

1983-3

THE YUKON ELECTRICAL PUBLIC UTILITIES BOARD

IN THE MATTER OF The Electrical Public Utilities Act, being Chapter E-2.1 of the Yukon Territory, 1972 as amended and the Public Sector Compensation Restraint (Yukon) Act, being Chapter 31 of the Acts of The Yukon Territory, 1982, as amended.

AND IN THE MATTER OF Applications by The Yukon Electrical Company Limited and Yukon Hydro Company Limited for changes in existing rates, tolls and charges for electrical energy furnished to their customers.

YUKON ELECTRICAL COMPANY LIMITED

and

YUKON HYDRO COMPANY LIMITED

1983 - 1984

General Rate Application

Order Number 1983 - 3

November 14, 1983

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A. Rate Applications

Under the date of June 9, 1983 The Yukon Electrical Company Limited (Yukon Electrical) forwarded to the Board an application for changes in existing rates for electrical energy furnished to its customers on all billings on and after August 1, 1983, such application being made pursuant to Section 23 of the Electrical Public Utilities Act. As part of the same application Yukon Hydro Company Limited (Yukon Hydro) applied for changes in rates charged by it to its only customer Yukon Electrical on all billings on and after August 1, 1983.

In support of the application the companies submitted a document entitled

THE YUKON ELECTRICAL COMPANY LIMITED

YUKON HYDRO COMPANY LIMITED

APPLICATION FOR REVISION TO EXISTING RATES

JUNE 10, 1983

The application by Yukon Electrical provided for an across-the-board increase of 7.94% on all customers' bills rendered on and after August 1, 1983. The rate change proposed for Yukon Hydro is expected to result in an annual revenue reduction for that company of 2.32% in 1983. Increases in service charges from \$10.00 to \$15.00 and in disconnection charges from \$15.00 to \$25.00 were also requested.

On July 6, 1983 the Board acknowledged receipt of the application and advised Yukon Electrical that in order to comply with provisions of Section 23(2) of the Electrical Public Utilities Act it should extend the target date for implementation of its proposed rate increases to September 10, 1983, 90 days after receipt of the documentation by the Board. It also advised that any readjustments to the rate due to this extension should be dealt with by the Company at that time.

On July 17, 1983 the Board requested that Yukon Electrical provide details of the effects on revenue of a 6% increase in 1983 and a subsequent 5% increase in 1984 and that these figures should be compared to the revenue to be gained by a 7.94% increase as proposed by Yukon Electrical. This information was provided to the Board on August 2, 1983. The response indicated that Yukon Electrical's expected revenue for 1983 and 1984, after giving effect to a 6% increase in September 1983 and a further 5% increase in January 1984, would be \$157,598 less than originally proposed for 1983 and \$453,225 more for 1984.

On August 8, 1983 the Board issued Interim Order 1983 - 1 authorizing Yukon Electrical to increase its rates, service and disconnection charges by an amount not exceeding 6%, based on the rates that were in effect on December 9, 1982, and to include thereafter a further adjustment (which would not include a 6% increase) for the costs passed on to Yukon Electrical Company Limited by Northern Canada Power Commission in April 1983; all to be effective with meter readings taken on and after August 21, 1983.

On September 1, 1983 Yukon Electrical and Yukon Hydro submitted a revised application to comply with Interim Order 1983 - 2. In the application Yukon Electrical also proposed a 5% across-the-board increase in rates to be effective on all billings on and after January 1, 1984 for all consumption on and after December 1, 1983. No changes were proposed for rates charged by Yukon Hydro. Service and disconnection charges were also proposed to increase by a further 5%.

B. NOTICE OF APPLICATION

Yukon Electrical forwarded copies of its proposed rate adjustments to all libraries, community clubs and Local Improvement Districts within its service area, to the Cities of Whitehorse and Dawson, to the Town of Faro and to the Commissioner of Yukon. A notice of the public hearing was placed in the Whitehorse Star on September 30, and October 7, 1983 and the Yukon News on September 21, 30 and October 5, 1983.

C. HEARING

The Board convened a hearing on October 12, 1983 in Conference Room 1B of the Yukon Government Administration Building, Whitehorse to consider the rate applications submitted by the Yukon Electrical Company Limited. The Board was represented by Peter Percival - Chairman, Jim Pollock - Vice Chairman, Robert Laking - Member, Margaret Willis - Substitute Member, and Bill Stephen of the firm Stephen Johnson Chartered Accountants, who acted as the Board's consultant. In addition Gloria Roman, Executive Secretary and Fran Mason, Assistant were on hand to assist the Board.

D. APPEARANCES & WITNESSES

The Yukon Electrical Company Limited was represented by R.H. Choate, Vice President of Policy Matters, A.J. Pullman, Vice President and Controller of Financial Matters, R.G. Jones, Manager of Rates and Forecasting and G.K. Bauer, General Manager of Operating Matters.

E. INTERVENTIONS

In response to the Board's request for interventions, the Board received five written submissions. All intervenors were invited to participate at the hearing. However, only two chose to present their interventions orally and be subject to cross-examination; Nancy Dieckmann represented the Welcome Inn in Ross River and Alderman Art Deer represented the City of Whitehorse. Other written interventions received were from Archie Lang representing the Watson Lake Hotel, Watson Lake, Andre Carrel representing the Association of Yukon Communities, and Ray Jackson representing the Council for Yukon Indians. A submission from the Yukon Visitors Association was received during the hearing and upon the agreement of the applicant and intervenors, was admitted as evidence.

