

**YUKON ENERGY CORPORATION (“YEC”)
2017 - 2018 GENERAL RATE APPLICATION**

AND

**ENERGY RECONCILIATION ADJUSTMENT
APPLICATION PART 2 (“ERA”)**

**REPLY ARGUMENT OF
THE CITY OF WHITEHORSE**

August 23, 2018

I. Introduction

1. This reply argument is filed on behalf of the City of Whitehorse (“CW” or the “City”) which participates in this proceeding on behalf of the City and its residents, and is guided by what it considers to be in the best interests of the City as a corporation as well as what is in the best interests of its citizens.
2. The City has reviewed the arguments filed by Yukon Energy Corporation (“YEC”), ATCO Electric Yukon (“AEY”), Utilities Consumers’ Group (“UCG”), and John Maissan (“Mr. Maissan” or “JM”). Failure to comment on any issue should not necessarily be taken to connote agreement with another party’s position on that issue.
3. Both the UCG and Mr. Maissan have included detailed argument on a large number of individual projects that the City did not address in its evidence or argument. Accordingly, it would not be appropriate for the City to comment for the first time in reply. However, as neither the UCG nor John Maissan filed evidence disclosing positions on various general issues, the City may comment, as it deems necessary, on certain general positions advocated by those parties which accord with the positions taken by the City.
4. With respect to one of the issues raised by the City in both argument and evidence, namely, the need to take disruptive technology into account, it appears that no other party has addressed this in any significant way, so no reply argument is provided here. On this issue in particular, and in general, the City continues to rely on its previously filed argument.

II. AEY Argument

5. The AEY argument focuses on two issues: i) DCF and ERA; and ii) treatment of streetlight conversions. The City did not comment on the second of these issues in

either argument or evidence, and it would be inappropriate for it to do so now. As the City understands it, AEY’s concern relates to consistency of regulatory treatment for the two utilities.¹

6. The City can support AEY’s general submission that the DCF and ERA mechanisms are unnecessarily complex.² The City has argued that clarification should be provided, including a definition and guidelines for the DCF “such that funds are only able to be withdrawn in the case of low water levels.”³
7. The City takes no position on the issue related to timing of ERA payments raised by AEY.⁴

III. John Maissan Argument

8. Notwithstanding YEC’s assertion that “There is no basis to assert that communication issues between YEC and AEY affected the accuracy of the wholesale forecast,”⁵ the interveners, aside from AEY, appear to share a common perception to the contrary.
9. Consistent with the City’s recommendation that the Board direct closer co-operation between the two utilities in preparing wholesale sales forecasts,⁶ Mr. Maissan recommends:

That Yukon Energy be encouraged to work closely with ATCO Electric Yukon and all active and potential customers in order to generate sales forecasts that are as accurate and up to date as possible.⁷

¹ AEY argument, paragraph 17

² AEY argument, paragraph 5

³ City argument, paragraph 52

⁴ AEY argument, paragraph 14

⁵ YEC argument, page 18; item 1 b.

⁶ City argument, paragraph 39

⁷ JM argument, page 2, item 2

10. With respect to vegetation management/brushing, the City indicated that YEC’s forecasted large increases in brushing expense, which for distribution brushing are double the average recent historical actuals, are unrealistic.⁸ As such, a reduction in the forecast, closer to the historical average, would be appropriate. Further, continued deferral account treatment would be reasonable, at least until such time (potentially, its next GRA) as YEC demonstrates a consistent pattern of its actual expenses matching its forecasts.

11. While Mr. Maissan does not recommend a reduction, he does flag deferred brushing costs as a concern.⁹ JM recommends that “the Board not order YEC to defer any more costs than absolutely necessary.”¹⁰

12. JM refers to YEC’s application at page 3-20, where among other things, YEC requests a discontinuation of deferral account treatment. As noted above, a discontinuation of deferral account treatment at this time is premature, and would put ratepayers at risk should YEC continue its pattern of spending significantly less on an actual basis than the amounts in its approved forecasts.

13. Mr. Maissan takes issue with YEC’s proposed climate change study, arguing that, as this is an issue that has already been well-researched, further research at a cost of \$599,000.00 amortized over 5 years, is unjustifiable.¹¹ While the City recognizes the important of understanding the impacts of climate change on the North, it supports the position of JM, that YEC should rely upon available studies and other ready sources of available information on weather trends, water flow and water availability. If further research on the impact of climate change is warranted, the responsibility for that research should fall to the Yukon Government. The costs of the proposed climate change study should be disallowed.

