

1996-7

AN ORDER IN THE MATTER of the *Public Utilities Act*
Revised Statutes, 1986, c. 143, as amended

and

**A Joint Application by Yukon Energy Corporation and
The Yukon Electrical Company Limited**

BEFORE: B. Morris, Chair; and)
 G. Duncan, Acting Vice-Chair) June 11, 1996

ORDER 1996 - 7

1.0 APPLICATION

On November 17, 1995 Yukon Energy Corporation and Yukon Electrical Company Limited ("YEC/YECL, the Companies") filed with the Yukon Utilities Board ("Board"), pursuant to the *Public Utilities Act* ("Act") and Order-In-Council 1995/90, an Application requesting an Order granting new rates, effective with consumption January 1, 1996 with a further increase on January 1, 1997.

The General Rate Application also proposed changes in rate design, with average increases of 18 percent to the Industrial class, 4 percent to the Government Residential class, 12 percent decreases to the General Service non-government classes, and 23 percent decreases to Street Lights rates and Rate Riders for other new mines. The Application proposed to establish a Rate Stabilization Fund, amend Electric Service Regulations and withdraw previous reporting requirements.

In accordance with Board Orders, a negotiated settlement process took place and a public hearing into the Application was held beginning on March 18, 1996 in Whitehorse, Yukon.

2.0 NEGOTIATED SETTLEMENT

2.1 Overview

As a result of the public workshops and settlement discussions held during the week of March 4, 1996 a settlement agreement was achieved with respect to numerous issues in

the Companies' Application (Exhibit 142). The settlement participants agreed with the contents and details of the Application, except for certain adjustments and the identification of specific issues which were reviewed by the Board in a public hearing.

The settlement agreement also accepted the rate design philosophy of the Companies subject to review of cost of service allocations and the appropriate revenue/cost ratios that are to be achieved by various customer classes. Although the cost of service studies in the Application were accepted by all parties for this rate-making period, the Companies agreed to provide a preliminary community-based 1995 cost of service study by July 1, 1996. (T. 49) On March 15, 1996 the Companies filed the schedules required to calculate the revised revenue requirement based on the negotiated settlement package (Exhibit 148).

2.2 Revenue Requirement Decision

The Board has a statutory responsibility to regulate in the public interest and therefore the Board cannot accept a proposed settlement unless it is persuaded that the settlement agreement is in the best interest of the public. This ultimate responsibility cannot be delegated to the Board staff or to a negotiation group. During the public hearing, the Board heard evidence and argument with respect to the Application and the negotiated settlement package, with the exception of certain cost of service arguments to be filed by March 25, 1996. (T. 145)

The Board, being satisfied that the settlement agreement was in the best interests of the public, accepted the settlement package as presented and issued Order 1996-6 which also identified the hearing costs to be included in the Companies' revenue requirement.

3.0 COST OF SERVICE ISSUES

3.1 Line Losses

In its March 25, 1996 submission (Exhibit 181), the Anvil Range Mining Corporation (ARM) states that it represents about 40% of the total Yukon electrical load and therefore there is no reason that its line losses cannot be calculated independently. The Companies argue that, since the majority of line losses occur in low voltage distribution and not high voltage transmission, the losses attributed to ARM should not be based on the Yukon average.

Rates that are designed so that a customer only pays for costs of assets directly attributable to their load are essentially a regionalizing of the rate structure. In order to regionalize ARM's rates and charge them only for the system losses caused by their load, YEC/YECL would have to perform several system load flow studies with and without their load. To eliminate a degree of uncertainty, the load flow studies would have to be done under different demand and system configurations. These studies could then form the basis for calculating the system losses attributable to ARM (station loads

would have to be added on a prorated basis). In addition, system costs would need to be analyzed to determine what proportion of costs are attributable to ARM's losses. The appropriateness of regionalizing rates in the Yukon has not been determined and this hearing did not examine any such studies. Therefore, the Board has an insufficient base to draw any conclusions regarding the impact of such rates on other customer classes. At present sections 4 and 6 of OIC 1995/90 preclude the implementation of more than one rate zone. However, this issue may require future action and the Board will consider the merits of a more detailed evaluation at a later date.

According to ARM, evidence presented at previous GRA hearings has indicated that the line losses for the Faro mine were below the Yukon average (calculated to be 6.62%, by Dr. Ileo, a consultant representing Curragh in the 1993/94 General Rate Application hearing). Since studies are currently not available, ARM concludes that the Companies are simply estimating the results without supporting backup evidence. ARM therefore requests that the Board accept the conclusion reached by Dr. Ileo or direct the Companies to perform the studies to resolve the issue.

The Companies respond that Board Decision 1993-8 considered line losses and found that line losses for industrial customers should not be adjusted at the time. In addition, the Companies state that the Board concluded that circumstances had not changed to warrant a revision to the cost of service or rate design principles from those established in the 1992 Cost of Service hearing. The Companies submit that Anvil had not provided new information to the Board which would provide a basis to review the line losses with respect to the cost of service allocators and that, based on current evidence and prior hearing information, there is no justification for the Board to conclude that the determination of line loss is "discriminatory or unfair" (Exhibit 189).

The City of Whitehorse offered the view that the bulk of the line losses occur in the low transmission system while ARM is served at high transmission voltage. In this circumstance, it considers that the increase in line losses attributed to ARM is a result of the mine being at the end of a long transmission line from the hydro generation facility (Exhibit 186).