F. EXHIBITS

Refer to Appendix A

II. DECISIONS

1. INTRODUCTION - PUBLIC SECTOR COMPENSATION RESTRAINT ACT

The Public Sector Compensation Restraint Act was assented to on December 9, 1982. For the purpose of determining just and reasonable rates to be charged by Yukon Electrical, the Board is bound to comply with the provisions of this Act and in particular Sections 9(1) and (2) which are as follows:

"9(1) For the purpose of the Electrical Public Utilities Act and subject to subsection (2) the rates that a public utility may charge for the supply of electricity shall not, in relation to any classification of user,

(a) exceed before December 31, 1983 the amount that is 6% greater than the rates that are charged when this Act comes into force, and

(b) exceed before December 31, 1984 the amount that is 5% greater than the rates that are permitted under paragraph (a).

(2) Subsection (1) does not restrict an increase that is caused by an increase in the cost or the quantity of petroleum used in the supply of the electricity for which an increase in the rate to be charged is sought.

In an effort to fully comprehend and correctly interpret the Public Sector Compensation Restraint (Yukon) Act, the Board sought legal advice from the Territorial Government's Department of Justice. The advice given will be stated in the appropriate sections of this Order.

2. PURCHASED POWER COSTS

In its Interim Order 1983 - 2 the Board authorized Yukon Electrical to increase its rates and service charges by an amount not exceeding 6% based on the rates that were in effect on December 9, 1982 and to include thereafter a further adjustment (which would not include a 6% increase) for the costs passed on to Yukon Electrical Company Limited by Northern Canada Power Commission in April 1983; all to be effective with meter readings taken on and after August 21, 1983. In Exhibit B-11b, Schedule 6-4 Revised, Yukon Electrical shows that the amount of \$247,038 is expected to be collected during the months of September to December 1983 inclusive as a consequence of the proposed across-the-board increase of 6%. Schedule 6 - 4 also shows that the amount of \$280,242 is expected to be collected during that same period as "Fuel and Purchased Power Clause Revenue".

During the course of cross examination, company witnesses were asked to provide the Board with an opinion of Counsel as to whether the proposed increase of \$280,242 ought properly to be allowed as an increase for 1983 under the provisions of the Public Sector Compensation Restraint (Yukon) Act. In the legal opinion appended to this written argument, Yukon Electrical submitted that the Restraint Act permits Yukon Electrical Company Limited to increase the charge under its Fuel and Purchase Power Cost Adjustment Riders in 1983, in an amount greater than 6% of the charges in effect under these riders on December 9, 1982.

In support of this statement Counsel for Yukon Electrical stated,

"To summarize my opinion on the third question, the Restraint Act does not limit the charge made by YECL under the Fuel and Purchase Power Adjustment riders ("the adjustment") because:

- (a) such charge is not a "rate for the supply of electricity" as that term is used in Section (1) of the Restraint Act; and
- (b) even if the adjustment charge is a "rate for the supply of electricity", the adjustment charge in effect on December 9, 1982 permitted changes in the charge and therefore Section 9(1)(a) of the Restraint Act allows such changes to continue to be made."

On the other hand, however, the Territorial Government's solicitors do not concur with the Counsel for Yukon Electric and interpret the Act as follows:

Subsection 9(2) of the Public Sectors Compensation Restraint (Yukon) Act only exempts increases in rates due to higher petroleum costs from the 6% and 5% restraints. The Board is, therefore, bound by the restraints in subsection 9(1) of the PSCR (Y) Act in fixing rates, except where the cost of petroleum used to supply electricity has increased. Increases in purchased power costs do not justify the Board's decision to fix a rate that is higher than the restraint levels.

The Board is not persuaded by the argument advanced by Yukon Electrical and accordingly the Board has reconsidered its Interim Order 83 - 2 and determined that 1983 rates should not be increased to recover additional costs of purchased power from Northern Canada Power Commission (NCPG) in 1983 but rather only an amount sufficient to recover any increase in the cost or the quantity of petroleum used in the supply of electricity as provided in Section 9(2) of the Act.

THE BOARD DIRECTS YUKON ELECTRICAL TO DETERMINE THE AMOUNT OF "FUEL AND PURCHASED POWER CLAUSE REVENUE" COLLECTED BY IT IN 1983 PURSUANT TO INTERIM ORDER 1983 - 2 SEGREGATING THE AMOUNT BETWEEN THE PORTION ATTRIBUTABLE TO INCREASES IN THE COST OF POWER PURCHASED FROM NCPG AND THE PORTION ATTRIBUTABLE TO INCREASES IN THE COST OR THE QUANTITY OF PETROLEUM USED BY YUKON ELECTRICAL AND YUKON HYDRO. THE BOARD ALSO DIRECTS YUKON ELECTRICAL TO PROVIDE TO THE BOARD WITHIN 15 DAYS OF THE DATE OF THIS ORDER, A PROPOSED METHOD BY WHICH THE PORTION OF THE FUEL AND PURCHASED POWER CLAUSE REVENUE ATTRIBUTABLE TO THE COST OF POWER PURCHASED FROM NCPG SHOULD BE RETURNED TO ITS CUSTOMERS. THE BOARD CONSIDERS THAT THIS AMOUNT SHOULD BE RETURNED TO YUKON ELECTRICAL'S CUSTOMERS BEFORE DECEMBER 31, 1983.

