

ATCO Electric

YUKON

November 13, 2014

Yukon Utilities Board
Box 31728
Whitehorse, YT Y1A 6L3

Attention: Mr. Bruce McLennan
Board Chair

Dear Sir:

Re: Application to Revise the Diesel Contingency Fund (DCF) and Related
Amendments to the Energy Reconciliation Adjustment (ERA)

Pursuant to Board Order 2014-08, please find enclosed ATCO Electric Yukon's Reply Argument in the above noted application.

Should you have any questions, please contact the undersigned at (780) 733-2489.

Yours truly,

Original Signed By:

James Grattan, CA
Director, Regulatory

/llk
Encl.

YUKON UTILITIES BOARD

IN THE MATTER OF an Application to Revise the Diesel Contingency Fund & Related Amendments to the Energy Reconciliation Adjustment

REPLY ARGUMENT OF ATCO ELECTRIC YUKON

A. INTRODUCTION

1. Having reviewed the Arguments filed by Yukon Energy Corporation ("YEC") and the Utilities Consumers Group ("UCG"), The Yukon Electrical Company Limited operating as ATCO Electric Yukon ("ATCO Electric Yukon") respectfully submits the following arguments in reply. Where capitalized terms are used herein but are not defined, they bear the meaning attributed to them in ATCO Electric Yukon's Argument. ATCO Electric Yukon's silence on any issues raised in argument by either YEC or the UCG should not be taken as its agreement therewith. To the contrary, unless expressly stated, the positions advanced by ATCO Electric Yukon in its January 31, 2014 Submission, Responses to Information Requests, and Argument remain its views on the matters before the Board in this proceeding.

2. ATCO Electric Yukon notes that it anticipated many of the positions that have been advanced by YEC and the UCG in their respective Arguments and does not intend to repeat the submissions it has already made on those points. Instead, ATCO Electric Yukon will focus on providing its reply to new matters raised in argument that merit response.

B. REPLY TO FINAL ARGUMENT OF YEC

3. There are several statements made by YEC in its Argument that are consistent with positions raised by ATCO Electric Yukon in its own Argument. YEC makes the statement that its "final proposals to update and re-activate the DCF and ERA remain in essence as filed in April 2012."¹ ATCO Electric Yukon concurs with this statement. As detailed by ATCO Electric Yukon in its Argument, the joint utility discussions which were ordered by the Board in Board Order 2013-01 were unproductive as YEC was not willing to consider any changes to the mechanisms to address ATCO Electric Yukon's and the Board's concerns, and YEC's Argument confirms that this is the case.

¹ YEC Final Argument, October 29, 2014, page 3.

4. ATCO Electric Yukon also agrees with YEC's statement that "the key regulatory premise for the DCF is that ratepayers (and not the utility or its shareholder) are ultimately at risk for thermal generation cost impacts related to variations in water and wind availability."² This is consistent with the position of ATCO Electric Yukon raised in its Argument that customers should bear the risk of fluctuations in diesel consumption, not the utilities.

5. Additionally, YEC makes the comment that "no ERA arises in a year when there is no variance in YECL-AEY wholesales from the last approved YEC GRA wholesale forecast."³ This is consistent with ATCO Electric Yukon's understanding of YEC's proposed ERA mechanisms and highlights one of the fundamental flaws in YEC's ERA proposal as discussed in ATCO Electric Yukon's Argument: that the ERA charges to ATCO Electric Yukon are based on YEC's forecast not on ATCO Electric Yukon's own forecast, causing ATCO Electric Yukon to bear risk associated with a forecast over which it has no control.

Reply to YEC Comments About the Historical DCF and ERA Mechanisms

6. YEC uses the phrases "past practice" and "in the past" numerous times in its Argument⁴ and cites "long established existing mechanisms"⁵ in suggesting that its proposed mechanisms are "reasonable updates required for current conditions on the Yukon grid."⁶ YEC, however, does not explain or provide evidence as to why these are reasonable updates given the significant changes that have occurred since the DCF and ERA were initially designed. Nowhere does YEC address the separation in the management of the two utilities that has occurred since the mid-1990s, though YEC does acknowledge that the DCF and ERA mechanisms were initially approved when Yukon Energy and ATCO Electric Yukon filed joint applications⁷ (which is no longer the case and is no longer practicable). YEC also fails to justify the continued use of mechanisms designed for a much simpler grid (fewer transmission lines and generation sources), when a single customer (the Faro mine) determined whether or not diesel was on or off the margin. ATCO Electric Yukon respectfully submits that past practice is not sufficient justification for continuing mechanisms that make no sense in the current environment and are no longer reasonable and appropriate.