As stated by the Companies, the line loss calculation elements are transmission, distribution and station losses and each is integral to the line loss calculation (Exhibit 153). In the original Application, the line losses were calculated to be 13.47% but a subsequent study revised the losses to 11.13%. The Companies stated that there were a number of factors that accounted for this difference:

- The transmission line distance between hydro generation (which is dispatched before diesel generation) and the Faro mine causes significant line losses;
- Line losses are reduced when the diesel units at the Faro mine are operating;
- Station service electrical heating load can be derived from hydro (when there is surplus) or waste heat from the diesel generation units;
- System modeling error occurs when yearly energy values are converted to average demand; and

- The Companies have assumed that a new 3.0 MV diesel unit (installed in 1993) will be used heavily during the test years (Exhibit 153).

The Board accepts the revised line loss calculation of 11.13% as presented by the Companies. However, this issue may require future action and the Board will consider the merits of more detailed evaluation at a later date.

3.2 Demand Allocation based on KV.A and kW

ARM's concern is that the cost of service study is based on kW's and not KV.A; that the Companies have not adjusted KV.A's in the study to reflect a power factor of about .95; and therefore the electrical demand has been over estimated resulting in additional costs assigned to ARM which are not justified (Exhibit 181).

According to the Companies, the forecast demand was converted from KV.A to kW with the appropriate power factor before costs were allocated in the cost of service study. The power factor was determined on the basis of information provided by ARM while historical information was collected from the previous mine operator. Therefore ARM has its costs allocated on the same kW basis as every other customer (Exhibit 189).

The City of Whitehorse contends that the cost of service study is consistently based on the kW unit where appropriate, therefore there is no issue (Exhibit 186).

ARM may be confused with the rate structure. The rate form with a KV.A component is intended to encourage a high power factor and does not indicate the cost allocation process. The Board finds that the correct conversion to kW has been performed to determine the appropriate allocators.

3.3 Attachment to the System of a "New" Customer or an "Old" Customer

ARM argues that it is a new company that has taken over an old mine and that the Board should not permit the mine to be burdened with specific cost allocations that applied in the past. If this is taken to be the case, the transmission line from Whitehorse to Faro in fact was not designed for ARM and is fully depreciated, therefore the rate level to ARM should reflect the current cost of the line.

The Companies argue that the vintage of the customer is irrelevant in the development of a cost of service study, stating:

"In fact this method specifically makes the vintage of (a) customer irrelevant, which combined with its stability makes the fully allocated embedded cost of service study the universal standard of fair cost allocation." (Exhibit 189)

It is the Companies' view that there have been no changes in circumstances that require a revision to the methodology from that established in the 1992 Cost of Service Report (Exhibit 189).

The City of Whitehorse states that ARM's argument is irrelevant and the mine should be treated like every other customer in the Yukon that must pay a rate based on the embedded cost of service (Exhibit 186)

The allocation of specific transmission costs to ARM conforms to similar practices in Canada. The assignment of 85% of costs of the Faro transmission line to the industrial rate class is based on usage and is not related to the status of old or new customer. In the absence of the mine load, the transmission line would not have been built. The current cost of service was prepared in accordance with the Board's recommendations in 1992 and subsequently reaffirmed in its Decision 1993-8 (Section 6.1, page 99).

The Board finds that the vintage of a customer is not currently appropriate to the development of the cost of service studies for the Yukon.

3.4 One Rate Zone, Pooling of Income Taxes and Other Costs

The Yukon has two electrical systems operating under different ownership. Each one has a different cost structure, one pays income taxes (YECL), and the other (YEC) does not. Although ARM is a customer of Yukon Energy Corporation, under the concept of tax pooling, it is responsible for taxes incurred by YECL. In ARM's opinion, the legal basis for pooling income tax costs has never been explained and the argument that the same class of customers must pay the same electrical rates whether they are customers of YEC or YECL is without foundation as YECL has no industrial customer class.

As well, according to ARM, any requirement to charge postage stamp rates does not preclude the Companies from determining the actual costs to supply each customer class, including large industrial customers such as ARM. ARM asserts that, without proper price signals, longer term strategies to develop power options cannot be developed. It argues that customers on the Whitehorse-Aishihik-Faro (WAF) system subsidize the diesel generation component of the system. The result is that the cost of diesel in outlying communities does not reflect actual costs and inhibits the development of competitive sources of alternative power generation.

ARM believes that tax revenues should be the source of funding for a social assistance policy and that two separate rate zones would eliminate the cross subsidization. The June 1985 NEB Decision indicated that there should be two separate rate zones divided between diesel and hydro (Exhibit 181).

The Companies point out that the present cost of service methodology, including the method of pooling income taxes and other costs, is the same as the method approved by the Board in the previous GRA. The Companies argue that there is no discretion provided to the Board or the Companies to decide costs that should be pooled. The rate charged by both companies, YEC and YECL should be the same and all areas of the Yukon must be pooled in determining a Yukon-wide cost of service (Exhibit 189).

The City of Whitehorse states that the Board is prevented from adopting ARM's argument under OIC 1995/90, Section 6 (1), which requires that rate levels for customers in the same class be identical across the Yukon (Exhibit 186).

The Board has a responsibility to represent all customers in all classes and cannot rely on an intervention by a single customer in any one class to adequately represent the entire class.

