

1993-2

YUKON UTILITIES BOARD

INTERIM DECISION 1993-2

MAY 14, 1993

RE

YUKON ENERGY CORPORATION AND  
THE YUKON ELECTRICAL COMPANY LIMITED

YUKON UTILITIES BOARD  
INTERIM DECISION 1993-2

FRIDAY, THE 14TH DAY OF MAY, 1993.

IN THE MATTER OF the Public Utilities Act,  
being Chapter 143 of the Revised Statutes of  
Yukon, 1986, as amended;

AND IN THE MATTER OF a joint application by  
Yukon Energy Corporation and The Yukon  
Electrical Company Limited to the Yukon  
Utilities Board for Orders approving changes  
in the existing rates, tolls or charges for  
electric light, power or energy and related  
services supplied to its customers within  
Yukon.

BEFORE:

THE YUKON UTILITIES BOARD

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BOARD MEMBERS

Edith Walters

Chair

Doug Row

Vice-Chair

Vi Campbell

Robert Laking

Gordon Duncan

APPEARANCES

For Yukon Energy Corporation:	P. John Landry
For The Yukon Electrical Company Limited:	Loyola G. Keough
For the City of Whitehorse:	Paul G. Sully, Q.C.
For Friends of Aishihik & Associates:	Peter Percival Gary McRobb
For Superior Indoor Climate Engineering:	Robb Ellwood
For the Chamber of Mines:	Rob McIntyre
For Curragh Inc.:	Rick Buchan as agent for Ian Blue, Q.C.
For the Yukon Conservation Society:	Lisa Sumi
For the Whitehorse Chamber of Commerce:	Pat Duncan
For the Watson Lake Hotel: (written submission)	Karen Lang

WITNESSES

For Yukon Energy Corporation and  
The Yukon Electrical Company Limited:

Richard A. Stout  
Cameron F. Osler  
William E. Byers  
C. Harvey Kerslake

## INTERIM DECISION

### 1. INTRODUCTION AND BACKGROUND

Yukon Energy Corporation ("YEC") and The Yukon Electrical Company Limited ("YECL") (jointly referred to as "the Companies") filed a joint application dated March 17, 1993 with the Yukon Utilities Board ("the Board") for Orders of the Board fixing and approving just and reasonable rates, charges or schedules thereof for electric light, power or energy and related services to be supplied by the Companies, including Terms and Conditions of Service with respect to the Test Years 1993 and 1994.

On December 22, 1992, YEC filed an application with the Board requesting that an interim refundable rate applicable to Curragh Resources Inc. effective April 1, 1993 be established. In its Decision 1993-1, the Board fixed and approved Rate Schedule YEC-39 - Industrial Primary on an interim refundable basis to be effective for consumption on and after April 1, 1993.

The joint application contained an application for the implementation of interim refundable rates effective May 1, 1993 for all bills issued on and after that date. The Companies proposed increases in the industrial rate of 33.3%, the amount required to recover the cost of service in accordance with Order-in-Council 1991/62. The Companies also proposed increases in rates to other customer classes averaging 8.4%.



The Companies further proposed varying run-out block rates to reflect more closely the differing incremental costs of energy supplied in each of the basic rate zones: hydro, large diesel, small diesel and Old Crow. Increases were also proposed to monthly service charges in order to move these rates closer to the fixed customer cost of service.

In accordance with Order-in-Council 1991/62, rates for government residential and general service classes were proposed to be increased by the same overall percentage in rates as the other retail classes.

The Board, following public notice, heard the Companies' joint application for interim refundable rates at a public hearing held in the City of Whitehorse on April 28, 1993.

## 2. POSITION OF THE COMPANIES

The Companies based their interim application on the evidence filed by them in support of the general rate application, information contained in a letter to the Board dated April 16, 1993 and further information supplied during the course of the hearing. The Companies forecast a revenue requirement for the 1993 Test Year of \$40.7 million, an increase of \$2.7 million over the 1992 revenue requirement approved by the Board. In their letter of April 16, 1993 the Companies indicated that an error had been made in the calculation of revenue for non-industrial customer classes, and that the forecast revenue for the two Companies at existing rates had been over-estimated by \$726,000 for the Test Year 1993 and \$859,000 for the Test Year 1994. The Companies indicated that they did not propose to file revised rate schedules but that the originally proposed rates to be implemented May 1, 1993 would result in a revenue shortfall of some \$791,000 in 1993. The Companies proposed that this shortfall be collected as a supplementary rider commencing after receipt of the Board's final decision.

