You forwarded this message on 2008-07-16 2:23 PM.
Attachments can contain viruses that may harm your computer. Attachments may not display correctly.

Yukon Utilities Board

From: Daw, Rebecca [rdaw@brownleelaw.com] **Sent:** Wed 2008-07-16 1:48 PM

To: Yukon Utilities Board; dwayne.ward@auc.ab.ca; bob.clarke@auc.ab.ca; allan.domes@auc.ab.ca; cynthia.malchow@atco.com; jerome.babyn@atco.com; David Freedman (E-mail); Loyola Keough (E-mail); james.grattan@atcoelectric.com; craig.steinbach@atco.com; rob.pitzel@atco.com; dennis.dechamplain@atcoelectric.com; Lisa.Kizuk@atcoelectric.com; paul@vectorresearch.ca; shelley.dixon@yec.yk.ca; john_landry@davis.ca; sschmitz@davis.ca; ed.mollard@yec.yk.ca; hector.campbell@yec.yk.ca; rrondeau@northwestel.net; jpp@northwestel.net; val.mather@gov.yk.ca; john@leprojects.com

Cc: brian.crist@whitehorse.ca; Keith Dannacker; Greg Garbutt; Marriott, Thomas

Subject: YECL 2008-09 GRA - City of Whitehorse (CW) Information Request No. 1 to Yukon Electrical Company Ltd. (YECL)

Attachments: IR No. 1 to YECL from the City of Whitehorse (E0702057).PDF(1MB)

Please find attached on behalf of the City of Whitehorse Information Request No. 1 to YECL.

Thank you.

YUKON UTILITIES BOARD		
EXHIBIT C2-5		
DAY	ENTERED BY	DATE
	City of Whse	July 16/08

YUKON ELECTRICAL COMPANY LIMITED
2008/09 GENERAL RATE APPLICATION

CITY OF WHITEHORSE INFORMATION REQUESTS NO.1 TO YECL

CW-YECL-1

Issue: **Completeness of Application**

Reference: **YECL Rate Application Schedules**

Preamble: CW wishes to gain a better understanding of the Application

Request: Please provide an electronic copy of the Rate Schedules and revised rate schedules in the original Excel format. Please include the Excel format versions of the schedules in the Foster Associates report.

CW-YECL-2

Issue: **Map of System**

Reference: **General**

Preamble: CW wishes to better understand the proposed capital additions and system operation.

Request:

a) Please provide an apposite system map or maps showing the locations of each of the communities, transmission facilities by number and generating units (size of units) at each location

b) Please provide a system map to scale for the City of Whitehorse distribution system including all interconnected facilities

CW-YECL-3

Issue: **Audited Financial Statements**

Reference: **General**

Preamble: CW requires audited financial statements to review and assess the application and to reconcile utility and non-utility items.

Request:

a) Please provide Audited Financial Statements for the years ended December 31, 2005, 2006 and 2007.

b) Please provide Pro-Forma Financial Statements for the years 2008 and 2009, including a statement of Earnings and Retained Earnings, Balance Sheet and Cash Flows.

CW-YECL-4

Issue: **2006-2007 Variance Between Forecast and Actual Results**

Reference: **General**

Preamble: CW would like to assess the variances between forecast and actual results for the years 2003 through 2007.

Request:

a) Please provide copies of the 2003, 2004, 2005, 2006 and 2007 Reports on Finances as filed with the Board.

b) To the extent not included in a), please provide explanations for the material variances between forecast and actual results for the years referenced in a).

CW-YECL-5

Issue: **Accounting and Regulatory Practices**

Reference: **General**

Preamble: CW desires to understand any changes in accounting and regulatory practices since the 1996/97 GRA.

Request: Please provide any changes to accounting and regulatory practices that have occurred since the 1996/97 GRA.

SECTION 1 - OVERVIEW

CW-YECL-6

Issue: **Proposed Rate Increase for 2008 & 2009**

Reference: **Page 1-3**

Preamble: YECL states, "The revenue requirement during the test period is $46,660,000 in 2008 and $47,902,000 in 2009. This revenue requirement represents an increase over the amount that would be recovered under existing rates and riders of $2,220,000 in 2008 and $4,130,000 in 2009. This represents a 5.9% increase in 2008 and a 5.1% increase in 2009.

