

UTILITIES CONSUMERS' GROUP
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December 15, 2016

Yukon Utilities Board
Box 31728
Whitehorse, Yukon Y1A 6L3

Attention: Mr. Robert Laking, Chair

**Re: ATCO Electric Yukon / Yukon Electrical Company Limited
2016-2017 General Rates Application – Phase 1 - UCG Reply Argument**

Dear Mr. Laking:

Enclosed are the reply argument submissions of the Utilities Consumers' Group in the above noted proceeding.

If there are any questions concerning the contents of this submission, please direct all inquiries to me by email at rondeau@northwestel.net or by phone at 633-5210.

Yours truly,

Roger Rondeau
Utilities Consumers' Group

YUKON UTILITIES BOARD

IN THE MATTER OF the *Public Utilities Act*
Revised Statutes of Yukon, 2002 c.186, as amended

and

IN THE MATTER OF ATCO Electric Yukon's / Yukon Electrical
Company Limited's General Rate Application for 2016 and 2017

REPLY ARGUMENT OF

UTILITIES CONSUMERS' GROUP

December 15, 2016

INTRODUCTION

1. The Utilities Consumers' Group (“UCG”) filed its Final Argument on November 24, 2016 with respect to ATCO Electric Yukon’s (“AEY”) 2016-2017 General Rates Application. Final arguments were also submitted by AEY, Yukon Energy Corporation (YEC), John Maissan, Yukon Conservation Society and the City of Whitehorse.
2. UCG has confined its reply argument to the arguments submitted by John Maissan and AEY. Where specific arguments of AEY are not referenced, UCG submits that the Board can rely on UCG’s previously submitted arguments.

REPLY TO JOHN MAISSAN ARGUMENT

3. Mr. Maissan states in his argument (under Labour Costs) that of AEY’s approximately 70 employees , almost 50% will be earning over \$100,000 per year by 2017 and at present 33 already do. Mr. Maissan argues that AEY does not tightly manage their labour costs.
4. UCG submits that Mr. Maissan’s arguments are valid but it is unclear whether the Board fully understands the concern that ratepayers have with AEY’s labour costs. UCG submits that the extraordinarily high salaries paid by AEY are being recovered through rates paid by Yukoners that survive on income levels that are a fraction of AEY’s salaries. Electricity costs are now taking up a significant amount of Yukoners’ available income. UCG submits that the affordability issue must be addressed by the Board in this proceeding.
5. UCG submits that labour costs are just one component of the O&M expenses that AEY does not seem able to accurately budget for nor control on an ongoing basis. UCG submits that the labour cost issue raised by Mr. Maissan must be directly addressed by the Board in its decision and a clear direction must be provided to AEY that controllable expenses must actually be controlled within the Yukon’s economic environment.
6. UCG submits that AEY should be directed to report back to the Board on actions it currently takes and plans to take to control its labour and O&M costs to the benefit of ratepayers.
7. UCG agrees with another part of Mr. Maissan’s argument that AEY’s shareholder should absorb the costs associated with changing its operating name to ATCO Electric Yukon. UCG submits that this was simply a re-branding exercise across ATCO’s corporate entities and the name change does not provide any benefits to ratepayers. Ratepayers should only pay for costs incurred to provide them some sort of benefit. AEY has not provided any evidence that the corporate name change provides any benefit to ratepayers.