Reply to YEC Observations About Mechanisms Concerning Water Availability in Other Jurisdictions

7. YEC addresses in its Argument the water stabilization mechanisms employed in other jurisdictions and says that the "two core principles are common to all of the hydro utility jurisdictions

² YEC Final Argument, October 29, 2014, page 5.

³ YEC Final Argument, October 29, 2014, page 4.

⁴ YEC Final Argument, October 29, 2014, pages 1,5,6,8,10,11,14,19,20,21,22,23,24 and 25.

⁵ YEC Final Argument, October 29, 2014, page 4.

⁶ YEC Final Argument, October 29, 2014, page 15.

⁷ YEC Final Argument, October 29, 2014, page 2.

reviewed (NWT, Manitoba, Newfoundland): (1) ratepayers (not the utility or its shareholder) are ultimately at risk for cost impacts caused by variations in water availability, and (2) all of the approaches to water stabilization mechanisms [as regards rates] recognize that water availability can be self-correcting over time and that some form of fund might help to stabilize rates in this regard if it has sufficiently large “caps.”⁸ YEC, however, fails to point out a third principle common to these three jurisdictions: that the low water mechanisms are trued up to actuals, not “expected” or “derived” actuals calculated by a proprietary and untested model, as contemplated by YEC’s DCF proposal. In ATCO Electric Yukon’s view, this additional consideration is important, as it allows the true-up mechanism to operate as normally intended and keeps customers and the utility whole.

Reply to YEC Regarding Rate Stability

8. YEC submits in its Argument that rate stability and predictability principles have priority over economic efficiency rate principles in the context of the DCF and ERA mechanisms.⁹ This is despite direction from the Board, in Board Order 2013-01, to also address economic efficiency principles (masked market signals and intergenerational inequity) in providing a revised proposal.

9. ATCO Electric Yukon strongly disagrees with YEC’s position that rate stability should be the sole objective of a mechanism for dealing with fluctuations in water availability, and believes that rate stability principles need to be balanced with the principles of ensuring that today’s customers are paying appropriately for the costs of the electricity they are utilizing (intergenerational equity) and ensuring that customers receive price signals that allow them to react appropriately in times of low water by curbing consumption (providing appropriate market signals). ATCO Electric Yukon describes in detail in its evidence how an appropriate balance could be struck between these various competing principles via ATCO Electric Yukon’s simplified deferral mechanism.¹⁰ ATCO Electric Yukon also addressed this matter in its Argument when it states its deferral proposal provides the Board with the latitude to determine the time period over which such a deferral balance would be collected from or refunded to customers, thus allowing for further consideration of the various principles including rate stability based on the circumstances that exist at the time.¹¹

⁸ YEC Final Argument, October 29, 2014, page 5.

⁹ YEC Final Argument, October 29, 2014, page 5.

¹⁰ YUB-YECL-5(d).

¹¹ ATCO Electric Yukon Final Argument, October 29, 2014, page 14, paragraph 41.

Reply to YEC Assertion That Its DCF Proposal Addresses Thermal Generation Variances Due Solely to Water and Wind Variability¹²

10. YEC continues to assert in its Argument that its proposed DCF mechanism addresses thermal generation variances due solely to water and wind variability. However, YEC has provided no evidence to prove or validate this claim, as it has not provided the YECSIM model to be tested. ATCO Electric Yukon continues to have grave doubts that any model, no matter how sophisticated or expensive, could be designed to accurately isolate the impact of water and wind variability from all of the numerous other factors that can affect diesel consumption.¹³

Reply to YEC Claim that YECSIM is an Appropriate Model for Determining Expected Diesel Generation for the DCF and That YECSIM Will Be Updated Annually¹⁴