3. EFFECTIVE DATE FOR 1984 INCREASES

Yukon Electrical was also asked to provide the Board with an opinion of Counsel as to whether the implementations of the 5% increase proposed to be effective on all billings on and after January 1, 1984 on all consumption on and after December 1, 1983 complies with the provisions of the Public Sector Compensation Restraint (Yukon) Act. In argument Yukon Electrical stated, that it only becomes entitled to revenue on delivery of customers' bills and that its increases for 1984 could be applied to its billings rendered in January 1984.

The Board is not persuaded by the argument of Yukon Electrical on this matter and considers that for the purpose of this decision

THE RATE INCREASE APPROVED BY THE BOARD FOR
IMPLEMENTATION IN 1984 SHALL NOT BE EFFECTIVE
ON ANY CONSUMPTION BEFORE JANUARY 1, 1984.

4. SERVICE AND DISCONNECTION CHARGES

In its June 10, 1983 application Yukon Electrical requested that the service charge contained in ESR 4.3 be increased from \$10 to \$15 and the reconnection charge contained in ESR 4.15 be increased from \$15 to \$25. In his opinion Counsel for Yukon Electrical stated that

The Restraint Act limits only "the rates that a public utility may charge for the supply of electricity". If a charge made by YECL is not a rate for the supply of electricity, the Restraint Act does not limit such charge.

The term "rate for the supply of electricity" is not defined in either the Restraint Act or the Electric Public Utilities Act. However, Section 23(1)(a) of the Electric Public Utility Act does distinguish between "rates of charge for the supply of electricity", and "any other charge" made by a utility to its customers. Therefore, not every amount charged by YECL is a "rate for the supply of electricity".

In addition, the Territorial Government's legal counsel were only able to provide the following advice on the definition of rates.

"In response to your request for information concerning the definition of "rates" in Subsection 9(1) of the PSUR (Y) Act, please be advised that according to my research, the term "rates", as it is used in the Act, has not been judicially considered nor has it been defined in any Yukon statute. In the absence of any statutory definition, a term must be given its ordinary and usual meaning in context."

The term "rates" in subsection 9(1) is as used in the Electrical Public Utilities Act. The word first appears in subsection 23(1):

"Every public utility shall within three months after the end of its fiscal year file with the Board

(a) a statement showing its rates of charge for the supply of electricity, the categories to which these rates apply and any other charge it makes to persons

to whom it supplies electricity."

The Board concludes that the Electrical Public Utilities Act clearly distinguishes between "rates of charge for the supply of electricity" and "any other charges". As such, service charges and disconnection charges are deemed to be "other charges" and therefore outside the restraints of 6 & 5 legislation.

THE BOARD THEREFORE APPROVES AN INCREASE IN SERVICE CHARGES FROM \$10.00 to \$15.00 AND IN DISCONNECTION CHARGES FROM \$15.00 to \$25.00 AS REQUESTED BY YUKON ELECTRICAL COMPANY LIMITED IN THEIR JUNE 10, 1983 APPLICATION.

5. RATE BASE

a) General

The determination of a rate base, for the purpose of fixing just and reasonable rates, tolls or charges, is governed by the provisions of 26(4) of the Electrical Public Utilities Act, which provides as follows:

"26(4) In fixing rates to be charged for the supply of electricity the Board may determine the cost of the public utility of the property that is used or required to be used by it in its service to the public and fix a fair return thereon."

The Applicants have calculated rate bases for 1983 and 1984 as the cost of land, buildings, plant and equipment (excluding construction in progress and amounts financed by contributions for extensions) less accumulated depreciation thereon, together with an allowance for working capital.

In its Order 1981 - 1 dated July 1981, the Board stated at page 4,

"In consideration of the impact of capital project funding on the base rate, the Board wishes to place under review the capital budgets of the Yukon Electrical Company Limited, and therefore orders the Company to present the current, and all future detailed capital budgets to the Board for approval, prior to any capital funds being committed."

The Company's actual capital expenditures in 1981 and 1982 were examined in relation to forecast capital expenditures included in the 1981 general rate application. Also, the forecast capital expenditures for 1983 and 1984 were examined

in relation to an explanation of major capital projects contained in a letter to the Board dated March 29, 1983.

Although there was no indication that any of the capital expenditures were not made as a result of prudent business decisions and although the Board recognizes that the companies will, from time to time, encounter necessary but unavoidable capital expenditures, the concern expressed in Order 1981 - 1 remains.

