

YUKON UTILITIES BOARD		
<b>EXHIBIT</b>		C3-9
DAY	ENTERED BY	DATE
	VCG	NOV 5, 2013

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

**and**

**An Application by Yukon Electrical Company Limited  
For Approval of Revenue Requirements for 2008 and 2009**

## **REASONS FOR DECISION**

**APPENDIX A TO BOARD ORDER 2009-2**

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GRAND JURY	
EXHIBIT	

TAB 4

regression analyses are used, how many variables account for the variability, what value of R<sup>2</sup> is valid, what are other relevant statistics?

### 3 PURCHASE POWER

Purchase power costs included in the Application were expected to remain relatively flat for the test period:

Description <sup>12</sup>	Actuals (\$000)		Test Period (\$000)	
	2006	2007	2008	2009
Primary Purchase Power	17,227	17,436	17,790	18,003
Secondary Purchase Power	1,130	1,194	1,028	424
Shortfall Rider J	4,882	5,017	5,028	5,067
Total Purchased Power	23,239	23,647	23,846	23,494

Approximately 90% of the power supply required by YECL is purchased from YEC. The purchases are for YECL's customers on the Whitehorse-Aishihik-Faro (WAF) and Mayo-Dawson (MD) grids. The amounts included in the Shortfall Rider J are related to YEC's Shortfall Rider J and are a flow-through for YECL.

YECL requested approval of two deferral accounts. The first deferral account is related to increases or decreases to the cost of purchased power, which was based on YEC's rates that were in place for primary energy and secondary sales<sup>13</sup>. YECL indicated that subsequent increases or decreases to these rates would be flowed through to YECL's customers. YECL also requested the continuation of the Diesel Contingency Fund (DCF) mechanism as approved in the 1996-97 GRA.

In its Application, YECL stated that Fish Lake hydro generation throughout the test period was based on the average generation over the last 10 years and adjusted for estimated downtime in the test period for required rebuilds. Intervenors took issue with the basis of YECL's Fish Lake hydro generation forecasts as well as the expensing of purchase power costs associated with the Fish Lake hydro rebuilds.

In its argument, YEC indicated that the DCF as established in the 1996-97 GRA settlement (Ex.C1-11, Tab 5) directed that "Rates and the fund will be determined using the long-term average water expected to be available for generation". YEC pointed out that the forecast Fish Lake generation (6.8 GW.h ) at Fish Lake throughout the 2008 and 2009 test period was 3.8 GW.h below that which was forecast in the 1996-97 GRA and compared with 2007, the Application forecasts a reduction 2.8 GW.h in each test year.

YEC recommended that the Board direct YECL to adjust its Application so that Fish Lake hydro generation reflects the Fish Lake hydro long-term average water expected to be available for generation. YEC further recommended that the long-term average be

<sup>12</sup> YECL 2008-2009 General Rate Application, page 3-1

<sup>13</sup> YECL 2008-2009 GRA Application; Schedule 3.1, lines 6 and 7

based on all years of available data and not, as was done in the Application,<sup>14</sup> based on the last 10 years on record.

Contrary to YEC's argument, LE submitted that YECL should use a Fish Lake generation forecast that reflects recent practice, 6.962 GW.h per year, and that any generation below this actually experienced due to the required rebuilds should be clearly documented.

LE and YEC agreed and submitted in argument that YECL should be required to capitalize the purchase power required because of the Fish Lake Hydro rebuild. This would better reflect all relevant capital costs associated with the hydro rebuild and would avoid artificially raising test-year rates to recover added purchase power related to the Fish Lake Hydro rebuild.

In its reply argument, YECL indicated that relying on a 10-year average, adjusted for the planned rebuilds, was a reasonable approach considering the forecast output was higher than actual output in six of the last 10 years. Accordingly, YECL submitted that the forecast of purchase power, including the amount of generation from Fish Lake, was reasonable and appropriate for the test years and should be approved by the Board, as filed. With respect to the capitalization of purchase power costs associated with the Fish Lake rebuilds, YECL in its reply argument, submitted that it had followed a standard methodology in determining that these costs should be expensed and this approach should be approved by the Board.