11. ATCO Electric Yukon continues to submit that any mechanism approved by the Board should be trued up to actual diesel generation, not “expected actual” diesel generation as proposed by YEC. Nevertheless, if the DCF were to be based on a derived diesel number rather than actual diesel, ATCO Electric Yukon is unable to confirm that YECSIM is an appropriate model given that YEC has never submitted it for testing, as it has been deemed proprietary.¹⁵ Without the ability to review and verify the YECSIM model, a task that would require specific expertise, ATCO Electric Yukon submits that it should not be used for billing purposes like the proposed ERA, nor should it be used for calculating deferral account balances such as YEC’s proposed DCF. As noted by YEC in this proceeding, YECSIM is a “composite of many sub-models”¹⁶ and relies on many variables and assumptions. Without a detailed review of the assumptions and expert verification of the model as whole, ATCO Electric Yukon also urges caution when accepting YECSIM output for planning purposes. The basis for the results and the reasonableness of the various inputs is simply not known and has not been validated. ATCO Electric Yukon suggests that, at a minimum, knowledge of YECSIM assumptions as well as the results of a sensitivity analysis regarding said assumptions, should be required before accepting any YEC diesel forecast for planning.

12. Further to the above and adding to the level of complexity, YEC is proposing to annually update YECSIM for changes in load conditions and generation capability, subject to review and approval by the Board.¹⁷ ATCO Electric Yukon assumes that YEC would not be proposing to provide the YECSIM model in order to allow testing of the annual updates made to the model, as it refused to provide the model for testing in this proceeding. However, ATCO Electric Yukon submits

¹² YEC Final Argument, October 29, 2014, page 11.

¹³ YEC Final Argument, October 29, 2014, pages 11 and 12.

¹⁴ Other factors that can affect diesel consumption are outlined by ATCO Electric Yukon in YUB-YECL-10(a) and by YEC in response to AEY-YEC-1-5(d).

¹⁵ AEY-YEC-1-5(d).

¹⁶ YUB-YEC-1-3(c).

¹⁷ YEC Final Argument, October 29, 2014, page 12.

that annual testing of YECSIM would be required in order to confirm the ongoing reasonable of the assumptions used and the results generated and that such annual updates would result in additional consulting costs incurred by YEC, to be borne by customers, for updating the model. As well, additional regulatory costs would arise as a result of additional regulatory process. These additional consulting and regulatory costs could be avoided by truing up to actual diesel annually rather than using YEC's proposed complex and opaque model to derive a number to true up to.

Reply to YEC Claim that ATCO Electric Yukon's Proposed Deferral Mechanism Does Not Provide Rate Stabilization to Address Material Changes in Water Availability¹⁸

13. This claim by YEC is blatantly untrue and leads to uncertainty about whether or not YEC actually understands ATCO Electric Yukon's proposal. ATCO Electric Yukon is not questioning the need for a mechanism to buffer customers from significant swings in electricity rates due to changing water conditions. In effect, the DCF as proposed by YEC and the deferral mechanism as proposed by ATCO Electric Yukon are both rate stabilization mechanisms that would act similarly. What ATCO Electric Yukon is challenging is the need for the use of an opaque, untestable model to derive "expected diesel" values when a simple, transparent, easily testable and understandable deferral mechanism using actual diesel values is available. ATCO Electric Yukon is not saying any deferral balance would be required to be settled in its entirety with customers on an annual basis. Like YEC's proposal, ATCO Electric Yukon has proposed that a threshold be determined after which the deferral would be settled, and the settlement period would be determined at the time based on the specific circumstances.

Reply to YEC Argument that Its Proposed Option B Allows ATCO Electric Yukon to Protect Its Incremental Revenue Margins Related to Wholesales in Excess of YEC Forecasts¹⁹

14. YEC's supposition serves to reiterate two of ATCO Electric Yukon's key points in its own Argument. Firstly, YEC's proposed mechanisms are entirely based on YEC's forecasts, not ATCO Electric Yukon's forecasts. YEC has not provided any evidence or support which suggests ATCO Electric Yukon is responsible for YEC's forecasts. As stated in ATCO Electric Yukon's Argument, the two utilities operate independently, with separate test periods and separate cost structures. ATCO Electric Yukon does not have control over any of the inputs to the ERA calculation. To be clear, none of the forecasts and variables involved in any mechanism proposed in this proceeding are controlled by ATCO Electric Yukon. As a result, asking ATCO Electric Yukon to bear risk on the rate at which it purchases power from YEC, when it has no control over the factors influencing that rate, is contrary to normal regulatory principles. Items that are not

¹⁸ YEC Final Argument, October 29, 2014, pages 13 and 14.