YUKON ELECTRICAL AND YUKON HYDRO ARE, THEREFORE, DIRECTED TO FILE A SCHEDULE OF FORECAST CAPITAL EXPENDITURES FOR EACH YEAR IN SUFFICIENT DETAIL TO PROVIDE THE BOARD WITH A THOROUGH UNDERSTANDING OF THE NEED FOR THE CAPITAL EXPENDITURES, SUCH INFORMATION TO BE PROVIDED BY JANUARY 1, OF THE YEAR FOR WHICH THE FORECAST IS PREPARED. THE BOARD FURTHER DIRECTS THAT THE COMPANIES ADVISE IT ON A TIMELY BASIS OF ALL MATERIAL CHANGES TO THE FORECASTS. UPON RECEIPT OF THE AFOREMENTIONED FORECASTS THE BOARD WILL PROVIDE DIRECTION TO THE COMPANIES WITH RESPECT TO ANY FORECAST EXPENDITURES WITH WHICH IT MAY HAVE RESERVATIONS RESPECTING USEFULNESS FOR THE PROVISION OF ELECTRICAL SERVICE TO THE PUBLIC. THE COMPANIES ARE ALSO DIRECTED TO PROVIDE THE BOARD WITH A SUMMARY OF ACTUAL CAPITAL EXPENDITURES FOR EACH YEAR IN THE DETAIL DESCRIBED ABOVE TOGETHER WITH A DESCRIPTION OF ALL MATERIAL DIFFERENCES BETWEEN ACTUAL AND FORECAST CAPITAL EXPENDITURES.

b) Whitehorse Copper

Yukon Electrical explained in argument that,

"... the facilities at Whitehorse Copper are still being used and may continue to be used if the City leases facilities there and if a sub-division is built in the neighbourhood."

FOR THE PURPOSE OF THIS DECISION THE BOARD CONSIDERS IT APPROPRIATE TO INCLUDE THE RATE BASE ASSETS USED FOR 1983 AND 1984. AT THE TIME OF ITS NEXT GENERAL RATE APPLICATION YUKON ELECTRICAL WILL BE REQUIRED TO SATISFY THE BOARD THAT THE SUBJECT ASSETS ARE USED AND USEFUL IN PROVIDING SERVICE TO THE COMPANY'S CUSTOMERS AT THAT TIME.

HAVING GIVEN CONSIDERATION TO THE RELEVANT COMPONENTS OF THE RATE BASE, THE BOARD HAS DETERMINED THE TOTAL MID-YEAR RATE BASE OF YUKON ELECTRICAL AND YUKON HYDRO TO BE AS FOLLOWS:

| | <u>Yukon Electrical</u> | <u>Yukon Hydro</u> | <u>Total</u> |
|------|-------------------------|--------------------|--------------|
| 1983 | \$8,728,000 | \$113,000 | \$8,841,000 |

| | | | |
|------|-------------|-----------|-------------|
| 1984 | \$9,008,000 | \$ 98,000 | \$9,106,000 |
|------|-------------|-----------|-------------|

6. RETURN ON RATE BASE

(a) General

Having determined the rate base for Yukon Electrical and Yukon Hydro the Board will fix a fair return thereon. The determination of a fair return on rate base is governed by the provisions of Section 26(5) of the Electrical Public Utilities Act, which provides as follows:

"(5) In fixing a fair return pursuant to subsection (4), the Board shall give due consideration to all such facts as in its opinion are relevant."

Yukon Electrical's return resulting from the implementation of proposed rate increase commencing August 1, 1983 would have resulted in a rate of return on rate base of 10.74% in 1983 and 13.11% in 1984. The rates of return on common equity deemed to be invested in the rate base would have been 8.99% and 15.50% in 1983 and 1984 respectively.

(b) Capital Structure

The Application stated that "Since the companies are financed by Alberta Power Limited the capital structures and rates of Alberta Power Limited have been used to determine the rate of return" (Exhibit B-2a page 4-2). The capital ratios indicated for Alberta Power Limited for 1984 are as follows:

| | |
|-----------------|----------------|
| Long term debt | 38.67% |
| Preferred Stock | 25.87% |
| Common Stock | <u>35.46%</u> |
| | <u>100.00%</u> |

An examination of the individual financial statements of Yukon Electrical and Yukon Hydro indicates that the actual combined capital structure of those two companies for mid-year 1984 is approximately 91% long term debt and 9% common stock.

Yukon Electrical submitted in argument that it was appropriate for a utility to consider only the capital structure of its parent for the purpose of determining a fair rate of return for the utility. It also submitted that,

"... their combined debt equity ratio of 90:10 is artificial, and on a stand-alone basis would

be totally inadequate for the purpose of maintaining credit and attracting capital."

Yukon Electrical provided extensive reference to cases in the U.S. where the practice of substituting a parent company's capital structure in place of that of its subsidiary had been employed. The company also indicated that,

"... their practice of substituting actual tax expense (which reflects the large debt component of the actual capital ratio) rather than a deemed tax expense based on the notional equity structure saves the Yukon consumer a considerable amount of money..."

FOR THE PURPOSE OF THIS DECISION THE BOARD ACCEPTS YUKON ELECTRICAL'S ARGUMENT AND APPROVES THE USE OF THE ALBERTA POWER LIMITED'S CAPITAL RATIOS DESCRIBED ABOVE.

However, the Board is concerned about the "artificial" combined debt equity ratio of Yukon Electrical and Yukon Hydro. The Board is concerned that Yukon Electrical and Yukon Hydro are in effect requesting a rate of return on equity which has not been invested in that form.

