



May 1, 2013

Mr. Bruce McLennan, Chair
Yukon Utilities Board
Box 31728
Whitehorse, Yukon Y1A 6L3

Dear Mr. McLennan:

**Re: Yukon Energy Corporation 2012/2013 General Rate Application –
Compliance Filing**

Pursuant to Board Order 2013-1, Yukon Energy encloses herewith, for approval of the Board, a Compliance Filing in accordance with the directions set out in the reasons for Decision (Appendix A to Order 2013-1), and including the appropriate schedules from Tab 7 of the 2012/2013 Yukon Energy General Rate Application (the “Application”), for Board approval of the Yukon Energy 2012 and 2013 revenue requirements, along with all related understandings and interpretations of Order 2013-1 and the attached Reasons.

As noted in the attachment Compliance Filing, the Yukon Energy 2012 revenue requirement is now \$39.261 million (compared to \$39.857 million in the Application), and the Yukon Energy 2013 revenue requirement is now \$42.761 million compared to \$45.641 million in the Application.

The corresponding rate adjustments as set out in the attached filing are assumed to be implemented July 1, 2013. From that point forward, the effects of the Order 2013-1 is a revised cumulative Rider J rate of 11.87% for all non-industrial retail firm rates (compared to 13.32% in the Application) and 8.19% for industrial firm rates (taking into account the 3.4% increase previously approved by the Board for industrial rates as of January 1, 2012). Adjustments related to 2012 and 2013 “true up” are also addressed in the attached material (to collect the remaining 2012 and 2013 net revenue shortfall at forecast sales), setting out the basis for a time-limited Rider R of 4.72% to be in effect from July 1, 2013 to June 30, 2014, applicable to all YEC and YECL firm retail and

industrial rates. All YECL recoveries from Rider J and Rider R will flow through to YEC.

Specific Issues regarding Diesel Contingency Fund (“DCF”) & Energy Reconciliation Adjustment (“ERA”)

Order 2013-1 provides specific directions regarding the treatment of diesel generation costs, the DCF and the ERA that are of material concern to Yukon Energy with regard to both the Compliance Filing and the ability of YEC to finalize 2012 year-end financial statements.

1. Order 2013-1 has directed Yukon Energy to reflect 100% long term average (LTA) hydro generation in calculating test year diesel generation requirements (as opposed to 66% LTA hydro in 2012 and 59% LTA in 2013 as proposed in the Application). The Compliance Filing incorporates this direction, which affects the determination of final rates. YEC accounting for actual diesel generation costs on this same basis, however, requires implementation of the DCF.
2. Order 2013-1 rejects the DCF as applied for and directs Yukon Energy to provide a revised DCF proposal that incorporates three specific changes (Order 2013-1, paragraph 255) . As reviewed in Section 4 of the Compliance Filing, Yukon Energy has implemented this direction in the attached revised DCF proposal. Based on this revised DCF proposal, Yukon Energy can proceed to address accounting for 2012, and going forward, with respect to its ongoing diesel fuel expenses in compliance with Order 2013-1.
3. Order 2013-1 also directs YEC to work with YECL in order to provide a joint recommendation regarding how the DCF will affect the ERA in Rate Schedule 42 and any proposed wording changes to the rate schedule (Order 2013-1, paragraph 255), and accordingly YEC is directed to re-file a Rate Schedule 42 in cooperation with YECL. As noted in the Compliance Filing, Yukon Energy has arranged to meet with YECL to move forward on this matter as soon as possible.

Yukon Energy has reviewed the above Board directions carefully.

As directed, the Compliance Filing includes diesel generation costs forecast at LTA hydro generation for each test year. However, as noted, approval of an updated DCF is integral to YEC being able to have clarity as to how its actual diesel generation costs are to be accounted for in 2012 and going forward. And with implementation of the DCF

based on 100% LTA as directed, YEC will in fact incur diesel generation costs at 100% LTA based on its actual generation in any year, i.e., diesel generation fuel costs at 100% LTA related to any incremental growth above GRA approved forecasts in any year will be charged to YEC.

In this regard, the DCF and the ERA as applied in the past, and as proposed in the Application, are highly interrelated. Specifically, as is clear in Rate Schedule 42 as approved after the 2009 Phase II hearing, the ERA requires that rate charges to Yukon Electrical will be adjusted when changes in actual Yukon Electrical wholesale purchases (relative to Yukon Energy's most recent approved test year forecast for such purchases) result in changes to Yukon Energy costs incurred for diesel generation¹. The Application proposed revisions to the wording of the ERA to clarify matters going forward with the updated DCF, and noted that the ERA is designed to ensure:

- That YECL receives a full pass through of the incremental costs of diesel generation (when diesel is on the margin at long term average water flows) driven by increases in the volume of wholesale sales; and
- That Yukon Energy is able to recover its costs (as required by OIC 1995/90, section 7(b)) when diesel generation is on the margin.

In this respect, approval is sought in the Compliance Filing for a revised DCF on the understanding that an ERA and any required changes to Rate Schedule 42 will be approved and implemented and applicable for the 2012 test year (as well as going forward today) in order to ensure that YEC is held whole. If this is not the case, and is not confirmed to be the case in the very near future, there is potential that YEC would have to seek on an expedited basis other additional relief for 2012.

Yukon Energy recognizes concerns raised regarding the ERA and the directions provided by the Board regarding joint work and recommendations to be provided by the two utilities as noted above. Yukon Energy and YECL have agreed to meet to discuss ERA-related concerns; however, this work could not feasibly be completed prior to filing the Compliance Filing. Further, although the Board Order did not specify a date for the utilities to provide a joint proposal on the ERA, it is critical for this matter to be

¹ The current, approved Rate Schedule 42 includes an ERA that indicates charges will be adjusted on a monthly basis to reconcile actual wholesale purchases to test year forecast purchases during months when diesel generation in the Hydro zone is on the margin at long term average water flows. To the extent that wholesale purchases fall short or exceed forecast wholesale purchases, an adjustment to the YECL bills will be made at a rate equal to the Hydro zone incremental cost of diesel of 32.74 cents per kWh as approved by the Board in Order 2010-13.

addressed expeditiously in 2013 in order for YEC to be able to close its 2012 year-end financial statements.

In closing, Yukon Energy seeks approval of the attached filing.

Please direct any questions on this communication to the undersigned.

Yours truly,

A handwritten signature in black ink, appearing to read "Ed Mollard". The signature is written in a cursive style with a large initial "E".

Ed Mollard
Chief Financial Officer