¹⁹ YEC Final Argument, October 29, 2014, page 24.

reasonably forecastable and are not under the control of a utility (such as the proposed ERA charges are for ATCO Electric Yukon) meet the standard criteria for approval of a deferral account. The Board accepted this regulatory principle when it approved ATCO Electric Yukon's 2008-2009 GRA request for a Purchase Power Flow Through Deferral in Board Order 2009-2. ATCO Electric Yukon requested the continuation of this deferral in its 2013-2015 GRA. As the Board determined the matter to be out-of-scope pending the completion of this DCF-ERA process, ATCO Electric Yukon is requesting the Board approve the continuation of this deferral as part of this proceeding.

15. Secondly, ATCO Electric Yukon continues to submit that it has not requested nor should it be ordered to have a sales margin deferral arising from incremental ERA charges offsetting against incremental margins (based on YEC's forecasts, not ATCO Electric Yukon's). Imposing such a deferral on ATCO Electric Yukon would result in increased costs to customers. As ATCO Electric Yukon has stated throughout this proceeding, including in its Argument, incremental margin derived from increased non-test year retail sales has been available to ATCO Electric Yukon to offset inflationary and system growth costs, which has benefitted customers by reducing costly GRA proceedings. This incremental margin allowed ATCO Electric Yukon to avoid filing rate applications for the years 1997-2007 and 2010-2012. Removing this offset to inflationary and system growth costs, as is being proposed by YEC, will result in ATCO Electric Yukon having few options to recover its prudently incurred costs other than filing much more frequent GRAs, the costs of which are primarily borne by customers.

Reply to YEC Statement that Option B Would Shift Forecast Risk From the Utility to the Ratepayer²⁰

16. YEC continues to assert that ATCO Electric Yukon is attempting to transfer risk to customers. ATCO Electric Yukon submits that this is simply not correct. Currently, ATCO Electric Yukon has sales margin risk based on its own sales forecast and YEC's latest approved purchase power rate. YEC is proposing that ATCO Electric Yukon have both sales margin risk based on its own sales forecast, and also YEC's forecast of wholesale sales to ATCO Electric Yukon, a forecast over which ATCO Electric Yukon has absolutely no control. As well, YEC is proposing that ATCO Electric Yukon take on risk for the purchase power rate charged by YEC (as the proposed ERA charge is an after-the-fact modification of the purchase power rate), when ATCO Electric Yukon again does not control any of inputs in calculating the ERA.

17. The absence of the transfer of risk from ATCO Electric Yukon to customers and the fact that YEC's proposal requires ATCO Electric Yukon to take on risk based on YEC's own wholesale forecast has been established by the evidence in this proceeding. ATCO Electric Yukon

²⁰ YEC Final Argument, October 29, 2014, page 24.

demonstrated,²¹ and YEC confirmed,²² that if YEC's original 2012 wholesale sales forecast had been equal to actual wholesale sales to ATCO Electric Yukon the additional forecast diesel costs would have been recovered from all customers via YEC's Revenue Shortfall Rider, Rider J. That is, if YEC's wholesale sales forecast had been accurate, customers would have paid for the diesel costs that YEC is proposing to flow through to ATCO Electric Yukon via the ERA.

C. REPLY TO FINAL ARGUMENT OF THE UCG

18. The UCG makes numerous recommendations in its Argument, many of which are concerning reporting, testing and additional Board processes regarding the DCF and ERA. The UCG, however, seems unconcerned with the significant additional regulatory costs customers will incur as a result of its recommendations. Irrespective, ATCO Electric Yukon would like to address several of the UCG's recommendations directly.

Reply to UCG Recommendations Regarding the YECSIM Model²³

19. ATCO Electric Yukon agrees with the UCG that, if the YECSIM model is to be used to forecast diesel volumes, it is required to be transparent and accessible and should be provided to all parties for testing. However, ATCO Electric Yukon notes that such testing, especially if the YECSIM model is updated on an annual basis as proposed by YEC, requires significant expertise and would likely be an expensive and time-consuming process. These factors alone cast doubt on its appropriateness in the circumstances.

Reply to UCG Recommendation That YEC's Proposed ERA Charges to ATCO Electric Yukon Be Offset Against Incremental Margin²⁴

20. ATCO Electric Yukon would like to reiterate that YEC's proposal uses YEC's own forecast to calculate "incremental margin" for ATCO Electric Yukon against which any ERA charge are offset. This has absolutely nothing to do with ATCO Electric Yukon's actual incremental or decremental margin as compared to its own GRA-approved forecasts.