THE BOARD EXPECTS THAT AT THE TIME OF ITS NEXT APPLICATION YUKON ELECTRICAL AND YUKON HYDRO WILL HAVE CAREFULLY ADDRESSED THE MATTER OF THE APPROPRIATE CAPITAL STRUCTURE FOR A UTILITY OPERATING IN THE YUKON AND WILL PROVIDE THE BOARD WITH EVIDENCE THAT WOULD SUPPORT THE COMBINED CAPITAL STRUCTURE SHOULD IT BE AT VARIANCE WITH THAT OF ITS PARENT.

(c) Cost of Debt and Preferred Equity

Yukon Electrical and Yukon Hydro have used a long term debt cost rate of 11.94% and 12.21% for 1983 and 1984 respectively. This cost rate is equal to the embedded cost of debt forecast for those years for Alberta Power Limited. The Board has determined that the average interest cost incurred by Yukon Electrical for 1983 and 1984 is approximately 10.51% and 10.22% respectively.

FOR THE PURPOSE OF THIS DECISION THE BOARD DOES NOT CONSIDER IT APPROPRIATE TO USE THE DEBT COST OF ALBERTA POWER LIMITED AS THE RATE IS NOT ACTUALLY BEING INCURRED BY YUKON ELECTRICAL AND YUKON HYDRO. FOR THE PURPOSE OF THIS DECISION THE BOARD APPROVES DEBT COST RATES OF 10.51% FOR 1983 AND 10.22% FOR 1984.

Neither Yukon Electrical nor Yukon Hydro has any preferred shares outstanding. However,

FOR THE PURPOSE OF THIS DECISION THE BOARD WILL
ACCEPT A COST RATE FOR PREFERRED SHARES EQUAL TO
THAT OF ALBERTA POWER LIMITED, NAMELY, 11.37%
FOR 1983 AND 11.18% FOR 1984.

(d) Fair Return on Common Equity

In the original application dated June 10, 1983 Yukon Electrical showed returns on common equity of 8.99% and 15.50% for 1983 and 1984 respectively. This application states "The return on equity of 15.50% as stated above is the return approved in the last decision." (Exhibit B-2a, page 4-2).

During the course of the hearing, witnesses for Yukon Electrical explained that Alberta Power Limited's financial advisors considered a rate of return on common equity of 15.50% to be reasonable. In this connection

THE BOARD NOTES THAT THE COMPANY'S APPLICATION
DOES NOT INCLUDE ANY DETAILED INFORMATION ON
WHICH THE RATE OF 15.50% IS BASED AND DIRECTS
THAT IN FUTURE APPLICATIONS YUKON ELECTRICAL PRO-
VIDE THE BOARD WITH SUCH INFORMATION AS A PART OF
ITS APPLICATION.

In its revised application (Exhibit B-11b, Schedule 4.10) Yukon Electrical indicates that the revised rates proposed by it would result in a rate of return on rate base of 9.68% for 1983 and 15.59% for 1984, and an average rate for the two year period of 12.69%.

Yukon Electrical indicated in argument that the rate of return on common equity implicit in the two year average was 14.39%, well below the requested rate of 15.50%. The Board has determined that the rate of return on common equity implicit in the proposed rates of return on rate base using the capital structures of Alberta Power Limited are, 7.56% for 1983 and 22.50% for 1984.

Yukon Electrical has submitted that the use of a two year test period (1983 and 1984) would be appropriate for the Board to consider in setting rates and further that there is ample precedent for the Board adopting such a procedure.

The Board is not persuaded that given legislative constraints imposed on it at this time it is appropriate to use a two year test period. The effect of the Public Sector Compensation Restraint (Yukon) Act is clear and unambiguous in restricting increases in rates charged by utilities in 1983 to 6% of the

rates prevailing on December 9, 1982 subject to the modification contained in Section 9(2). The Board is therefore constrained by this legislation to limit rate increases as specified irrespective of the resulting return on common equity. The Board considers that averaging the results for 1983 and 1984 would result in Yukon Electrical's customers paying rates in 1984 to compensate the Company for shortfall in 1983 earnings caused by the limitations imposed by the Public Sector Compensation Restraint (Yukon) Act.

Yukon Electrical's witnesses acknowledge that an increase in rates of 5% effective January 1, 1984 for consumption on and after December 1, 1983 would produce a rate of return on common equity for 1984 well in excess of the 15.50% considered by the Company to be a fair rate of return on common equity.

AFTER DUE CONSIDERATION OF THE EVIDENCE PRESENTED BY YUKON ELECTRICAL, AND BEING MINDFUL OF THE NEED FOR THE EXERCISE OF RESTRAINT WITHIN YUKON THE BOARD HAS DETERMINED THE COST RATE FOR COMMON EQUITY CAPITAL TO BE 14.5% for 1984.

