiated statements.

141. Both Maissan and YCS have also criticized the Project business case for not considering what impact renewables may have on the Project economics. AEY does not dispute this; however, the simple fact is that AEY must make decisions based on the best information it has available to it and there is no evidence of any IPP Program developers proposing renewable energy projects in Watson Lake.

142. YCS has made the statement: "It is likely that a considerable portion of baseload energy requirements in the Town of Watson Lake will be met with renewable energy in the near future." However, this is again, not only a wholly unsubstantiated statement, but is also uninformed given the system wide generation limit imposed in Watson Lake under the relevant Standing Offer Program ("SOP") within the IPP Program. It is difficult to see how a "considerable portion of baseload" would be met with renewable energy in the near future.

143. That generation limit is, as noted by Maissan, 2,100 MWh/year.[46] However, given the restrictions on nameplate capacity of such projects, it would require three separate projects to meet that limit.[47] Again, it is worth reiterating that there is no evidence of renewable projects currently being discussed or proposed for Watson Lake.

144. Nevertheless, in order to again demonstrate the economic viability of the Watson Lake Bi-Fuel Project, AEY submits that one is able to use the model embedded in the excel table provided in response to UCG-AEY-53(d) Attachment 1 and assume the optimistic scenario of 2,100 MWh/year of renewable generation as of January 1, 2020, reducing the generation from the Bi-Fuel engines. The results of this calculation demonstrate that there still remains a positive NPV in all six scenarios using AltaGas pricing and three of the six scenarios using the Fortis pricing. Moreover, if one were to evaluate the Project on an IRR basis, there is a positive 20 year internal rate of return in all twelve scenarios. These models are predicated on only two suppliers of LNG, but, it is entirely reasonable to expect additional suppliers to come on line in the near term.

145. While AEY does not believe a scenario is possible where three separate IPP Program projects are conceived, developed, built, and are operational within 3 years, it nonetheless has addressed this scenario in response to the concerns raised by Maissan and YCS and to further demonstrate the economic viability of the Watson Lake Bi-Fuel Project.

146. It is also worth noting that the current economic evaluation included in the NPV's set out in Tables 2 and 3 of Appendix 3 to the GRA, and updated in response YUB-YECL-13(b), do not

[46] YUB-YECL-72(a) Attachment 1, page 6 of 12
[47] YUB-YECL-72(a) Attachment 1, page 6 of 12

include the impact of any Yukon Territorial or Federal carbon tax.[48] As stated in Appendix 3, AEY is of the opinion that, should a Yukon Territorial or Federal carbon tax be imposed in the future, it will likely favor the use of natural gas for electricity generation in Watson Lake. AEY would expect that such a tax will have an impact on 100% of the delivered diesel cost and a smaller percentage impact on the delivered LNG cost. Although the specifics of a new carbon tax in the Yukon are not yet known, it is clear that one will be introduced in the near-term. The Federal carbon tax would see a $10 per tonne levy in 2018 and increasing by $10 per tonne annually to a $50 per tonne level in 2022. The effect will be that NPV of the Bi-Fuel will increase.

147. AEY will now turn to and address the environmental related argument provided by YCS.

148. AEY would be remiss if it did not address the statement by YCS, on page 3 of its argument, that AEY agrees with the assertion that the Project has no environmental benefit. To be very clear, at no point have any of the submissions provided by AEY or the oral testimony provided by its witnesses made such a statement or agreed with such a statement. To ensure the record has not been unnecessarily confused by YCS's unfounded statements, AEY wishes to make clear that it does not agree with YCS in its assertion that the Project "has no environmental benefit". Moreover, in the submission of AEY, given that YCS has provided no evidence in this proceeding, there is nothing to support any of the statements YCS has made regarding the environmental impacts or lack thereof of the Watson Lake Bi-Fuel Project.

149. Regardless, AEY does not wish to belabor the point as, in AEY's submission, such a question is not within the scope of this proceeding and has already been dealt with by the Yukon Environmental and Socio-Economic Assessment Board ("YESAB"). The YESAB heard and considered the environmental evidence in relation to the Project and has approved Phase 1. In the submission of AEY, challenging the Watson Lake Bi-Fuel Project on environmental grounds amounts to a prohibited collateral attack given the varied expertise and mandates of both this Board and the YESAB. As a result, AEY submits that such arguments should be dismissed by the Board.

150. Finally, the "cut-and-paste" portion of YCS's argument, found at pages 7 to 9, consists of references to statements, documents, and submissions that are not on the record of this proceeding. AEY requests that the Board discard reference and argument related to all such materials.

Reply to YCS recommendation regarding the addition of "fossil fuel infrastructure" to rate base (page 5)

151. On page 5 of its Argument, YCS states the following:

> YCS recommends that unless it can be shown that any investment in fossil fuel infrastructure in AEY's off-grid/diesel communities will support conservation and efficiency efforts and renewable energy development (by being designed and sized for those actions to result in real diesel use reductions), these projects should not be added to rate base.

[48] Exhibit BB-1, Appendix 3, page 5

152. AEY has an obligation to serve its customers and provide safe and reliable service at just and reasonable rates. That is its mandate and that is what is must do. In furtherance of this, Mr. Tenney clearly stated in his oral testimony that AEY "is very much wanting to move forward with renewable generation" and confirmed that it is part of the company's strategic goal.[49] AEY's proposed Renewable Study is a clear example of AEY acting on these words and AEY intends to continue exploring and developing any renewable generation options that fulfill its mandate. With that said, AEY cannot agree with or support this recommendation made by YCS as it is not consistent with AEY's mandate and shifts the priority of integrating AEY's generation assets with undefined and hypothetical developments, rather than AEY's service to its customers.

153. As a result, AEY requests that the Board reject this recommendation.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 15th day of December, 2016

BENNETT JONES LLP

Per: ______________________

Blake Williams, Counsel for ATCO Electric Yukon

[49] 2T326, lines 2-5