REPLY TO AEY ARGUMENT

8. As an overall comment on AEY's final argument, UCG submits that it appears as though AEY continues to use final argument to re-argue its case and echo detail of its proposals that have already been outlined in detail in its evidence. UCG submits that AEY should be directed to be more to the point in summarizing its proposals in argument.
9. In paragraph 3 of its final argument, AEY states that evidence presented by the City of Whitehorse was the only other evidence tendered in this proceeding and that the evidence of AEY went uncontroverted.
10. UCG submits that the Board must consider all materials entered on the record of this proceeding and treat it all as evidence to be used to inform its decision on the application. UCG submits that information brought out through the interrogatory process is evidence that AEY was not going to voluntarily provide to the Board or other stakeholders. Arguments submitted by participants must also be considered as valuable evidence that not only capsulizes the positions of parties but also clearly identifies the issues that stakeholders believe the Board needs to specifically address.
11. UCG submits that AEY's positions and proposals are far from uncontroverted.
12. AEY submits (paragraph 4) that the Board should use forecasts provided in the Update Filing (Exhibit B-13 submitted October 24, 2016) as the basis for its decision on this application. UCG submits that there were updates made to various forecasts during the hearing through undertakings that must also be considered as more up to date evidence. UCG also submits that AEY should be directed to update its most recent sales forecast provided by undertaking (Exhibit B-20) with actuals from 2016 and 2017 when it submits its compliance filing and use these most recent actual results and forecast to determine revenue requirements and revenues.
13. With respect to its proposed use of a deferral account to track costs related to Board Orders or Legislative Provisions, AEY states (paragraphs 10-12) that it was seeking the ability to flow through (dollar for dollar) costs to ratepayers. UCG submits that a deferral account does not provide AEY with any such ability. A deferral account simply tracks costs for review and possible recovery at a later time. UCG submits that any approval provided by the Board for any deferral account must be clear in describing exactly what it is to be used for and exactly how it is to be used.
14. While AEY repeats its request for a LNG Fuel Deferral Account (paragraphs 7 and 44 – 50), UCG submits that the Board cannot approve a methodology for calculating the deferral for LNG used in Watson Lake 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. UCG submits that AEY's request for such a deferral account must be denied.
15. Similar to arguments noted above, UCG submits that any continuation of a deferral account related to purchased power must be clear in describing exactly what it is to be used for and exactly how it is to be used. Despite AEY's argument (paragraph 32) that any increases or

decreases to purchased power costs are to be flowed through to customers, UCG submits that the determination of how much of the deferred cost are to be recovered from ratepayers cannot be made until after a full prudence review is conducted of the amounts tracked in the deferral account.

16. With respect to O&M costs, AEY argues (starting at paragraph 51) that its proposed O&M expenses are relatively flat when compared to the previous test period. UCG submits that the Board cannot determine the prudence of forecast costs for 2016 and 2017 based on what was spent in 2013-2015. UCG submits that there was not enough evidence put on the record of this proceeding to justify what was actually spent in previous years and there was no detailed review of the base budgets upon which 2016 and 2017 expenses were forecast. UCG submits that the regulation of the Yukon's utilities has to get away from assuming that what was determined allowable for one test period in its particular economic, social and political environment is in any way appropriate in the next test period which occurs in a different and constantly changing environment.
17. AEY argues (paragraph 55) that in order to assess forecast accuracy, it is more appropriate to look at the total level of O&M costs and not isolate only those functions that are experiencing increases. UCG submits that AEY has not provided the Board or intervenors any alternative but to review O&M cost components. The only way to justify AEY's claim that O&M should only be reviewed in aggregate is if AEY has presented an integrated business strategic plan upon which its O&M is based. UCG sees no evidence of this integrated process having taken place so AEY's claim is too self-serving to consider a valid approach.
18. Contrary to AEY's argument (paragraph 56), there is a consistent pattern of over-forecasting in components of AEY's O&M and the City of Whitehorse has provided evidence that clearly shows this pattern. Even AEY's own IR responses (CW-YECL-13(b) Attachment 1) demonstrates this trend with respect to 2013-2015 production costs, 2014-2015 distribution costs, and total O&M expenses per MWh in 2014 and 2015. UCG submits that AEY's system gaming practice of over-forecasting O&M (and capital) expenditures needs to be curtailed through specific direction by the Board to reduce their forecast expenditures in 2016 and 2017.
19. While AEY focusses its arguments concerning labour costs on FTEs (paragraphs 62-65), UCG submits that what is the cause of the concern is the fact that 34 of its employees will be paid more than \$100,000 in 2017 (UCG-AEY-25(a) Supplemental) and that the average employee salary included in the 2016 and 2017 forecast is \$103,000 in 2016 and \$106,000 in 2017 (Exhibit B-21). UCG submits that there is no reason why AEY should need to pay its employees that amount given the wages that Yukoners typically earn. UCG submits that it is unrealistic to expect Yukon ratepayers to pay higher rates so that AEY can pay 3 times the average Yukoner's earnings in order to attract someone to work in the Yukon. UCG submits that AEY should be required to produce a market report that shows where its salaries stand compared to other salaries within the Yukon.
20. With respect to labour inflation rates (paragraphs 66-67), AEY is relying on a collective agreement for those not subject to the collective agreement in 2016 and Alberta rates for 2017. UCG submits that it is inconsistent to have labour inflation rates from another jurisdiction dictate what Yukoner ratepayers should pay when Yukon-specific labour and wages

