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December 6, 2017

Mr. Robert Laking, Chair
Yukon Utilities Board
Box 31728
Whitehorse, Yukon Y1A 6L3

Dear Mr. Laking:

Re: Response to Board Order 2017-08

Order 2017-08 of the Yukon Utilities Board (“YUB” or “Board”) directed Yukon Energy Corporation (“Yukon Energy” or “YEC”) to make two filings:

- 1) Within 30 days of issuance of the Yukon Court of Appeal order regarding its judgment, *Yukon Energy Corporation v Yukon Utilities Board, 2017 YKCA 15*, file correspondence as to when Yukon Energy expects to file the separate two-part Energy Reconciliation Adjustment (“ERA”) application (the “ERA Application”) to comply with the direction of the Yukon Court of Appeal and the further directions of the Board. The Board directed that the first part of the ERA Application address 2012 ERA issues; and the second part of the ERA Application address “how YEC proposes to address Diesel Contingency Fund (DCF), ERA, wholesale rates, and long-term average hydro generation for the period 2017 forward.”
- 2) Order 2017-08 also directed Yukon Energy regarding YEC’s 2017/18 General Rate Application (the “GRA”) to provide an alternative GRA forecast using a short-term hydro-electric forecast for the test period and any consequential changes to the thermal generation forecast, removing any DCF references in that alternative forecast, and filing the alternative forecast within 60 days of the issuance of Order 2017-08 [i.e., by December 18, 2017].

Further, Order 2017-08 also contains the following administrative directions:

- (a) The GRA process schedule as previously established is suspended pending certain additional filings from YEC; and
- (b) YEC is directed to continue to treat the DCF as a placeholder to be adjusted upon final determination of the Board in the ERA Application.

Yukon Energy received the Yukon Court of Appeal order on November 7, 2017. The ERA Application appended to this letter responds to the Board directions as described above, and provides the required two-part filing. This letter reviews the key elements of the attached ERA Application, and provides process proposals for consideration to move forward with the GRA and the ERA Application as soon as feasible.

Overview of Two-Part ERA Application and Requested Approvals

The ERA Application provides the following two-part response to Board Order 2017-08:

- **Part 1 – 2012-2016:** As directed, this part provides the calculation of the 2012 ERA amount, including explanation of necessary adjustments arising since the last filing, response to Board Order 2017-08 directions regarding the 2012 ERA amount, and ERA determinations for 2013-2016. This part also includes an amended Rate Schedule 42, pursuant to the Court of Appeal direction, which reflects the approach to the ERA as applied in this section.

From this Part 1 filing, YEC is seeking Board approval of the amended Rate Schedule 42, the ERA final amounts for 2012 and 2013, and the ERA interim amounts for 2014 to 2016 (subject to final approvals of the DCF amounts for these years).

- **Part 2 – Period 2017 Forward:** Addresses how YEC proposes to deal with long-term average (“LTA”) hydro generation forecasts for GRA purposes, the DCF, ERA and wholesale rates for the period 2017 forward, and responds to further directions of the Board relating to these issues. Appendix 2.2 provides the Short-term Hydro Alternative GRA Forecast (“ST Alternative GRA Forecast”) as directed in Order 2017-08 so that this alternative can be included in the Part 2 assessments for the period 2017 forward.

Part 2 includes discussion of the inter-relationships between the following areas of concern noted by the Board in Appendix A of Order 2017-08:

- The use of LTA hydro generation forecasts for GRA purposes;
- The use of the DCF (or other similar thermal cost or contingency fund account mechanism) as needed to address water-related variances of actual hydro generation in any year from the latest GRA LTA forecast; and
- The need for and use of the ERA (or other similar mechanism) as required to ensure that YECL/AEY receives a full pass-through of all incremental YEC costs or savings of thermal generation attributable to higher or lower than forecast wholesale demand.