According to OIC 1995/90, Section 6 (1), pages 4 and 5, the following condition applies:

"The Board must ensure that the rates charged to major industrial power customers, whether pursuant to contracts or otherwise, are sufficient to recover the costs of service to that customer class; those costs must be determined by treating the whole of the Yukon as a single rate zone and the rate charged by both utilities must be the same."

Therefore, in the Board's view, the entire Yukon must be treated as one rate zone and costs must be pooled in order to develop a rate that is equal for both utilities.

3.5 Classification of Whitehorse #4

According to ARM, the classification of Whitehorse #4 to 100% energy results in an unfair burden being placed on this industrial customer. Since the hydro facility is operated for baseload it is no different than Whitehorse #1, #2 or #3. Generation is operated collectively and one unit should not be separated out. ARM states that, if conventional utility practice were applied and Whitehorse #4 were considered the same as the other units for cost allocation purposes, then there would be less cost burden transferred to the mine.

The Companies state that the rationale for building Whitehorse #4 was to replace diesel generation with lower cost hydro generation, that no extra peaking capacity was provided to the WAF system, and that the classification to 100% energy has been examined in previous hearings without a change to this current method (Exhibit 189).

In the Cost of Service Study Report, the Board recommended that, based on the available evidence the appropriate method of classifying the costs associated with Whitehorse #4 was to apply 100% to energy. The Board at that time also recommended that the Companies perform a study of Whitehorse #4 to determine the impact on the capacity of Aishihik at the system peak. The results of that study were provided to the Board in the 1993/94 GRA Volume 1, Tab 5, pages 5.2 - 12/13 (YUB - YECL - 1 - 53). The resultant study confirmed the earlier conclusions.

The Board finds that the allocation factor used is appropriate and is consistent with past practice, and is appropriate at this time. However, the Board makes no

comment on the conclusions of the Company study and will consider the issue still subject to review at a later date if circumstances change.

3.6 Classification of Other Hydro Facilities

According to the Companies, the usual practice is to classify hydro facilities as 60% energy and 40% demand and that this procedure has been followed with the exception of Whitehorse #4 which reflects the specific cost causation for this facility. The Companies submit that the current classification which was accepted by the Board in the last GRA be approved as no valid alternative allocation has been proposed (Exhibit 189).

The City concluded that there is no new evidence before the Board that would change the classification of costs to energy and demand (Exhibit 186).

The Board accepts the allocation that has been proposed (YUB - YEC/YECL - 1 - 51). It was affirmed as Board Recommendation #2 in the Cost of Service Study Report and the Board agrees that there is no new evidence to change that opinion. However, the Board considers this issue open and subject to review in a future proceeding.

4.0 RUN-OUT RATES

It is New Era Electric Corporation's ("New Era") contention that run-out rates are important to provide the correct price signal to consumers so that conservation and energy alternatives can be properly evaluated. In fact, the run-out rates should properly incorporate long-run marginal costs.

New Era indicated that this currently is not possible since the Companies have not provided this information and are in violation of a Board Order (Cost of Service Study Report, page 40, Recommendation #11) which required a long-run marginal cost study to be performed on the system. This report stated that:

"for the purpose of identifying long-run marginal costs that should appropriately be included in run-out rates, and the results of this study should be presented to the Board by the Companies at the time of the next general rate application."

New Era's review of the Good Hope Lake contract and the 1966 cost of service indicated that the operating and maintenance cost of \$.016/kW.h is incorrect and that the proper rate should be in the range of \$.064 to \$.10/kW.h. Based on this information, New Era concluded that the Companies achieved a before-tax return on equity of between \$67,000 and \$134,000.

Since this information is vital to rate design and the Companies were unwilling to complete the assignment as the Board Order required, the intervenor requested that the Board appoint an independent consultant to develop the recommended study (Exhibit 176).

The Companies state that there is a distinction between "Recommendations" as set out in the 1992 Cost of Service Report and Board Orders as a result of a General Rate Application hearing. In any case the Board reviewed this "Recommendation" in the 1993/94 GRA (Section 5.2). The Companies provided the required information in the Capital Hearing submission (Table 1, page 2.3). The Board reviewed this analysis in the capital hearing and did not agree with New Era that the long-run diesel costs were unreasonable.

With regard to the diesel installation at Good Hope Lake, the Companies point out that it is outside the jurisdiction of the Board. It is a negotiated contract that therefore bears little resemblance to regulated diesel operation and, therefore it provides no basis for comparison with regulated communities in the Yukon.

The Companies submit that the run-out rates have been prepared on a basis that is consistent with OIC 1995/90 and which the Board approved in the 1993/94 GRA. This method was consistent with accepted rate design principles and reflects the incremental costs. The Companies assert that it is only New Era that demands a change in the rate to reflect long-run as opposed to short-run marginal costs (Exhibit 189).

The Board finds that the run-out rates have been designed consistent with rate design principles and specific directions established in OIC 1995/90. The resultant rate in each of the five zones (Hydro-Diesel, Watson System, Dawson System, Small Diesel and Old Crow) reflect short-run variable costs (Exhibit 1, Tables 3.2 and 3.3) which the Companies must meet.