Since there was little debate concerning the deferral accounts, YECL in its reply submitted that these deferral accounts should also be approved as requested.

### **Views of the Board**

The Board acknowledges that enduring benefits will be provided to the facility and ratepayers as a result of the Fish Lake hydro rebuild. Further, the Board notes the capital costs associated with the rebuild are to be amortized over time due to the enduring benefits. The Board considered the YECL witness response that the incremental purchase costs from WAF related to the rebuild could be capitalized.<sup>15</sup> Therefore, the Board finds it reasonable to amortize the increased power purchase costs directly related to the rebuild project over time.

Further, the Board notes LE's argument that indicated that incremental power purchases incurred because of the required rebuilds should be clearly documented. The Board agrees that this is a reasonable approach. Therefore, the Board directs YECL in its refiling to capitalize the forecast purchased power costs associated with the Fish Lake rebuild and to not treat these costs as an expense item in the test years. The Board further directs YECL at the time of its next GRA to provide clear documentation of these incremental power purchases from WAF due to the Fish Lake hydro rebuild.

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<sup>14</sup> The record that shows the basis for calculating the 10.042 GWh/yr average adopted in the 1996/97 GRA as well as the adjusted average when including the additional years of record now available; YEC Argument, page 13

<sup>15</sup> Transcript; pages 275 - 276

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The Board acknowledges that there was little debate regarding the deferral accounts described in the Application, i.e. the Diesel Contingency Fund and Rate from YEC<sup>16</sup>. Therefore, the Board approves YECL's request for continuation of the aforementioned deferral accounts (see Footnote 16).

The Board is concerned with the YECL's proposed Fish Lake hydro generation forecast of 6.2 GW.h for each of the test years, which is a 3.8-GW.h reduction from the 10 GW.h of generation proposed in YECL's last GRA. The Board notes that YECL's statement that the 10-year average for Fish Lake generation of 7 GW.h is higher than the actual output in six of the last 10 years<sup>17</sup>. However, the Board notes that the average generation for the years when output exceeded the 7 GW.h, the average generation for the four years was almost 9 GW.h.

In making a determination on this issue, the Board considered YECL's submission in argument that it is in a new water-licence period and is subject to certain restrictions. Further, the Board accepts YEC's suggestion that the available generation at the Fish Lake hydro plant should be based on all years of available data. Accordingly, the Board finds 8.73 GW.h<sup>18</sup> is reasonable as the base generation for the Fish Lake hydro facility, prior to considering the impact of any downtime due to the Fish Lake hydro rebuilds. Therefore, the Board directs YECL in its refilling to reflect base hydro generation of 8.73 GW.h.

#### 4 DIESEL FUEL COSTS

The following table<sup>19</sup> shows total diesel fuel costs included in the Application:

	Actuals (\$000)		Test Period (\$000)	
	2006	2007	2008	2009
Diesel Fuel Costs	2,026	2,054	5,715	5,299

The forecast diesel fuel cost increase of \$3.6 million in 2008 is mainly due to the inclusion of the Rider F fuel rider in base rates for the test period.<sup>20</sup> The forecast diesel fuel cost decrease of approximately \$0.4 million in 2009 is due to reduced diesel generation in Pelly Crossing because of its interconnection to the WAF grid. YECL is seeking continuation of Rider F as well as a deferral account for the incremental costs associated with a change to the assumption that Pelly Crossing's connection to the WAF grid would be effective November 1, 2008.<sup>21</sup>

In its argument, LE pointed out that YECL has not proposed conservation or efficiency programs in its diesel communities despite incurring diesel fuel costs greater than \$5 million in 2006 and 2007. In light of the high diesel fuel costs, LE and YEC submitted

<sup>16</sup> GRA Application; page 3-2

<sup>17</sup> YUB-YECL-05 Attachment 1.xls

<sup>18</sup>

<sup>19</sup> YECL 2008-2009 General Rate Application, page 4-1

<sup>20</sup> Prior to 2008, YECL recovered the difference between the forecast 1997 fuel rates and the current fuel rate using Rider F.

<sup>21</sup> Pelly Crossing deferral account basis shown in the Application, page 4-3

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