Based on the proposals in this section, the Part 2 assessments for the period 2017 forward support:

- (a) Use of the amended Rate Schedule 42 as filed under Part 1 of the ERA Application based on the recent direction of the Yukon Court of Appeal; and

- (b) Yukon Energy's requested approvals in the 2017-18 GRA, as filed in June 2017, with regard to the use of LTA hydro generation forecasts for each test year for GRA purposes and ongoing use of the DCF; the Part 2 assessments also highlight the issues and adverse impacts involved with the ST Alternative GRA Forecast.

Overall, the Part 2 conclusions support the current GRA as filed to be concluded in an efficient and timely manner by continuing with LTA hydro generation forecasts rather than by introducing a change to the short-term hydro generation alternative forecast as separately filed with the Board in compliance with Order 2017-08.

Process Proposal for Consideration

Board Directions

Board Order 2017-08 has directed that the ERA Application be separated from the ongoing GRA process. It appears to assume that the GRA can proceed based on the alternative short-term forecast, and that final decisions from the separate ERA Application Part 2 process regarding the use of LTA hydro generation, the DCF and the ERA for the period 2017 forward can be addressed separate from (and presumably after) the GRA process.

In this regard, Appendix A to Board Order 2017-08 provides added directions regarding the short-term GRA forecast that is to be provided by December 18, 2017. These added directions, which Yukon Energy is attempting to address and provide to the Board by the specified date, reference the alternative GRA forecast as "an alternative GRA proposal". YEC is directed with its alternative proposal to:

- (a) Provide a copy of the alternative proposal in a clean version and a blacklined version of YEC's entire GRA showing all changes made;
- (b) Provide revisions to all information responses and provide similar treatment (clean and blacklined versions) at the time the alternative application is filed; and
- (c) Explain all variances between the LTA hydro-generation forecast and the short-term hydro-generation forecast (including any changes in the thermal-generation forecasts) as well as a comparison between the LTA and short-term hydro-generation modelling assumptions.

Concerns about Process Going Forward

Yukon Energy has a number of concerns about proceeding with the GRA based on the short-term forecast alternative and prior to the process on Part 2 of the ERA Application.

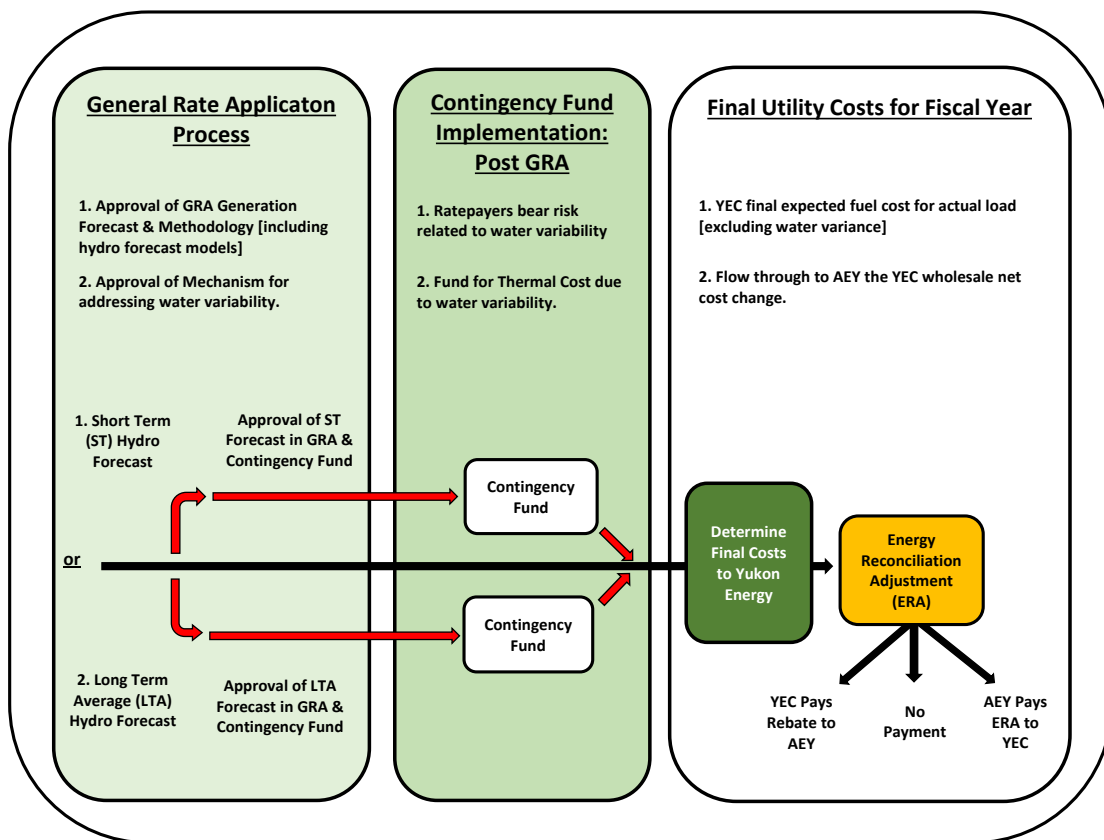
The overall concern is that, in order to be properly implemented, the issues raised in Part 2 of the ERA Application filing for the period 2017 forward must be addressed either prior to or as part of the current GRA process.