21. Nevertheless, utilizing ATCO Electric Yukon's incremental margin to offset changes in the purchase power rate (ERA charges) is actually detrimental to customers as it will result in much more frequent rate applications, which are costly. This is a specific example whereby the UCG disregards regulatory efficiency and the savings to customers that result by the utility only filing GRAs when it is required to do so, in order to recover its prudently incurred costs. To the extent hearing costs can be avoided in any year results in a benefit to customers. As the UCG's

²¹ ATCO Electric Yukon January 31, 2014 Submission, page 5 and Table 3.1.

²² AEY-YEC-1-1-(a).

²³ UCG Final Argument, October 29, 2014, page 11.

²⁴ *Ibid.*

recommendation would remove a benefit to customers that currently exists, Yukon Electrical respectfully submits this recommendation should be dismissed.

Reply to UCG Recommendation YEC and ATCO Electric Yukon Jointly File An Annual Load Forecast for Board Approval²⁵

22. Again, in making this proposal, the UCG is completely disregarding the significant benefits to customers that result from regulatory efficiency and avoided hearing costs. In essence, this recommendation would result in annual rate applications for both utilities, incurring significant additional regulatory expense for Board costs, legal costs, and consultant costs (both intervener and utility). These costs are primarily borne by customers.

23. As well, as it has stated throughout this proceeding, ATCO Electric Yukon maintains that the two utilities are two separate companies with different management structures and, as a result, joint forecasts and filings are not practicable or in the best interest of customers. Currently, each utility individually assesses whether its respective approved revenue requirements will afford it an opportunity to recover prudently incurred costs and earn a fair return in non-test years. ATCO Electric Yukon and YEC have different cost drivers, as evidenced by their most recent General Rate Applications (YEC 2012-2013 and Yukon Electrical 2013-2015). The companies' respective cost drivers may, or may not, result in them coming before the Board for the same test period. Finally, UCG does not provide any explanation or evidence as to why filing joint forecasts would be prudent and in the interest of customers and the utilities. As such, ATCO Electric Yukon respectfully submits the UCG's recommendations should be dismissed.

Reply to UCG Recommendation Regarding Incorporation of Fuel Adjustment Rider (Rider F) Into the DCF/ERA Mechanism²⁶

24. The process for dealing with the flow through of variances in fuel prices from the utilities to customers (which the utilities have the right to do as outlined in OIC 1995/90) was the subject of the Rider F proceeding in 2011, which set out agreed upon reporting and settlement procedures. ATCO Electric Yukon has not been able to identify any benefit to customers or gains in regulatory efficiency that would result from combining the Rider F mechanism with the mechanism for dealing with fluctuations in fuel volumes and the UCG has not brought forward any such benefits. As such, ATCO Electric Yukon respectfully submits that the UCG's recommendation should be dismissed.

²⁵ *Ibid.*

²⁶ *Ibid.*

Reply to UCG Recommendation Regarding Threshold for the DCF²⁷

25. ATCO Electric Yukon reiterates its positions regarding the threshold as detailed in its Argument; namely, that the amount at which the threshold is set is not a highly critical part of the design of a mechanism for dealing with water availability in the Yukon. The disbursement or collection of any balance in excess of the threshold can be over a varying period of time based on the circumstances at the time with consideration to any other rate changes that are occurring at that time. By varying the collection or refund period depending on the circumstances, rate stability can be maintained.²⁸ As such, a joint utility analysis is not required and ATCO Electric Yukon respectfully submits the UCG's recommendation should be dismissed.

D. CONCLUSION

26. In summary, ATCO Electric Yukon submits that it has provided comprehensive reasoning why YEC's proposed DCF and ERA mechanisms are neither fair and reasonable nor appropriate in today's circumstances. As well, ATCO Electric Yukon submits it has provided a practical, straightforward, and easily understandable alternative that ensures YEC is held whole for its prudently incurred diesel costs, while ensuring that customers only pay for the diesel that is actually burned. ATCO Electric Yukon's proposal also balances rate stability with intergeneration inequity and provides appropriate price signals, unlike YEC's proposal which disproportionately prioritizes rate stability to the detriment of other rate design principles.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 13th day of November, 2014.

**THE YUKON ELECTRICAL COMPANY
LIMITED O/A ATCO ELECTRIC YUKON**

Per: _____



James Grattan, CA
Director, Regulatory

²⁷ UCG Final Argument, October 29, 2014, page 12.

²⁸ ATCO Electric Yukon Final Argument, October 29, 2014, page 14.