During the course of the hearing the Companies filed a statement entitled "Status of 1993 Revenue Requirement Recovery from March 17, 1993 Filing to April 28, 1993 Interim Rate Hearing" (Exhibit 21). This document indicated that, in addition to the error described in the letter of April 16, 1993, the Companies expected their 1993 revenue requirement to be increased as a consequence of two items: additional fuel cost incurred during the months of January to March 1993 as a result of a higher than expected level of sales to Curragh Inc. (\$223,000) and an expected increase in Yukon Territorial Government corporate income tax to 13% effective January 1, 1993 (\$214,000). In all, the Companies submitted that a revenue requirement of \$1,228,000 for 1993 had not been provided for in the requested interim rates.

Company witnesses explained that the largest single factor contributing to the increased revenue requirement for 1993 is growth in the Companies' rate bases as a result of ongoing capital additions resulting in higher return requirements, depreciation expense and income tax expense. The capital additions referred to by the Companies include the Whitehorse Rapids Substation rebuild, distribution extensions and improvements, SCADA system additions, demand side management expenditures and unamortized deferred costs.

Company witnesses indicated that fuel consumption in 1993 was expected to be considerably less than in 1992 as a result of the identified reduction in consumption by Curragh Inc. to the end of May 1993. Other operating & maintenance expenses are expected to increase in 1993 due to higher administration, transmission and distribution costs, demand side management expenses, insurance and property taxes.

Counsel for the Companies explained in argument that there were two principal reasons for the interim application: firstly, there was concern about delay in the formal hearing process and the decision thereon and, secondly, the Companies were concerned with the issue of fairness as it related both to customers and to the utilities. The Companies submitted that the objective of an early interim rate increase was to keep the rate of increase as low as possible and to attempt to match revenues with costs to the greatest possible extent. It was submitted that delay in the implementation of rates only leads to higher rate increases and possible rate shock. The Companies noted that the absence of an interim increase would be unfair to the utilities, as the continuation of existing rates would result in a return on equity which is unacceptably low.

On cross-examination company witnesses acknowledged that the requested rates of return on common equity were no less than 13-1/8% for YECL and 12-5/8% for YEC, that the Board had awarded rates of return of 12-3/4% and 12-1/4% for the two Companies, respectively, for the 1991 and 1992 Test Years, and that generally rates of return have been declining since those rates were awarded by the Board. It was also acknowledged that depreciation expense and operating & maintenance expenses had increased significantly since 1992, and the Board has not yet had an opportunity to examine these proposed increases in detail. Further, it was acknowledged that the current application includes a number of rate design changes and that typically rate design changes are not approved by regulators on an interim basis.

During the course of the proceeding, counsel for the Companies provided up-to-date information respecting the Companies' largest customer, Curragh Inc. It was explained that, as a result of an Order of the Ontario Court (General Division) dated April 5, 1993, any and all proceedings taken or that may be taken by parties, including creditors of Curragh Inc., are stayed and suspended.

Counsel advised that billings to Curragh Inc. for charges relating to the month of March 1993 in the approximate amount of \$830,000 are unpaid. Company witnesses advised that YEC has taken steps to protect its interest by filing a Miner's Lien for the amount owed for the month of March 1993 and it will continue to file liens if future accounts remain unpaid. Counsel for YEC advised that everything possible is being done to ensure that YEC's

interest is protected in this matter, however, the Order of the Ontario Court stays execution on the \$830,000 invoice and there is substantial risk associated with the collection of this amount.

Counsel further explained that, pursuant to the terms of the Order of the Ontario Court, YEC is not allowed to terminate service as long as Curragh Inc. pays the "normal prices or charges" for electricity supplied to Curragh Inc. He advised that it was YEC's position that normal charges for Curragh were those set forth in the rate filed and approved by the Board as of April 1, 1993 but that Curragh Inc. will be taking the position that normal charges are energy charges only. Counsel further explained that the resolution of this difference could have a significant impact on the revenue to be collected from Curragh Inc. during the Test Years.

There was considerable discussion during the course of the hearing relative to the uncertainty surrounding the probability and timing of the reopening of the Faro Mine, and the effect of these uncertainties on rates to be charged by YEC and YECL to their other customers. Company witnesses indicated on cross-examination that, irrespective of the revenue derived from sales to Curragh, the Companies' position is that they are trying to recover all of their costs that they know about in the two Test Years. The Companies indicated that it was their intention to review all of the relevant ways to deal with the impact of the closure of the Faro Mine, and that the results of this review would be presented to the Board approximately one month before the main hearing.