information is readily available. UCG submits that AEY's labour inflation rates should be held to the most recent Yukon statistics available. Average weekly earnings including overtime were actually reported by the Yukon Bureau of Statistics as falling slightly between 2015 and 2016 (UCG Book of Cross-Examination materials) so AEY cannot possibly justify such large inflation factors for working in the Yukon.

21. Again, any decision by the Board to approve AEY's request for the continuation of the Defined Benefit Pension deferral account (paragraph 72) must be clear in describing exactly what it is to be used for and exactly how it is to be used. Contrary to AEY's arguments, it will be up to a prudence review to determine whether incurred costs should be recovered from Yukon ratepayers.
22. With respect to taxes other than income (paragraphs 77-78), UCG repeats its argument that AEY's over-recovery of property tax over the last 2 years should result in a denial of any increase in property tax expense for 2016 and 2017. UCG submits that AEY should be directed to submit actual property taxes paid in 2016 for recovery in its compliance filing.
23. AEY argues (paragraphs 79-86) that its applied for depreciation expense for 2016 of \$5,792,000 and for 2017 of \$6,283,000 is somehow justified based on an internal update of depreciation rates. UCG submits that without the expert evidence to justify such an update, depreciation rates should not be changed. Given AEY's proposed depreciation expense, UCG submits that AEY is asking ratepayers to fund proposed capital expenditures of \$15,048,000 in 2016 and \$15,318,000 in 2017 (paragraph 123) through higher depreciation expense.
24. As is noted in UCG's final argument, given their direct tie to the Alberta market, AEY should not be allowed to link its return on equity for the 2016-2017 test period to the recently approved BCUC Generic Cost of Capital benchmark rate of 8.75% plus a risk premium of 0.60%. UCG submits that if AEY's return is to be linked to another jurisdiction, the most recent decision in Alberta (with no risk premium) is the logical link. In UCG's view the \$122,000 US paid the Concentric to focus on the British Columbia jurisdiction was a waste of time and effort.
25. AEY is requesting approval of forecast capital additions of \$14,234,000 in 2016 and \$14,907,000 in 2017 (paragraph 123) but UCG submits that there is nothing in its evidence or argument that justifies the over-expenditures for a long list of projects. Yukon ratepayers are being asked to compensate AEY for its poor planning and execution of projects that they have been trying to justify to the YUB using preliminary cost estimates and scoping estimates. UCG submits that if AEY cannot provide evidence that these extra costs were prudently incurred, they should not be allowed to be added to AEY's rate base.
26. UCG is concerned with the significant number of major capital projects completed between 2013 and 2015 which must be reviewed retrospectively because of the long time period between AEY's general rates applications. UCG submits that this puts an excessive burden on the limited resources of intervenors who are trying to provide the Board with valuable input to their decision making process.

27. UCG submits that AEY has failed to provide an adequate and fair consideration of not only alternative capital projects but also alternative uses of the same level of funds that would deliver the same level of end result.
28. UCG submits that all of AEY's major capital projects should be subject to greater levels of review (i.e., Part 3 reviews) given their cost and impact on the bills of ratepayers. Without a full and rigorous testing of project in the planning and proposal stage, stakeholders are left trying to debate the merits of projects that are already in place.
29. Yukon's electricity consumers must have the information they need to understand the value they receive for their expenditures on electricity and to make choices regarding their own use of energy. Given that the YUB will not be making a final decision on AEY's 2016 and 2017 revenue requirements until well into 2017, UCG submits that making rates retroactive to July 1, 2016 is unfair to consumers who have continued to make choices on electricity use based on prices being paid at the time of use.

All of which is respectfully submitted this 15th day of December, 2016.

Roger Rondeau
Utilities Consumers' Group