Under item 10 of the Settlement, the Companies are committed to provide a cost assessment of each of the communities in the four rate zones (based on the 1992 methodology revised with current information). The Board is cognizant that rate design objectives may be in conflict and there must be trade-offs to achieve a particular outcome. In this case, revenue stability, recovery of cost and the appropriate price signal are achievable results in the current methodology that have been incorporated in the run-out rates. The Board agrees that it is necessary to provide the correct price signals to consumers which accurately reflects costs of providing service so that rational energy choices can be made. The Board believes that the study to be filed by the Companies on July 1, 1996 is an important element of future rate design and conservation programs. This material has been requested by intervenors previously and the Board hopes that distribution and consideration of this costing data will assist in building an ongoing productive consensus between the interests of customers and the Companies.

5.0 REVENUE/COST RATIOS

Subject to rates that are maintained to fund the Rate Stabilization Fund, the Application proposed rate adjustments for non-industrial customers that will bring revenues closer to costs for specific classes (Table 3.1). As previously noted, OIC 1995/90 requires that rates to the industrial class be sufficient to cover its cost of service. Arguments on the appropriate revenue/cost ratios to be achieved in the residential class were submitted by

the Utilities Consumers' Group and the Association of Yukon Communities, with reply by the Companies.

The Utilities Consumers' Group requests that the Board direct the Companies to not increase the revenue/cost ratio for the residential class above 75% for the test years or for the foreseeable future (Exhibit 180).

The Association of Yukon Communities requests that the revenue/cost ratio for the residential class remain at its present 78-80% range for the foreseeable future.

In the 1992 Review of Cost of Service and Rate Design, Recommendation #9, the Board recommended:

“that a target range for revenue to cost ratios of 90% to 110% be established for all customer classes other than the industrial class, and that the Companies take the necessary steps to improve the quality of their cost of service studies so that a target revenue to cost ratio of 95% to 105% will be attainable.”

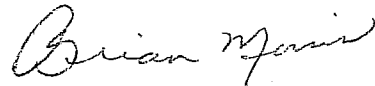
In 1996 the revenue/cost ratio for the non-governmental class was approximately 79% but after rate relief this declines to 68%. The Application does not propose any change in the non-government residential rate until the government rate relief has been eliminated since, until then, residential customers will see no changes in their bills and the correct price signal won't occur. However, the Board-approved reduction in revenue requirement will result in the residential revenue/cost ratio moving to 80% in 1997.

In the Board's view, this rate design provides a legitimate but modest signal that rates are moving in the correct relative direction to meet the respective costs of each class. The Companies are directed to file for approval tariff schedules together with supporting evidence that demonstrate compliance with the Board's Decision.

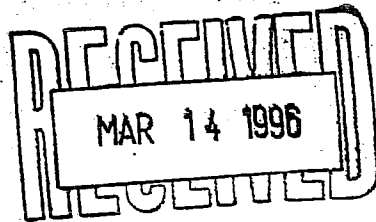
The Companies are to design a rate shift program that would target revenue/cost ratios in the range of 90% to 110% over a ten year period (T. 53). These proposals may include setting up a Rate Redistribution Fund which would hold a portion of the total rate relief in a particular year so that it can be used in subsequent years to mitigate a rate increase to a specific class.

DATED at the City of Whitehorse, in the Yukon Territory, this 11th day of June, 1996.

BY ORDER



Brian Morris
Chair



March 14, 1996

Mr. J. Slater
Secretary
Yukon Utilities Board
P.O. Box 2703
Whitehorse, Yukon
Y1A 2C6

FEED FAX THIS END

FAX
Sent via FAX

To: MR. J. SLATER
Dept.: YUKON UTILITIES BOARD
Fax No.: 8,1403 667-5059
No. of Pages: 14
From: MR. W.J. GRANT
Date: MARCH 14, 1996
Company: _____
Fax No.: _____
Comments: _____

Form 11
Fax ppg 7803E

Dear Mr. Slater:

Re: Settlement of Certain Issues Concerning
Revenue Requirement and Rate Application of YEC and YECL ("the Companies")

As a result of the public workshops and settlement discussions held during the week of March 4, 1996 a proposed settlement has been achieved with respect to numerous issues in the Companies' Application. The proposed settlement and the letters of endorsement from participants are attached for the use of the Board Panel hearing this Application. This information is to be made public and available for review by any participants in the process.

You will note that the Utilities Consumers Group ("UCG") letter of endorsement for most of the settlement package includes a number of adjustments. UCG no longer supports the negotiated level of return on equity ("ROE") at 11.25% for YECL (YEC is to receive an ROE one-half percent lower). UCG proposes to file the Decision of the Nova Scotia Utility and Review Board which apparently has set a return on equity for Nova Scotia Power at 10.75%.

In preparation for review of ROE, all parties may wish to analyse the package of information made available as a result of the public workshops. The proposed ROE of 11.25% is equal to that allowed by the National Energy Board for low risk utilities based on a forecast of long Canada interest rates at 8%. The proposed settlement return is 25 basis points higher than that awarded the lowest risk utility in British Columbia by the B.C. Utilities Commission, based on a long Canada forecast of 8%. Other data provided, indicates that returns to other utilities are higher than that level in other jurisdictions and the new information from UCG identifies one tribunal which has awarded a lower return on equity. Parties may wish to review the circumstances of the award in Nova Scotia in comparison with that provided by other tribunals in Canada, the evidence of McShane and Sherwin and the extent to which the benchmark long Canada bond has recently increased up to 8.22%.