(e) Total Fair Return on Rate Base

HAVING CONSIDERED THE CAPITAL STRUCTURE FOUND TO BE APPROPRIATE FOR THE PURPOSE OF THIS DECISION AND HAVING CONSIDERED THE AMOUNTS AND COST RATES OF THE COMPONENTS OF THE CAPITAL STRUCTURE THE BOARD HEREBY FIXES A COMBINED FAIR RETURN ON RATE BASE FOR YUKON ELECTRICAL AND YUKON HYDRO AS FOLLOWS:

1983 RETURN

| | |
|------------------|------------------|
| Yukon Electrical | \$845,000 |
| Yukon Hydro | <u>29,000</u> |
| Total | <u>\$874,000</u> |

1984 CAPITAL STRUCTURE

| | | | |
|------------------|----------------|-------------|------------------|
| Yukon Electrical | | | |
| | <u>Capital</u> | <u>Cost</u> | <u>Return</u> |
| | <u>Ratios</u> | <u>Rate</u> | <u>Component</u> |
| | % | % | % |
| Long term debt | 38.67 | 10.22 | 3.95 |

| | | | |
|------------------|---------------|--------------|--------------|
| Preferred shares | 25.87 | 11.18 | 2.90 |
| Common equity | <u>35.46</u> | <u>14.50</u> | <u>5.14</u> |
| | <u>100.00</u> | | <u>11.99</u> |

1984 RETURN

| | |
|------------------|--------------------|
| Yukon Electrical | \$1,080,000 |
| Yukon Hydro | <u>12,000</u> |
| Total | <u>\$1,092,000</u> |

7. UTILITY REVENUE REQUIREMENT

(a) General

For the purpose of this decision the total utility revenue requirement will be considered under the following headings:

Operating and Maintenance Expense

Depreciation

Income Taxes

Return on Rate Base

(b) Operating expenses

Forecast operating expenses for 1983 and 1984 were examined extensively during the course of the hearing. Witnesses for Yukon Electrical indicated that about \$14,000 of annual fixed operating costs had been absorbed by rates charged to industrial customers no longer on the system. They indicated that it is not appropriate to consider the impact of the loss of a large industrial customer on general operating costs as a normal business risk of a utility.

The Board considers that the other customers of a utility generally benefit from the addition of industrial customers to the system, particularly if the revenue derived from sales to those customers exceeds the cost of providing them with service.

THE BOARD THEREFORE CONCLUDES THAT NO OTHER VIABLE ALTERNATIVE EXISTS BUT TO PERMIT YUKON ELECTRICAL TO RECOVER ITS ESTIMATED COSTS FOR 1983 AND 1984 AS APPROVED FROM THE CUSTOMERS EXPECTED TO BE ON THE SYSTEM IN THOSE YEARS.

THE BOARD APPROVES THE INCLUSION OF OPERATING EXPENSES,
INCLUDING DEPRECIATION IN THE REVENUE REQUIREMENT AS
FOLLOWS:

| | <u>Yukon Electrical</u> | <u>Yukon Hydro</u> | <u>Total</u> |
|------|-------------------------|--------------------|--------------|
| 1983 | \$12,578,000 | \$187,000 | \$12,765,000 |
| 1984 | \$12,852,000 | \$204,000 | \$13,056,000 |

The cost of power purchase from Yukon Hydro has been excluded.

Attempts were made to compare fluctuations in the average number of customers on the system and fluctuations in operating expenses.

Company witnesses explained that such comparisons were not necessarily meaningful.

THE BOARD DIRECTS YUKON ELECTRICAL TO PROVIDE A
MORE MEANINGFUL MEASURE OF COMPANY ACTIVITY WITH
WHICH TO COMPARE FLUCTUATIONS IN OPERATING
EXPENSES FROM YEAR TO YEAR.

Schedule 2.50 of Exhibit B-2a contains a summary of operation and maintenance expense for Yukon Electrical. Company witnesses explained that this schedule had been prepared to reflect functionalized employee benefits. The Board notes that although this functionalization took place no attempt was made to functionalize labour cost.

THREREFORE THE BOARD DIRECTS THAT IN FUTURE APPLICATIONS
YUKON ELECTRICAL TREAT LABOUR AND EMPLOYEE BENEFITS ON
A CONSISTENT BASIS.

(c) Income Taxes

THE BOARD APPROVES THE INCLUSION OF INCOME TAXES
IN THE REVENUE REQUIREMENT AS FOLLOWS:

| | <u>Yukon Electrical</u> | <u>Yukon Hydro</u> | <u>Total</u> |
|------|-------------------------|--------------------|--------------|
| 1983 | \$127,000 | \$37,000 | \$164,000 |
| 1984 | \$300,000 | \$25,000 | \$325,000 |

(d) Return

THE BOARD HAS FIXED A TOTAL FAIR RETURN ON RATE BASE
TO BE INCLUDED IN THE UTILITY REVENUE REQUIREMENT
AT \$874,000 (9.68%) FOR 1983 AND \$1,092,000 (11.99%)
FOR 1984.

(e) Total Utility Revenue Requirement

THE TOTAL UTILITY REVENUE REQUIREMENT APPROVED BY
THE BOARD IS AS FOLLOWS:

| | <u>1983</u> | <u>1984</u> |
|---|---------------------|---------------------|
| OPERATING AND MAINTENANCE EXPENSE, INCLUDING DEPRECIATION | \$12,765,000 | \$13,056,000 |
| INCOME TAXES | 164,000 | 325,000 |
| RETURN ON RATE BASE | <u>874,000</u> | <u>1,092,000</u> |
| SUB-TOTAL | \$13,803,000 | \$14,473,000 |
| DEDUCT: PURCHASE POWER CLAUSE REVENUE | <u>280,242</u> | |
| TOTAL | <u>\$13,522,758</u> | <u>\$14,473,000</u> |

(f) Other Matters

In the current application separate financial information was
provided for Yukon Electrical and Yukon Hydro.

