



October 11, 2012

Mr. Bruce McLennan, Chair
Yukon Utilities Board
Box 31728
Whitehorse, Yukon Y1A 6L3

Dear Mr. McLennan:

Re: Yukon Energy 2013 Interim Rates

On April 27, 2012, Yukon Energy Corporation (YEC or Company) filed with the Yukon Utilities Board (Board) an Application requesting (among other orders) the following:

- An order approving a forecast revenue requirement for the 2012 and 2013 test years;
- Implementation of overall rate adjustments through implementation of Rider J for 2012 rates (6.4% increase in 2012 retail and industrial rates, including any increases to date as provided for in OIC 2012/68) and Rider R for 2013 rates (further increase of 6.5% in 2013 retail and industrial rates); and
- An interim refundable rate rider effective July 1, 2012 of 6.4% for retail customers and 2.9% for industrial customers (to provide a 6.4% increase for industrial, recognizing the 3.4% increase to date in 2012).

2012 Shortfall Rider (Rider J)

Order 2012-5 approved on a refundable basis interim rate adjustments of 6.4% for retail customers and 2.9% for industrial customers through implementation of Rider J effective July 1, 2012. Interim Refundable shortfall Rider J (effective July 1, 2012) will collect over six months only one-half of the forecast 2012 revenue shortfall. As indicated in the Application, it is expected that following receipt of final orders in this proceeding, including a final 2012 revenue requirement, any residual shortfall or surplus for each test year will be addressed pursuant to direction of the Board.

Requirement for 2013 Shortfall Rider (Rider R)

Since interim refundable rates for 2012 were reviewed and approved, the 2012/2013 General Rate Application hearing schedule has been considerably delayed¹. The current schedule set out in Order

¹ Per Order 2012-03, the oral hearing was originally to occur September 17-19, 2012, with argument completed by October 18, 2012. Due to scheduling conflicts for various parties to the proceeding, Order 2012-6 established a new hearing schedule with the oral hearing scheduled to occur November 12-14, 2012, with argument not completed until December 12, 2012.

2012-6 will not allow sufficient time for the Board to issue a final order for this proceeding prior to the end of 2012. After the Board issues this order, additional time will be required for Yukon Energy to prepare a Compliance Filing and for this filing to be reviewed and approved by the Board. Thereafter, approximately 30 days will be required to implement final rates². Consequently, Yukon Energy is applying herein for an interim refundable revenue shortfall rider of 6.5% for 2013 (Rider R) to be applied to all retail and industrial firm rates (including the 2012 shortfall Rider J and the fixed Rider F) effective January 1, 2013.

Basis for Requested 6.5% 2013 Shortfall Rider (Rider R)

In Order 2012-5, the Board reaffirmed the principles to be applied in an interim rate application as set out previously in Board Order 2008-6.

In that order the Board confirmed its jurisdiction to make interim orders under Section 63 of the Act stating it is not practically limited to circumstances in which the utility can demonstrate that its financial integrity will suffer or that the safety of its operations will be compromised. The Board also stated that "interim refundable rate orders provide the Board with the flexibility necessary to accommodate regulatory lag, which might otherwise deprive a utility of a reasonable opportunity to recover its prudent costs", and further that there is no requirement for a full hearing on the merits because such an approach "could contribute to greater regulatory lag and defeat the purpose of the interim refundable rates."

With regard to the quantum of interim refundable rates the Board noted that it should "be careful not to deny interim rates altogether if doing so could jeopardize the ability of the utility to implement and recover the final revenues determined by the Board to be just and reasonable." However, the Board also noted that "most jurisdictions do not grant interim orders for recovery of 100% of forecast revenues requirement increases, but grant some percentage to minimize the turbulence of rate changes over short periods".

Yukon Energy is seeking the full 6.5% increase for 2013 on an interim refundable basis based on the following:

1. Pursuant to Order 2012-5, Yukon Energy is only collecting revenues for six months of 2012 (and would therefore only receive approximately one-half of the applied for revenue requirement increase in 2012 on an interim refundable basis). The approach for 2012 interim rates essentially built in a cushion to take into account the fact that YEC may not receive the entire applied-for increase once a final order on the 2012/2013 GRA is issued by the Board. This is a significant cushion, i.e., the Board would have to reduce the annualized 2012 applied for rate increase by over 50% (\$1.7 million) before there would be any decrease from the interim rate increase approved.

² For example, in the 2008/2009 GRA it took approximately 4 months from the time the oral hearing ended for a decision to be issued and an additional approximate 1.5 months after that for the compliance filing to be approved. Specifically, the oral hearing for the 2008/2009 GRA, occurred May 5, 2009, argument was completed July 5, 2009 and an Order (Order 2009-8) on the matter was issued September 8, 2009. Thereafter, Yukon Energy filed a Compliance Filing October 8, 2009 and an Order accepting the Compliance Filing and approving rate adjustments effective December 1, 2009 (Order 2009-10) was issued November 18, 2009.

2. Given that it is likely that final rates will not be approved for several months past January 1, 2013³, approving an Interim refundable Rider R as of January 1, 2013, will promote rate stability and reduce the likelihood that rates finally approved by the Board will need to recover a shortfall for 2013 (similar to the issues raised in the 2012 Interim rate application). The full 6.5% Rider R rate increase on an interim refundable basis takes into account the significant cushion already provided with regard to the approved 2012 Rider J interim refundable rate increase.

If you have any questions regarding the above please call.

Yours truly,



Ed Mollard
Chief Financial Officer

³ As noted in footnote 2, it took approximately 5.5 months after the end of the oral hearing for an order accepting the compliance filing in the 2008/2009 GRA to be issued (i.e., from May 5-6, 2009 to November 18, 2009).