UCG also proposes that the net revenues of the Companies effectively become "decoupled". This issue has not previously been raised in this process. In such an instance any excess earnings or deficiencies will be offset so that the company earns its allowed return on equity in both good years and bad. It will be up to the Board to determine if this new issue should be considered in this hearing, studied towards review at a later period, or dismissed.

We believe that concerns with respect to items 2, 9 and 6 of the proposed settlement are covered by the settlement terms.

By way of procedures on the first day of the hearing, we expect that the Companies would provide a panel to explain the terms of the settlement. Other signatories to the settlement would speak to their endorsement of the package. UCG and other non-signatories would undertake any cross-examination of ROE or issues not supported. Thereafter, UCG or others may lead evidence in support of their positions. Following final argument, the Board may wish to retire to consider whether it is prepared to accept the settlement. If any segments of the settlement are to be altered the Board should provide an opportunity for parties to open up other issues which they may have previously tied together in their acceptance of the settlement.

Yours truly,



W.J. Grant

WJG/mmc

VIA FACSIMILE

March 11, 1996

Dear :

Re: Proposed Settlement of Issues
Concerning the Revenue Requirement
and Rate Design Application of YEC and YECL

The purpose of this letter is to record the settlements we have achieved with respect to specific issues in the YEC and YECL ("the Companies") Application. This letter remains confidential until it is submitted to the Yukon Utilities Board for consideration. I, therefore, ask that you provide to me a communication of endorsement for the proposal so that we may forward it to the Board and make it public by Wednesday, March 13, 1996.

I have taken the liberty of reordering issues in our proposed settlement working sheets so that they align better with the subject areas of discussion in the Application. I have also added words to the bullets that we have agreed upon to explain the settlement to those parties who were not present at negotiations.

The settlement participants agree with the content and details of the Application, save for the following adjustments and identification of specific issues to be reviewed by the Board in public hearing. It is recognized by all the parties that the agreement represents a package proposal within which there has been give and take by all parties. No issue is to be severed from the proposed settlement without allowing signatories the opportunity to address other related issues in the package.

The terms of the settlement are as follows:

1. Return on Equity ("ROE")

It is agreed that the ROE for 1996 and 1997 is to be set at 11.25 percent and that a Diesel Contingency Fund is to be established.

2. Diesel Contingency Fund

This fund is to replace the proposed rate stabilization fund. The fund will operate to smooth customer rate changes and offset forecast diesel costs. Rates and the fund will be determined using the long-term average water expected to be available for generation (105 + 246 GW.h). The initial funding will be determined based upon the funds available as at December 31, 1995. If additional funding becomes available due to other determinations with respect to diesel costs or other utility costs in 1995, the fund will be adjusted. The fund is only to be used for the purposes of stabilizing customer rates and offsetting diesel generation cost estimates and the fund is not to be accessed for other reasons, including government subsidy of rates.

The cap on the fund is set at the initial contribution level. If the fund accumulates revenues in excess of the cap, the surplus balance at the end of the year is to be refunded by way of a rate-rider to customers over the following two years. If the fund falls below the equivalent negative cap level, a rate-rider increasing customer bills will occur to maintain the fund within the positive and

negative cap levels. The fund is to attract interest based upon the short/intermediate term bond rates in which the Companies may invest the fund and any negative balances would only attract interest at the lowest short-term borrowing rate available to the Companies through a line of credit.

The fund is to operate outside of rate base but an annual report detailing additions and deletions to the fund is to be filed with the Board so that the Board may oversee the fund activities. The Board will direct the Companies on the additions and deletions to the fund. The annual report to the Board will also include a forecast of available water for the following year.

3. Capital Structure

The Companies agreed to back preferred shares out of their capital structure as soon as feasible. As the preferred shares are refunded, the Board is to consider appropriate common equity levels at future GRA hearings, having regard to the most efficient capital structure for the future.

4. Demand-Side Management ("DSM")

The DSM costs identified in the Application are accepted. A working group is to be formed, under terms of reference set by the Board, to make recommendations on energy management, conservation and efficient use programs and rates. The working group will also consider rate methods to encourage industrial self-generation when this will benefit system rates. The working group will also consider joint programs with municipalities. This working group is to be convened within one month following the Decision and a report is to be filed with the Board no later than November 1, 1996.

5. Capital Projects

The proposed capital projects schedule of the Companies is agreed to with the following changes:

- The new diesel plant at Dawson is agreed to.
- The Grum Substation is to be reassessed with ARM and it will only be added if required, and if alternative generation is not feasible. The capital cost of the substation and additional works is to be recovered from ARM so that there will be no impact on other customers.
- Any new transmission, distribution or substation capital requirement for new mines is to be paid for up front by the new mine so that other customers are not burdened with these costs.
- The proposed automatic meter reading program is removed from the 1997 budget and will be reconsidered for inclusion in 1998, or later.

6. Revenue Requirement

The revenue requirement budgets are accepted with the following conditions or changes:

- The sales forecast is to be revised based on the ARM Slurry Pipeline not proceeding.
- The Companies will revise the budgets to reflect the agreed upon long-term average water levels in the Diesel Contingency Fund.
- The Companies are undertaking a revised line loss study which is to be filed before the hearing and will be considered at the hearing.