THE BOARD DIRECTS THAT IN FUTURE APPLICATIONS THE
COMPANIES ALSO PROVIDE THE SAME FINANCIAL INFORMA-
TION FOR THE TWO COMPANIES ON A COMBINED BASIS.

8. RATES

Yukon Electrical witnesses explained on cross examination that
across-the-board increases had been proposed for 1983 and 1984
because of the impact of the Public Sector Compensation
Restraint Act. It was submitted that all of the rates
proposed by Yukon Electrical, were, in the opinion of its
witnesses, just and reasonable but that certain improvements
could have been made had the rates not been constrained by
this legislation.

THE 6% INCREASE OF RATES FOR THE SUPPLY OF ELECTRICITY
ONLY ON RATES IN EFFECT ON DECEMBER 9, 1982 BEGINNING
WITH METER READINGS TAKEN ON THE AUGUST 21 BILLING
CYCLE AS PER THE SEPTEMBER 1ST APPLICATION IS HEREBY
APPROVED.

The Board has determined and approved a utility revenue
requirement for 1984 which is \$596,000 less than that
requested by Yukon Electrical. The Board also concurs with
Mrs. Dieckmann's statement that an across-the-board increase

of 5% in 1984 would not lead to cost based rates for individual services areas as evidenced in the Rate of Return Schedules for each area provided on the last two pages of Information Request #1, Exhibit B-13. Therefore,

THE BOARD DIRECTS YUKON ELECTRICAL TO FILE WITH THE BOARD, WITHIN 15 DAYS FROM THE DATE OF THIS ORDER, A SCHEDULE OF RATES, TOOLS OR CHARGES DESIGNED TO RECOVER THE APPROVED 1984 UTILITY REVENUE REQUIREMENT, SUCH RATES TO BE INSTITUTED EFFECTIVE WITH BILLINGS ON OR AFTER FEBRUARY 1, 1984 FOR CONSUMPTION ON OR AFTER JANUARY 1, 1984. IN DESIGNING SUCH REVISED RATES YUKON ELECTRICAL SHOULD BE MINDFUL OF THE PRINCIPLES SET FORTH IN THE BOARD'S REPORT NUMBER 1983 - 2 DATED MAY 31, 1983 PARTICULARLY AS THEY RELATE TO COST BASED RATES AND THE PROVISIONS OF THE PUBLIC SECTOR COMPENSATION RESTRAINT (YUKON) ACT.


The Board expects that Yukon Electrical will propose such rate improvements as it considers possible within the constraints of the Act, ensuring that no increase exceeds the 5% maximum.

Yukon Electrical did not include in its 1984 estimated operating expenses any provision for an increase in the cost of purchased power during 1984.

THE BOARD DIRECTS YUKON ELECTRICAL TO CONSIDER INCREASES IN 1984 PURCHASED POWER COSTS IN DETERMINING THE RATES TO BE FILED PURSUANT TO THIS ORDER. THE BOARD ALSO WISHES TO ADVISE THAT IN THE FUTURE IT DOES NOT INTEND TO DEAL WITH THE PASS-THROUGH OF PURCHASED POWER COSTS FROM NCPC AS IT HAS IN THE PAST BUT RATHER IT WILL CONSIDER SUCH INCREASED COSTS ONLY IN THE CONTEXT OF A GENERAL RATE APPLICATION.

INTERIM ORDER 1983 - 2 IS HEREBY REVOKED.

ON BEHALF OF THE YUKON ELECTRICAL
PUBLIC UTILITIES BOARD



Peter Percival, Chairman

F. EXHIBITS

| | |
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| EXHIBIT #B-1 | Notice of Public Hearing |
| EXHIBIT #B-2 | Letter dated June 9, 1983 from The Yukon Electrical Company Limited |
| EXHIBIT #B-2a | The Yukon Electrical Company Limited Yukon Hydro Company Limited Application for Revision to Existing Rates June 10, 1983 |
| EXHIBIT #B-2b | The Yukon Electrical Company Limited Electric Service Regulations 1983 08 01 |
| EXHIBIT #B-3 | Letter dated July 6, 1983 from Board to The Yukon Electrical Company Limited re: Instruction to The Yukon Electrical Company Limited |
| EXHIBIT #B-4 | Public Sector Compensation Restraint (Yukon) Act, Section 9(1)(2) |
| EXHIBIT #B-5 | Letter dated July 12, 1983 from Board Secretary to The Yukon Electrical Company Limited re: 6 & 5 |
| EXHIBIT #B-6a | Memorandum dated July 18, 1983 from legal counsel to Board re: interpretation of Public Sector Compensation Restraint (Yukon) Act |
| EXHIBIT #B-6b | Memorandum dated August 25, 1983 from legal counsel to Board re: Further interpretation of Public Sector Compensation Restraint (Yukon) Act. |
| EXHIBIT #B-7 | Letter dated August 4, 1983 from the Yukon Electrical Company Limited re: 6 & 5 legislation |
| EXHIBIT #B-8 | Letter dated July 27, 1983 from Board Secretary to The Yukon Electrical Company Limited re: Effects of 6 & 5 on revenue |
| EXHIBIT #B-9 | Response dated August 2, 1983 from The Yukon Electrical Company Limited to Board |
| EXHIBIT #B-10a | Interim Order 1983-2 issued by Board August 8, 1983 |