The Part 2 analysis provides a review of LTA and ST forecast options in the context of the interrelationships between the GRA process, the DCF or similar contingency fund, and the ERA. The figure below (Figure 2-1 from the ERA Application) illustrates the key interrelationships and

required sequential steps for addressing each of these matters [i.e., generation forecast, contingency fund, and ERA]. The linear nature of these inter-relationships and the sequential, decision-making process required for their proper implementation are illustrated as follows:

- **Step 1 - General Rate Application Process:** General rate applications include requested approvals regarding the hydro forecast and methods (including selection of ST or LTA hydro generation forecasts, as well as selected ST or LTA forecast planning models); and regarding the contingency fund mechanism to be used for addressing water variability from the approved GRA forecast. These are reviewed as part of the GRA process and a determination is made in the final order regarding the approved hydro forecast for test year forecast costs and contingency fund mechanism to be used.
- **Step 2 - Contingency Fund Implementation: Post GRA:** The selected contingency fund mechanism is relied on when finalizing YEC post-GRA costs at the end of each fiscal year.
- **Step 3 - Final Utility Costs for Fiscal Year:** The final step, following contingency fund implementation, is the determination of the final Yukon Energy thermal generation fuel costs for each fiscal year (i.e., YEC costs after removing water variability impacts) and the determination of the ERA related to any flow through to AEY of YEC's wholesale net cost changes related to wholesale changes from the GRA forecast.

Figure 2-1: Yukon Hydro Grid Inter-relationships re: GRA Hydro Forecasts, Contingency Fund Mechanisms, Final YEC Costs, and ERA Mechanisms



The key conclusions outlined in Figure 2-1 and detailed in Part 2 of the ERA Application with regard to the inter-relationships specified in Order 2017-08 are as follows:

1. The key initial decision in the sequence outlined in Figure 2-1 relates to the hydro generation forecasts adopted and approved as part of the general rate application process, and requires assessment of any such forecast alternatives (and related contingency fund options) in one regulatory process.

In the current context of Order 2017-08 specifying LTA and ST hydro forecast alternatives, the key initial determination now relates to selecting either LTA or ST hydro forecasts for the 2017-18 GRA:

- a. **LTA Hydro Forecast** - Continued use of the LTA approach to forecasting hydro generation as previously approved in 1996 and in 2012/13, as applied for by YEC in June 2017 for the 2017/18 GRA, and as reviewed to date in the IR process for this GRA; or
 - b. **ST Hydro Forecast** - Adoption of a new ST forecast approach to forecasting hydro generation for the 2017/18 GRA. Issues and concerns related to adopting a ST forecast at this time are outlined in Section 2.4 and 2.5 and Appendix 2.2 of the Part 2 filing.
2. Regardless of the forecast approach adopted for GRA purposes, based on accepted regulatory practice and precedent for Yukon, a contingency fund mechanism is required to address water variance and an ERA is required to address wholesale variances.
 3. The contingency fund mechanism needs to be determined concurrent with the GRA process review of hydro forecasts; in contrast, the ERA mechanism ultimately relates to final YEC costs for a fiscal year, post the GRA revenue requirement process and after implementation of the selected contingency fund mechanism.
 4. Separating and deferring review of the Part 2 ERA Application from the current GRA process also raises procedural concerns, including:
 - a. **GRA Process** – The current GRA process is to address YEC’s applied for GRA. Yukon Energy applied in June 2017 based on the LTA GRA forecast consistent with past Board decisions and regulatory precedents, and does not consider the ST Alternative GRA Forecast to be appropriate for rate setting purposes at this time [as outlined in Section 2.4 and 2.5 and Appendix 2.2 of the Part 2 Filing]. As such, aside from issues to be expected with introducing a totally new alternative forecast at this time (including the need to review separate forecast models and contingency fund requirements), the GRA process with the ST Alternative GRA Forecast would be addressing a matter that YEC has not applied for and does not support. In the event that the LTA GRA forecast

as filed is also retained in the GRA process, it becomes difficult to see the relevance of a separate subsequent Part 2 ERA Application process.

- b. **Part 2 ERA Application Process** - Absent connection to the current GRA process, the Part 2 ERA Application filing process would be examining matters not explicitly tied to YEC rates and revenue requirement matters [i.e., any determinations made in the Part 2 process would be moot, as decisions regarding the 2017/18 test year would already be crystallized]. The Board's jurisdiction to proceed with such a separate Part 2 ERA Application process is unclear, given that no rate or revenue requirement applications or proposals are to be considered.

Process Proposals

Given the above key conclusions, it is proposed that the following processes be considered:

1. The Part 1 ERA Application filing (which addresses historic ERA-specific matters prior to 2017) be addressed as a separate paper proceeding; and
2. The Part 2 ERA Application filing be considered either prior to the current GRA process, or (preferably) as part of Yukon Energy's current 2017/18 General Rate Application given it addresses the period 2017 and forward.

The Part 2 ERA Application filing provides information sufficient to understand the interrelationships between LTA hydro generation, the DCF and the ERA and also outlines issues and alternatives for the 2017 period forward.

While the Part 2 ERA Application filing also includes the short-term hydro alternative GRA forecast required by Order 2017-08, the Part 2 assessments outline the basis for Yukon Energy's strong view that the LTA should continue to be used for determining GRA forecasts in the 2017 and 2018 test years.

Other Matters - YECSIM Model

In response to Board concerns about Yukon Energy's water forecasting model Yukon Energy is committed to providing appropriate access to the YECSIM forecasting model for testing by the Board (and intervenors) so that the Board's concerns can be alleviated.

Appendix 2.4 of the ERA Application provides a description of the actual model and provides a copy of the YECSIM Model User Manual to enable the Board and intervenors to review the constraints, processes and operational rules of this model for testing and assessment.

As noted in that Appendix, Yukon Energy welcomes the opportunity to review any further access to the model and its results that would assist the Board and intervenors, including potential workshop or other discussion process for review of its specific use (inputs and outputs) for the 2017-18 GRA forecasts and the updated DCF Term Sheet Table 3.4-1 (GRA Appendix 3.4).

Revised GRA Schedule

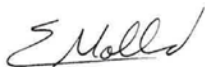
The Board in Appendix A of Board Order 2017-08 noted that most parties do not favour an indeterminate delay regarding the 2017-18 GRA. Yukon Energy has been able to complete the attached Part 2 filing sooner than expected in Order 2017-08.

With the Part 2 filing being provided at this time, the Board has the ability to set a process that avoids procedural concerns and concludes the current GRA in a timely manner.

Yukon Energy recognizes that additional IRs will likely be needed as soon as possible, and would like to assess the opportunities for the GRA oral hearing by early February, given the unavailability of key YEC personnel between February 21 and March 23, 2018.

If you have any questions regarding the above please call.

Yours truly,

A handwritten signature in cursive script, appearing to read "Ed Mollard".

Ed Mollard
Chief Financial Officer