- The program of additional maintenance for upgradings which is scheduled for completion in 1996 has been reviewed and is agreed to by the parties.
- The escalating charges from YECL's parent company, including potential future customer information system charges, are to be reviewed annually and the company is to seek out least cost alternatives.
- The Companies are to provide actual rate application costs for determination of final rates.

7. Review of Land Transactions

The proposed actions to dispose of certain housing and reconstruct new housing have been reviewed and found to be generally acceptable. The Companies detailed that any revenues from the sale of existing housing has been shown on the books such that it offsets a part of the new housing construction. UCG is to consider this issue further and report back to the Board prior to the hearing if it wishes to pursue further examination of the Companies' land transactions.

8. 1995 Interim Rates

The parties agree that the 1995 Interim Rates should be confirmed as permanent.

9. ARM Interim Rates

The interim rates outstanding for ARM since 1994 are to be confirmed as permanent.

10. Rate Design Issues

The rate design philosophy of the Companies is accepted subject to review at the hearing of Issue No. 11.

YECL and YEC are to commit to provide a preliminary cost assessment of each community in the four zones based upon the same methodology as was used in the 1992 study, updated to use 1995 data. The cost assessment is to be filed with the Board by July 1, 1996.

11. Cost of Service Allocations

The cost of service allocations are to be reviewed at the public hearing along with the appropriate revenue/cost ratios that are to be achieved by various customer classes.

12. Performance Indicators

The Companies have provided performance indicators as required by previous board decisions. Further analysis is to be undertaken to determine meaningful, measurable performance indicators to be used as a tool for management to assess performance in the areas of field generation, transmission, distribution and customer service. A report is to be filed by July 1, 1996. Based on the success of performance indicators during the current test period, the companies may suggest incentives tied to performance indicators for a future GRA.

13. Home Based Businesses

The Companies' policy with respect to home based businesses has been reviewed and found to be acceptable. It is to be filed as an Electric Service Regulation.

14. Electric Service Regulations

The proposed increase in charges for dishonoured cheques and reconnection charges are agreed to as being reasonable.

15. Retention of Monthly Time Sheets for YEC

An annual reporting by March 31 of the following year, is to be filed with the board detailing time spent on YEC versus YDC activities.

16. Filing of Monthly Fuel and Outage Reports

It is agreed that these reports should be replaced by performance indicators as they are developed. Until then quarterly reporting should be adequate for Board and customer reviews.

The companies are to provide an updated filing to the Board showing the revised revenue requirements of this proposed settlement. It may be that the reductions identified will lead to lower rates in 1996. That filing is to be made by Friday, March 15, 1996.

On another matter, the participants considered the UCG complaint with respect to water spillage in 1993 and 1994. The parties were unable to achieve a consensus view to suggest a resolution of the complaint. All intervenors present have agreed that this complaint should be heard at the upcoming public hearing.

In closing, I wish to commend the efforts of the Companies and all intervenors at the workshops and settlement discussions. The extensive efforts made by all parties to understand each issue along with the concerns and interests of other parties has allowed this settlement to come to fruition.

Yours truly,

W.J. Grant

WJG/ssc



Our File: 2/8025

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March 12, 1996

British Columbia Utilities Commission
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V6Z 2N3

Attention: Mr. W. J. Grant, Esq

Dear Sir:

Re: Proposed Settlement of Issues Concerning the Revenue Requirement and Rate
Design Application of YEC and YECL

The Yukon Energy Corporation fully endorses and accepts the Settlement of Issues as contained in your letter dated March 11, 1996 and received by the Corporation via FAX on March 12, 1996.

There is one caveat to be noted in regard to paragraph number one, Return on Equity ("ROE"): the ROE set at 11.25 percent is the ROE of YECL; by statute the ROE of YEC is thereby set at 10.75 percent for 1996 and 1997.

The writer also wishes to thank all who participated in the workshops and settlement discussions as I believe this bodes well for not only the current GRA but for future applications as well. I believe that we have taken a large step towards reducing the costs of such applications to the rate payers of the Yukon.

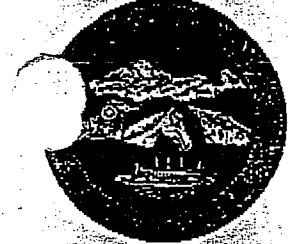
I especially wish to commend Messrs. Grant and McKinley for their patience, expertise and commitment to assisting all of the parties to work through and with this new process.

Yours very truly,



William E. Byers, Q.C.
President

/tt

cc: all interested parties



City of Whitehorse



2121 SECOND AVENUE • WHITEHORSE, YUKON Y1A 1C2 • TELEPHONE: (403) 667-6401
FAX: (403) 668-8384 City Hall • (403) 668-8387 Purchasing • (403) 668-8386 Municipal Services
FAX: (403) 668-8388 Transit • (403) 668-8389 Firehall #1

March 12, 1996

File #: 3440-0203

W. J. Grant
British Columbia Utilities Commission
Box 250, 900 Howe Street
Sixth Floor
Vancouver, B.C.
V6Z 2N3

Dear Sir:

RE: Proposed Settlement of Issues Concerning the Revenue
Requirement and Rate Design Application of YEC and YECL

The City of Whitehorse has reviewed the letter (dated March 11, 1996) recording the settlements achieved with regard to YEC/YECL's Revenue Requirement and Rate Design Application for 1996 and 1997. The City endorses the record as presented in this letter as the settlement achieved at the workshop and negotiation sessions of March 4 to 7, 1996 with the clarification noted below.