⁸ CW argument, paragraph 42

⁹ JM argument, page 4, item 6

¹⁰ *ibid*

¹¹ JM argument, pages 4-5

14. As a general proposition, Mr. Maissan appears to take issue with “government influence on YEC decision making.”¹²
15. Mr. Maissan is critical of government subsidies and suggests increasing rates would enhance incentives for YEC to minimize cost increases and would encourage consumers to reduce consumption.¹³
16. While the City agrees that the Board should take all reasonable steps to encourage YEC to minimize cost increases, it does not share Mr. Maissan’s view that rate increases would have desired effects, outweighing the hardships they impose on individual ratepayers.

IV. UCG Argument

17. Similar to concerns expressed in argument by both the City and Mr. Maissan, the UCG discerns an issue with the “continued inability of YEC and ATCO Electric Yukon (AEY) to work together on a more comprehensive application and analysis....”¹⁴
18. The UCG also supports a Board direction for minimum filing requirements,¹⁵ consistent with the City’s recommendation for the same.¹⁶
19. The City recommended that the costs of the 2016 Resource plan be excluded from rates, since it did not meaningfully address disruptive technology, and was therefore unreliable.¹⁷

¹² JM argument, page 14, item 24

¹³ Ibid

¹⁴ UCG argument, paragraph 4

¹⁵ UCG argument, paragraph 10

¹⁶ CW argument, paragraph 55

¹⁷ CW argument, paragraph 21

20. The UCG also recommends that the cost of this study should not be recovered from ratepayers, albeit for different reasons.¹⁸
21. The UCG also shares the City’s concerns¹⁹ about the failure of YEC to include meaningful analysis of or comparisons to the practices of other similarly situated utilities.²⁰

V. YEC Argument

Wholesale Forecasts

22. In its Argument, YEC asserts that the net impact of updating the wholesale forecast from 309.0 to 314.2 GW, by adoption of the approved AEY Compliance Filing, is a reduction of the revenue shortfall of \$0.027 million for 2017 and \$0.14 million for 2018. At the same time YEC asserts that this results in a cumulative increase in the required rate to 9.19% from the 9.08% initially proposed in its Application.²¹
23. In response, the City reiterates that, as stated in its argument, the 2017 actual wholesale load for 2017 was 328.4 GWh.²² It is clear that the AEY forecast is closer to the actual than the YEC forecast. Further, the YEC Argument that the adoption of the approved AEY Compliance Filing results in a cumulative increase in the rate required from 9.08% to 9.19% is premised on combining base rates with Riders J and R. The fact remains that YEC should use the best information available, namely the AEY Compliance Filing, and that its adoption will result in a reduction of YEC’s revenue requirement.

¹⁸ UCG argument, paragraphs 472-482

¹⁹ CW argument, paragraphs 43-46

²⁰ UCG argument, paragraph 180

²¹ YEC argument, page 17

²² CW argument, paragraph 31

Communication between YEC and AEY

24. YEC states that it takes into account AEY’s forecasts on an annual basis, but prepares its own separate forecast based on its own professional judgement. YEC asserts that there is no basis upon which to conclude that poor communication between YEC and AEY affects the accuracy of YEC’s wholesale forecast.²³ Contrary to this, all intervenors other than AEY have identified poor communication between AEY and YEC as a concern in this Application, specifically in relation to its effect on wholesale forecast and corresponding revenue requirements.
25. The City submits that AEY should be better able to forecast its customer requirements than YEC. YEC argues that additional communication would not have resulted in a better forecast; but as pointed out in the City’s Evidence, YEC also indicated that no further discussion occurred between YEC after the YEC compliance filing. If YEC had a compliance filing forecast for AEY when it prepared its GRA forecast, it should have used AEY forecast as the YEC wholesale sales forecast. If it did not, it should have engaged in discussions with AEY to ascertain the best forecast. If YEC believed the AEY forecast was incorrect, it should have validated its forecast with AEY, and then provided a detailed discussion of why the AEY forecast was incorrect. The City submits that AEY, as the provider of service to the ratepayers of the City is better positioned to forecast load for its customers than YEC.

Vegetation Management Policy

26. YEC states, in respect to its Vegetation Management Policy and Vegetation Forecast, that the costs forecast are reasonable, the current Vegetation Management

²³ YEC argument, page 18

Policy displays ample and appropriate due diligence, and includes adequate research into other utility policies and practices. On this basis YEC states that there is no further need for any further review or reporting to compare its Vegetation Management Policy with those of other utilities.²⁴

27. The City of Whitehorse disagrees with these conclusions. It simply cannot be concluded whether the policy is prudent and informed by industry best practices or whether “ample and appropriate due diligence” is reflected in the policy. Further, the significant deviation between forecast vegetation management costs and actuals indicates that the current costs forecast are not reasonable.

