

2005-12

**IN THE MATTER OF the Public Utilities Act
Revised Statutes of Yukon, 2002, c. 186, as amended**

and

**An Application by Yukon Energy Corporation
for Approval of 2005 Revenue Requirements**

BEFORE: B. Morris, Chair) October 18, 2005
 W. Shanks, Vice-Chair)
 R. Hancock)
 M. Phillips)

BOARD ORDER 2005-12

WHEREAS:

- A. On December 13, 2004, Yukon Energy Corporation ("YEC", "the Company") filed with the Yukon Utilities Board ("the Board"), pursuant to the *Public Utilities Act* ("the Act"), and *Order-In-Council 1995/90*, an Application requesting an Order granting new rates for Secondary (interruptible) Energy and the Faro Mine site, on an interim refundable basis, effective with consumption January 1, 2005 ("the Application"); and
- B. Among other requested approvals, the Application proposes for Secondary (interruptible) Energy Customers, a new quarterly rate-setting mechanism to maintain the retail rate at 70% of the customers' avoided cost of fuel oil. This will result in a retail rate of 5.5 cents per kW.h. as of January 1, 2005; and
- C. By Order 2004-1, the Board set the current residential and commercial firm rates as interim effective January 1, 2005, and approved an interim refundable increase in rates to Secondary (interruptible) Energy customers and to the Faro mine site as requested in the Application. Board Order 2004-1 further scheduled a Workshop on the Application for January 13, 2005, and a Pre-hearing Conference for January 14, 2005; and
- D. By Order 2005-2, the Board scheduled an oral public hearing into the YEC Application for April 18, 2005, in Whitehorse, Yukon, and issued a regulatory timetable and a final issues list; and
- E. The Board approved quarterly changes in rates to the Secondary (interruptible) Energy Customers by Board Order 2005-6 effective April 1, 2005, by Board Order 2005-10 effective July 1, 2005, and by Board Order 2005-11 effective October 1, 2005; and

- F. The oral public hearing into the YEC Application was held from April 18 to April 21, 2005, the filing of YEC's Argument was on May 6, 2005, Intervenor Argument was filed on May 20, 2005, and YEC Reply Argument was filed on May 27, 2005; and
- G. The Board has considered the Application, the evidence filed at the oral public hearing and the arguments filed by YEC and the Intervenor and has made determinations on the approvals requested by YEC in the Application.

NOW THEREFORE the Board orders as follows with Reasons attached as Appendix A that:

1. The YEC 2005 Revenue Requirements are approved subject to adjustments that are required by this Order and the attached Reasons. YEC is to file, within 30 days of this Order, the appropriate schedules from Section 7 of the Application for Board approval of the YEC 2005 Revenue Requirements and 2005 revenue shortfall.
2. The YEC request to establish an Income Stabilization Trust ("IST") account and to transfer the balance in the Diesel Contingency Fund and the Faro Mine de-watering deferral account to the IST account is denied.
3. The current interim rates for residential and commercial customers are set as permanent effective January 1, 2005. YEC is to fund its approved 2005 revenue shortfall from the Faro Mine de-watering deferral account. The 2005 approved revenue shortfall is the maximum drawdown allowed for each of the calendar years of 2005 to 2007. YEC is to file a financial forecast by December 1, 2005, to confirm the drawdown to be approved for the 2006 calendar year and a financial forecast by November 1, 2006, to confirm the drawdown that is approved for the 2007 calendar year.
4. The Board approves the YEC proposal to record an amount equal to any interest forgiven on the Mayo Dawson Note, less any portion that is used to cover costs incurred to supply power to Dawson. The YEC proposal was to assign this amount to the IST; however, due to the IST being denied, YEC is directed to establish a Rate Base deferral account to record the amount.
5. The Board approves the closure of Rate Schedule 34 Faro Mine Shutdown Power effective January 1, 2005, and the reclassification of the customer to normal General Service — Government Rate Schedule effective January 1, 2005.
6. The Board approves the automatic quarterly rate-setting mechanism for Secondary Energy Sales Rates effective January 1, 2005. The Board agrees that YEC may normalize Secondary Energy sales revenues by recording the revenue changes in Rider F as requested in the Application at page 4-9. The Board approves the use of a discount to the posted price of fuel oil in setting the Secondary Energy Sales rate as outlined in the Application, page 4-8; but the Board orders that the discount should be set at 33.3%, effective January 1, 2005. Based on the determination that the Secondary Energy Sales

Rate is set at 66.7% of the price of fuel oil, YEC is to refund to Secondary Energy customers the difference between the interim and permanent rates including interest at the average prime rate of YEC's principal bank.