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|----------------|---|
| EXHIBIT #B-10b | Letter dated August 29, 1983 from Board to The Yukon Electrical Company Limited re: Clarification of Interim Order 1983-2 |
| EXHIBIT #B-11a | Letter dated September 1, 1983 from The Yukon Electrical Company Limited |
| EXHIBIT #B-11b | The Yukon Electrical Company Limited Yukon Hydro Company Limited Submission to Comply with Yukon Electrical Public Utilities Board Interim Order 1983-2 & Application for Revisions to Interim Rates on January 1, 1984 September 1, 1983 |
| EXHIBIT #B-12 | Letter dated September 13, 1983 from Board consultant to The Yukon Electrical Company Limited - Information Request #1 |
| EXHIBIT #B-13 | Response dated September 30, 1983 from The Yukon Electrical Company Limited re: Information Request #1 |
| EXHIBIT #B-14a | Letter dated March 3, 1982 from The Yukon Electrical Company Limited re: Additional information on Capital Budget 1982 |
| EXHIBIT #B-14b | Letter dated April 15, 1982 from The Yukon Electrical Company Limited re: Additional information on Capital Budget 1982 |
| EXHIBIT #B-14c | Letter dated March 29, 1983 from The Yukon Electrical Company Limited re: Capital Budget 1983 |
| EXHIBIT #B-14d | Capital Budget section of 1981 Rate Proposal |
| EXHIBIT #B-14e | Capital Budget details of 1983 Rate Proposal |
| EXHIBIT #B-15 | Order 1981-1 |
| EXHIBIT #B-17a | Intervention dated August 4, 1983 - City of Whitehorse |
| EXHIBIT #B-17b | Presentation to the Electrical Public Utilities Board by Alderman A. Deer of the City of Whitehorse |

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| EXHIBIT #B-17c | Letter dated July 6, 1983 from The Yukon Electrical Company Limited to Mr. Art Deer |
| EXHIBIT #B-17d | Letter dated July 13, 1983 from The City of Whitehorse |
| EXHIBIT #B-18 | Intervention dated October, 1983 - Association of Yukon Communities |
| EXHIBIT #B-19 | Intervention dated October 7, 1983 - Council for Yukon Indians |
| EXHIBIT #B-20 | Intervention dated July 25, 1983 - Watson Lake Hotel |
| EXHIBIT #B-21 | Intervention dated July 25, 1983 - Welcome Inn |
| EXHIBIT #B-22 | Intervention received October 12, 1983 - Yukon Visitor's Association. |

of 5% in 1984 would not lead to cost based rates for individual services areas as evidenced in the Rate of Return Schedules for each area provided on the last two pages of Information Request #1, Exhibit B-13. Therefore,

THE BOARD DIRECTS YUKON ELECTRICAL TO FILE WITH THE BOARD, WITHIN 15 DAYS FROM THE DATE OF THIS ORDER, A SCHEDULE OF RATES, TOLLS OR CHARGES DESIGNED TO RECOVER THE APPROVED 1984 UTILITY REVENUE REQUIREMENT AS ADJUSTED PER THE LAST PARAGRAPH OF THIS ORDER WHICH REFERS TO PURCHASED POWER COSTS, SUCH RATES TO BE INSTITUTED EFFECTIVE WITH BILLINGS ON OR AFTER FEBRUARY 1, 1984 FOR CONSUMPTION ON OR AFTER JANUARY 1, 1984. IN DESIGNING SUCH REVISED RATES YUKON ELECTRICAL SHOULD BE MINDFUL OF THE PRINCIPLES SET FORTH IN THE BOARD'S REPORT NUMBER 1983 - 2 DATED MAY 31, 1983 PARTICULARLY AS THEY RELATE TO COST BASED RATES AND THE PROVISIONS OF THE PUBLIC SECTOR COMPENSATION RESTRAINT (YUKON) ACT.

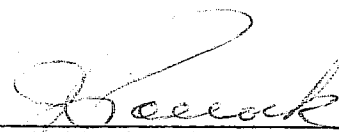
The Board expects that Yukon Electrical will propose such rate improvements as it considers possible within the constraints of the Act, ensuring that no increase exceeds the 5% maximum.

Yukon Electrical did not include in its 1984 estimated operating expenses any provision for an increase in the cost of purchased power during 1984.

THE BOARD DIRECTS YUKON ELECTRICAL TO CONSIDER INCREASES IN 1984 PURCHASED POWER COSTS IN DETERMINING THE RATES TO BE FILED PURSUANT TO THIS ORDER. THE BOARD ALSO WISHES TO ADVISE THAT IN THE FUTURE IT DOES NOT INTEND TO DEAL WITH THE PASS-THROUGH OF PURCHASED POWER COSTS FROM NCPC AS IT HAS IN THE PAST BUT RATHER IT WILL CONSIDER SUCH INCREASED COSTS ONLY IN THE CONTEXT OF A GENERAL RATE APPLICATION.

INTERIM ORDER 1983 - 2 IS HEREBY REVOKED.

ON BEHALF OF THE YUKON ELECTRICAL
PUBLIC UTILITIES BOARD



Jim Pollock, Chairman