28. There is insufficient information before the Board to permit a proper determination of whether the policy reflects ample and appropriate due diligence or to determine the extent to which the best practices of other North American utilities are reflected in the policy. In its response to the City’s Information Request²⁵, YEC stated that only a cursory review of the brushing practices of other utility providers was undertaken as part of the policy development. Only in its later Rebuttal did YEC suggest that it had conducted a multi-utility survey of best practices through CEATI International Inc. and that this survey of best practices informed the development of its current brushing policy.²⁶

29. Cross examination YEC confirmed that the CEATI Study had been completed in 2012, meaning that the review of the best practices of other utilities was completed no more recently than 2012 and may have been completed earlier than this. This suggests that the industry information purportedly relied upon is approximately six years out of date.

²⁴ YEC argument, item 2.3, pages 25-26

²⁵ CW-YEC 1-29, at PDF page 89 (Exhibit B-7)

²⁶ YEC Rebuttal, PDF page 6 (Exhibit B-21)

30. More importantly, the results of the CEATI Study were not provided in the Application or the Rebuttal and, therefore, neither the Board nor the other Parties can determine how extensive of an industry review was conducted by YEC, when that review was completed, or the extent to which the results of the study are reflected in the Vegetation Management Policy adopted by YEC.
31. The consequence is that the degree to which the current Vegetation Management Policy reflects the best practices of utility providers in North America is simply unknown. Given the contradictory information that has previously been provided by YEC related to this policy, that this policy is now being used to justify forecasts for significantly higher vegetation management costs for the application years, and given that the brushing costs historically incurred by YEC have been much lower than the associated YEC forecasts, the City submits that the Board should not conclude that costs forecast are accurately determined and should implement a reduction in the forecast, to bring it closer to the historical average.
32. Further, YEC should be directed to update its analysis of vegetation management best practices of North America utilities on a more frequent basis going forward and to make the results of those studies publicly available.

Equity Risk Premium

33. YEC states that the absence of a specific FBC deferral account similar to the DCF is on no importance when comparing risks for FBC relative to YEC.²⁷ The City disagrees. A deferral account serves to transfer risk from the utility to the customer. As such, to the extent that YEC has deferral accounts for risks that it faces, but which FBC does not, YEC is placed on the same level as FBC related to risk, and is not more risky than FBC.

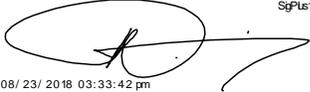
²⁷ YEC argument, page 56, item 5

VI. Summary

34. The City stands by the main points set forward in its arguments filed with the Board in this Application:
- a. Disruptive Technology: The Board should direct, going forward, that Applications such as YEC must consider the potential impacts of disruptive technology in its forecast of load requirements in all Rate and Resource Plan applications to ensure greater accuracy in determination of need for future capital expenditures and to minimize the risk of stranded utility assets. The Board should exclude the costs of the 2016 Resource Plan from the rates since YEC did not meaningfully consider and address the impacts of disruptive technology in that Plan, rendering it unreliable.
 - b. Divergence Among Load Forecasts: The Board should direct YEC to develop and use analytical models that reflect the uncertainty of industrial load requirements in its long term forecasts and resources planning.
 - c. Wholesale Load Forecasts: Given the significant historical divergence between YEC and AEY forecasts, and with actuals, the Board should direct YEC to use, in this specific Application, the approved AEY Compliance Filing and in future applications, AEY wholesale load forecasts.
 - d. Vegetation Management: The Board should determine that YEC’s Vegetation Management costs forecast are inaccurately determined, and the Board should implement a reduction in the forecast, to bring it closer to the historical averages. Further, YEC should be directed to update its analysis of vegetation management best practices of North America utilities on a more frequent basis going forward and to make the results of those studies publicly available.

- e. Diesel Contingency Fund: YEC should be directed, in its compliance filing to its Application, to include a definition and guidelines for the DCF such that funds are only able to be withdrawn in the case of low water levels. YEC should be directed, in the context of determination of the risk premium applicable to YEC, to compare the dollar amounts included in its deferral accounts to the dollar amounts included in the utilities it relies upon for its risk premium calculations. If the Board concludes that YEC’s true risk profile is less than it otherwise would be, given the nature of the DCF, it would be appropriate for the Board to reduce the risk premium proposed by YEC by 57 basis points.
- f. Assessment of Labour Costs: The Board should, for the benefit of future applications, establish a minimum filing requirement similar to that established by the AUC. This would facilitate more efficient testing, by the Board and other parties to the Application, of the cost per full time equivalent (FTE).

All of which is respectfully submitted this 23rd day of August, 2018.



08/23/2018 03:33:42 pm

StP1s1

For: THOMAS D. MARRIOTT, Q.C.
Counsel for the City of Whitehorse