The City believes the Diesel Contingency Fund agreement was achieved on the basis that a review of the operation of this fund occur at the next GRA to try and make improvements based on experience. The wording of this section (2) is not clear as to this review occurring and the words may need to be added.

The City wishes to thank all participants in the workshops and settlement discussions believing that the format used provided for a very positive consensus building and is an excellent method for future rate applications. The City would like to thank B.C. Utilities Commission staff for their hard work and commitment to the process.

Yours truly,



Douglas D. Raines
Director of Municipal Services

ddr/dls

All Interested Parties



THE YUKON ELECTRICAL COMPANY LIMITED

An **ATCO** Company

P.O. BOX 4190, WHITEHORSE, YUKON Y1A 3T4 • TELEPHONE (403) 633-7000 • FAX (403) 665-3361

March 12, 1996

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, B.C. V6Z 2N3

Attention: Mr. W. J. Grant

Dear Sir:

Re: YEC/YECL GRA Proposed Settlement

The Yukon Electrical Company Limited (YECL) has reviewed the "Proposed Settlement of Issues Concerning the Revenue Requirement and Rate Design Application of YEC and YECL" dated March 11, 1996 and find it to be an accurate record of the agreement reached between the interested parties on March 6 and 7, 1996.

YECL therefore endorses the proposal as contained in the above-referenced document.

Yours truly,

THE YUKON ELECTRICAL COMPANY LIMITED

C.H. Kerslake

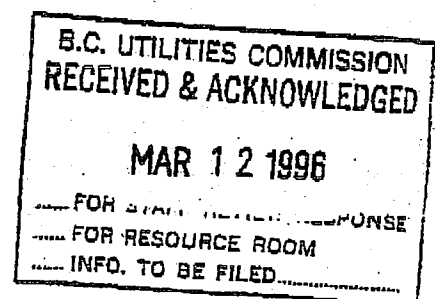
C.H. Kerslake, P.Eng.

Vice President and General Manager

CHK:ds

data/verve

Post-It® Fax Note	7671	Date	MAR 12/96	# of pages	1
To	MR. W.J. GRANT	From	H. KERSLAKE		
Co./Dept.	B.C.U.C.	Co.	YECL		
Phone #		Phone #			
Fax #	604-660-1102	Fax #	403-668-3965		





Anvil Range

MINING CORPORATION

117 Industrial Road, Whitehorse, Yukon Y1A 2T8
Telephone (403)633-5588 Facsimile (403)668-6518

March 12, 1996

British Columbia Utilities Commission
P.O. Box 250
900 Howe Street, Sixth Floor
Vancouver, B.C.

Via Facsimile No: (604) 660-1102

Attention: Mr. W. J. Grant, Esq

Dear Sir

Re: Proposed Settlement of Issues Concerning the Revenue Requirement & Rate
Design Application of YEC and YECL

Anvil Range Mining Corporation endorses and accepts the Settlement of Issues contained in your letter dated 11 March, 1996 and received 12 March, 1996 via facsimile.

Anvil wishes to thank all who participated in the workshops and settlement discussions of the 4 to 7 March, 1996. Also, Anvil thanks the B.C. Utilities Commission staff for their work in bringing the workshops and settlement discussions to a fruitful conclusion.

Best regards

Kurt A. Forgaard
President & Chief Executive Officer

/bd

YECL/1000010

Utilities Consumers' Group

Box 6086, Whitehorse, Yukon Y1A 5L7
Fax (403) 633-6361

March 12, 1996

British Columbia Utilities Commission
P.O. Box 250
900 Howe Street, Sixth Floor
Vancouver, B.C. V6Z 2N3

SENT BY FAX: (604) 660-1102

Attention: W.J. Grant, Esq.

Dear Mr. Grant:

Re: Proposed Settlement of Issues
Concerning the Revenue Requirement
and Rate Design Application of YEC and YECL

The Utilities Consumers' Group has received your letter dated March 11, 1996 regarding the above.

In the time since last week's NS Workshop, we have had the opportunity to reflect on the process, to absorb the significant amount of information exchanged during the 4 days and to consider the developments in a broader perspective. We have concluded that you, Mr. McKinlay, and the two other BCUC staff members deserve recognition and praise for the constructiveness displayed by all participants during the 4 days of meetings.

These observations have enabled us to arrive at additional conclusions which follow.

BCUC's Negotiated Settlement Process - Policy, Procedures and Guidelines - January 1996, the model for the negotiated settlement process used with the YEC/YECL 1996/97 GRA, says: *"When participants sign off a proposed settlement they agree to provide their support to the agreement and agree to waive their right to present evidence and cross-examine on matters dealt with by the agreement."*

Part 9 of the booklet says: *"There are, however, circumstances where the agreement may require amendment: (i) One or more participants may become aware of new information that was not reasonably available to them at the time of the settlement discussions and which has a significant bearing on the assumptions upon which the settlement was reached".*

UCG is aware of new information: Nova Scotia Power was recently awarded a return on equity of 10.75% by the Nova Scotia Utility and Review Board (NSU&RB). The companies listed Nova Scotia Power (NSP) as a comparable in response to UCG-1-56, in APL's ROE testimony and at the ROE presentation on March 4, 1996. In those instances, NSP's ROE was pegged between 11.50% - 12.00%, or .75% - 1.25% higher than currently allowed.