Counsel for the Companies also advised the Board that their interpretation of the Order of the Ontario Court was that the Order precluded any change in rates charged to Curragh Inc. Consequently, although the Board may wish to alter the rate to be charged by YEC to its industrial class of customers, the rate charged by YEC to Curragh Inc. could not be altered while the Order of the Ontario Court was in effect.

### 3. POSITION OF THE INTERVENORS

The Companies' proposed increase was not opposed by any of the Intervenor, with the exception of the City of Whitehorse. In argument, counsel for the City of Whitehorse stated:

"... the City has three submissions. The first one, probably given the discussions that have taken place here today is somewhat unrealistic; but I'm instructed to have it on the Record that the City opposes in principle any rate increase. We recognize that this is an interim refundable rate increase, but I'm instructed to advise you that it is the belief of the Mayor, the City Manager and the entire Council that the residents of the City cannot bear any increase, particularly in the area of the implications for heating costs." (Tr.114)

Counsel for the City of Whitehorse further submitted that:

"... should the Board consider that it's appropriate to make an interim rate increase, the City's of the view that it should be a minimal increase, and we ask the Board to take into consideration that this is a time of restraint, particularly to look at the lower interest rates and lower inflation and the implications for rate of return." (Tr.115)

A number of Intervenor requested that the Companies be required to refile the material filed in support of their general rate application rather than to simply update and amend the documents already filed.



#### 4. BOARD FINDINGS

The Board considers that the granting of interim rates is in keeping with normal regulatory practice and is within the jurisdiction vested with the Board under the provisions of the Public Utilities Act. Interim refundable rates are generally granted in special circumstances where there will be a delay in hearing the utility's application for final rates, and where the failure to grant interim rate relief could result in rate shock and could affect the utility's financial integrity. The Board is disappointed with the quality and timeliness of the application and the lack of demonstrated contingency planning in a very volatile situation.

After reviewing the evidence and arguments presented at the hearing, the Board is satisfied that the granting of rate increases to the Companies on an interim refundable basis is fair to both consumers and the utilities.

Accordingly, the Board directs an interim refundable increase in rates to customers of YEC and YECL effective June 1, 1993 for all bills issued on and after June 1, 1993 for consumption on and after May 1, 1993 by way of:

- (a) a Rider of 20% on all rates and charges made by the Companies to customers served under Rate Schedule 39 - Industrial Primary; and
- (b) a Rider of 6.75% on all rates and charges made by the Companies to all other customers served by the Companies, except for wholesale customers.

The Board wishes to emphasize that the rates have been increased on an interim refundable basis. Final rates will not be set by the Board until the completion of the full hearing process, during which all Intervenor's will be given an opportunity to examine the issues in which they are interested and to express their concerns to the Board.

5. ORDER

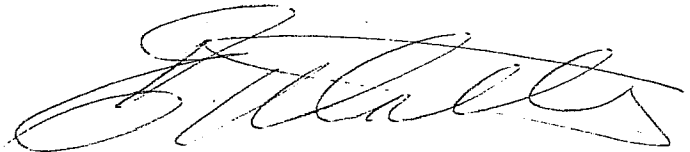
THE BOARD HEREBY ORDERS THAT:

1. The Companies shall provide to the Board, for its approval, revised rate schedules to be effective June 1, 1993 reflecting the following:
  - (a) a Rider of 20% on all rates and charges made by the Companies to customers served under Rate Schedule 39 - Industrial Primary;
  - (b) a Rider of 6.75% on all rates and charges made by the Companies to all other customers served by the Companies, except for wholesale customers; and
  - (c) a revised wholesale rate to reflect the impact of the Riders set forth in Items (a) and (b) above.
2. The Companies shall refile the material in support of their general rate application on or before June 4, 1993 reflecting the impact on their capital expenditures, operating expenses, other relevant cost factors and customers rates under the conditions which the Companies consider to be most realistic at the present time.
3. The interim refundable rates, tolls or charges herein approved are subject to further review by the Board and may be changed as the Board may direct.

4. Nothing in this Order shall bind, affect or prejudice the Board in any way in its consideration of any other matter or question relating to the Companies.
5. In the matter of the general rate application, the Board directs that Information Requests from Intervenorors relating specifically to the refiling shall be forwarded to the Companies no later than June 14, 1993, and responses to such Information Requests shall be filed with the Board and forwarded to all registered Intervenorors no later than June 21, 1993.

DATED AT WHITEHORSE, YUKON this 14th day of May, 1993.

YUKON UTILITIES BOARD

A handwritten signature in dark ink, appearing to be 'J. H. H.', written in a cursive style.

CHAIR