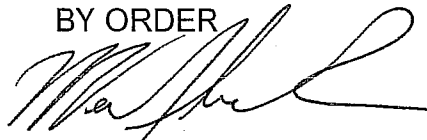
7. The Board approves the requested changes to the Secondary Energy Retail Rate Schedule as described in the YEC Application for Subscription Limit, Subscription Period and Gaming, and Interruptions. The Board approves the proposed wording for Availability at page 8 of Exhibit B1-28.
8. The Board approves an increase to the General Service – Primary Maximum Utility Investment to \$400/kW of billing demand, from \$180/kW of billing demand, effective with the date of this Order.
9. The Board approves the proposed Maximum Utility Investment in Secondary Energy sales service as outlined on pages 4-21 and 4-22 of the Application.
10. The Board approves the revised definition of Interconnected System as found on page 4-22 of the Application.
11. The Board approves the 2005 load forecast of 282,428 MW.h, included as Table 2.1 at page 2-8 of the Application. The Board also accepts the 2004 update of preliminary actual energy sales presented in Exhibit B1-23, of 280,663 MW.h. If there is a material change in forecasted loads during 2005, such as the introduction of a new mine load on the YEC system, YEC is directed to re-file their revenue requirements for the upcoming year. YEC is to provide an updated forecast (or actual results if available) for 2005 energy sales, and a forecast of 2006 energy sales in their December 1, 2005, financial forecast for the 2006 calendar year.
12. The Board orders a reduction in allowed Operating, Maintenance & Administrative expenses of \$149,000 as it relates to Administration costs for training and Board of Directors costs for 2005.
13. The Board accepts the proposal to apply the Whitehorse Rapids Fire Insurance Gain of \$744,000 to the Reserve for Uninsured Losses in 2005. The Board also approves an increase to the annual appropriation to the Reserve for Uninsured Losses to \$100,000 for 2005, 2006 and 2007.
14. The Board accepts the findings of the Gannett Fleming Depreciation Study as contained at Tab 11 of the Application, except for the treatment of future removal and site restoration ("FRSR") costs. YEC is to implement the new depreciation rates and grouping procedure effective January 1, 2005, and adjust gross depreciation expense downwards to \$5,283,830 from \$7,071,000 at existing rates.
15. The Board approves total capital expenditures related to the Mayo-Dawson transmission line in Rate Base in the amount of \$29,046,000 as of October 1, 2003. The mid-year Rate Base impact for 2005 will be \$29,046,000, less applicable depreciation expense as of the in-service date of October 1, 2003. To the extent that further costs are incurred on the Mayo-Dawson line due to the

claims and counter claims between Chant Construction and YEC, those costs would similarly be disallowed. Cost recoveries from Chant Construction are to be recorded in an interest-bearing deferral account for review and disposition by the Board.

16. The Board accepts the Rate Base of YEC as of December 31, 2004, shown on revised Schedule 1 included as part of Exhibit B1-23, except for the adjustment noted above for the disallowance of the Mayo-Dawson transmission line (adjusted for changes in AFUDC relating to the disallowance). The Board accepts the forecast capital expenditures for 2005 as updated in Exhibit B1-23, Schedule 3.
17. The Board has determined that an appropriate rate of return on common equity for YEC is 9.05% (9.55% less 0.5% as per OIC 1998/32).
18. The Board requires that YEC discontinue recording an annual provision for FRSR effective January 1, 2005. The Board orders a variance from Generally Accepted Accounting Principles and requires that the December 31, 2004, balance in the FRSR account remain as a liability to be utilized for dismantling costs that are incurred in 2005 and future years. The Board requires YEC to inform Intervenors and stakeholders when the balance of the FRSR liability account reaches \$2.0 million.
19. The Board finds that a financial review of YEC is necessary in accordance with sections 23 and 24 of the Act. The timing and the scope of the Board financial review will be determined at a later date. The Board will allow YEC deferral account recovery of the costs incurred in the financial review, subject to Board review and approval.
20. The Board directs YEC, once all final costs are recorded in the 2005 Hearing Cost Deferral Account, to amortize that account equally over the three-year period beginning calendar year 2005.

DATED at the City of Whitehorse, in the Yukon Territory, this 10th day of October 2005.

BY ORDER



Wendy Shanks
Vice-Chair