This new information appears to undermine results from the comparable earnings test used by the companies' experts: *"Dr. Sherwin and Ms. McShane concluded that a fair return for a typical high grade utility is in the range of 11.8% to 12.6% (midpoint 12.2%)."*

As noted in your letter, the agreement represents a package proposal within which there has been give and take by all parties. In our view, the 11.25% ROE accepted by the companies represented what we thought was a "give" on their part in exchange for the several "takes" in the remainder of the package. However, the new information sheds new light on that perspective. We no longer believe that the companies gave to the extent previously thought and the package is unfair until a reasonable concession is made.

It is our position that YECL's ROE should reflect the findings of the NSU&RB at 10.75%. Consequently, UCG must dissent on section (1) of the package. Confirmation of the NSU&RB decision is pending and we will forward the information once it is available.

At this opportunity we forward another proposal with respect to item #1: *"The companies' ROE earnings should be capped at the YUB approved level and excess earnings should be transferred to the Diesel Contingency Fund (DCF)".* Protecting the interests of customers and YEC's shareholders (the Yukon public) by allowing those customers and citizens to benefit from savings should be incentive enough for the companies to reduce costs. Moreover, the companies should not over-earn at the expense of consumers.

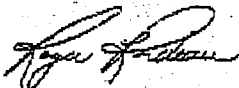
In addition, UCG proposes the following three amendments to the package:

- Part (2), DCF, the last sentence should be changed to: *"The companies shall submit to the Board a report called Diesel Contingency Fund Forecast and Variance Report by March 31 each year that shall include a forecast of inflows and generation by plant for the coming calendar year and a variance analysis of the previous calendar year complete with an explanation for any variance."*
- Part (9), ARM Interim Rates, should be retroactive to Jan. 1, 1996.
- Part (6), Revenue Requirement, should not be set until all adjustments have been taken into account and the Board has approved the final amount.

We hope that all parties will understand our position and support these proposed amendments prior to the hearing in order to reduce hearing time and costs. Although UCG cannot agree to the package in its present form, we are optimistic that the problems can be overcome in time for the settlement package to proceed with the endorsement of all parties.

If you have any comments or questions, please contact us at your convenience.

Yours truly,



Roger Rondeau
President

xc: Your mailing list



TOWN OF WATSON LAKE

P.O. Box 590, Watson Lake, Yukon Y0A 1C0 403-536-7778 Fax: 403-536-7522

March 13, 1996

Mr. W. Grant
British Columbia Utilities Commission
Box 250, 900 Howe Street
Sixth Floor
Vancouver, B.C.
V6Z 2N3

Dear Sir:

Re: Proposed Settlement of Issues concerning the Revenue Requirement and Rate Design Application of Y.E.C. and Y.E.C.L.

I have reviewed your letter of March 11th and on behalf of the member communities of the Association of Yukon Communities agree with the settlement as proposed. We agree with the City of Whitehorse that the operation of the Diesel Contingency Fund should be reviewed at each G.R.A. in order to provide an improvement process.

We will address the issue of cost of service allocation at the upcoming public hearings.

The Association of Yukon Communities is pleased that all parties have committed to this process of consensus settlement. We feel this is a much more cost effective method of achieving a settlement and of benefit to all Yukoners. We wish to thank you and your staff for your dedication and commitment in assisting the Companies and intervenors in reaching this settlement.

Your truly,

A handwritten signature in dark ink, appearing to read "J. B. Ravenhill".

J.B. Ravenhill
Chairman, Energy Committee
Association of Yukon Communities

JBR/tc



NEW ERA Electric Corporation

Northern Small Hydro Specialists

Box 4491, Whitehorse, Yukon, Canada Y1A 2R8 Phone/Fax 403-668-3978

March 13, 1996

TO: Jim Slater
Yukon Utilities Board

BY: Fax 667-5059 PAGES TO FOLLOW: 0

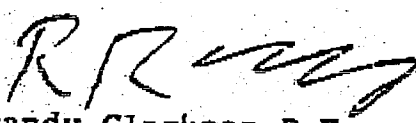
Dear Mr Slater:

RE: Proposed Settlement of Issues Concerning the Revenue Requirement and Rate Desing Application of YEC and YECL.

RE: Cost of Service Issues

NEW ERA Electric Corporation has reviewed the "Proposed Settlement of Issues Concerning the Revenue Requirement and Rate Desing Application of YEC and YECL" and is prepared to accept the proposal.

However NEW ERA is DOES NOT believe that Cost of Services Issues can be appropriately resolved with written submission and argument. We strongly believe that proposed run-out rates are heavily cross subsidized, do not reflect true costs, and will lead to a faulty allocation of resources. We feel that it is imperative that we are able to address the issue of Cost of Service at the hearing. The minor cost savings achieved through avoiding this subject at the hearing are miniscule as compared to the present and future costs of these faulty allocations.


Randy Clarkson P.Eng.

Peter Percival P.Eng.

cc

H Kerslake, Yukon Electrical Corporation 668-3965

W Byers, Yukon Energy Corporation 668-3327

K Forgaard, Anvil Range Mining Corp 668-6518

L Bagnell, Association of Yukon Comm 668-7574

D Raines, City of Whitehorse 668-8364

R Rondeau, Utilities Consumer Group 633-6361