Request: Please provide calculations for the respective 5.9% and 5.1% figures cited in the above passage.

CW-YECL-7

Issue: **Typical Criteria for Deferral Accounts**

Reference: **Page 1-5**

Preamble: YECL states "The above noted ongoing and new deferral accounts meet the typical criteria for the establishment of a deferral account and are required as the costs related to these deferral accounts are:

1) Not under the control of the company and are not reasonably forecastable; Or
2) An error in forecasting could produce a loss or gain of a substantial magnitude."

Request:

a) Please provide the regulatory precedents relied upon for the second criterion.
b) If the response to a) is that the criterion has been used by the parent Company ATCO Electric, please provide the regulatory precedent or precedents from the Alberta Utilities Commission.
c) If the response to a) is that the precedent or precedents are found in GAAP, please provide the appropriate references.

CW-YECL-8

Issue: **Organizational Chart**

Reference: **Section 1, Attachment 1, Page 1 of 1**

Preamble: CW wishes to understand which positions are in-scope, which are out-of-scope and further which operating positions are directly involved in generation versus distribution.

Request:

a) Please indicate which positions are in-scope and which positions are out of scope.
b) Please indicate which operating positions are directly involved in generation and which positions are involved with distribution functions.
c) Please describe where staff is located, how and when they are deployed to the outlying communities, how their time and expenses are charged/recorded by community and how time is charged/recorded to capital versus operations.
d) Please provide this organizational chart for the years from 2003 through 2007.

SECTION 2 – SALES & REVENUE

CW-YECL-9

Issue: **Growth of Commercial Sales**

Reference: **Section 2, page 2-1**

Preamble: "In 2007.... commercial sales grew 3.1%. The increase in commercial growth was mainly due to the addition of a small number of larger retail stores, a new housing complex located near Yukon College as well as one time sales associated with the Canada Winter Games. The growth in secondary sales was mainly due to existing customers increasing their purchases."

Request:

a) Please provide a breakdown of the 3.1% increase in commercial growth in 2007 by
   - i) the addition of a small number of larger retail stores
   - ii) a new housing complex located near Yukon College
   - iii) the one time sales associated with the Canada Winter Games
   - iv) other growth items

b) What effect do the growth items referenced in a) above have on the forecast growth for 2008 and 2009?

c) What portion, if any, of the "one time sales associated with the Canada Winter Games" is permanent?

CW-YECL-10

Issue: **Secondary Sales**

Reference: **Section 2, page 2-1**

Preamble: "Secondary sales are forecast to decrease by 28.5% in 2008 and 58.7% in 2009 as Yukon Energy is forecasting a decrease in surplus hydro and as a result has significantly reduced its forecast of secondary sales."

Request:

a) Please explain how surplus hydro from Yukon Energy has benefited YECL to this point and which customers benefited from it and how.

b) Please explain how Yukon Energy's forecast decrease in surplus hydro will affect YECL's operations and how it will affect the customers cited in a) above.

CW-YECL-11

Issue: **Energy Sales by Customer Class**

Reference: **Table 1 and Page 2-1**

Preamble: CW requires additional information regarding energy sales.

Request:

a) Please expand Table 1 to include forecast sales for 2006 and 2007.

b) Please expand Table 1 to include actual and forecast sales for 2003, 2004, and 2005.

c) Please provide explanations for the variances greater than 10% between forecast and actual energy sales for the years 2003 through 2007.

CW-YECL-12

Issue: **Street Lighting Forecast**

Reference: **Application page 2-4, lines 15-18 and 9-3, lines 6-11**

Preamble: YECL states: "Lighting sales are forecast to increase by 1.7% in both 2008 and 2009. This is based on the average increase from 2005 to 2007 and includes an additional 60 new 250w HPS street lights at the end of 2008 for a new roadway in the Whitehorse area."

And: "Expenditures are required to provide street and private lighting in Yukon Electrical's service area. Streetlights that require replacement due to age and obsolescence are included in this category. All streetlight work is completed in consultation with the communities. The forecast is determined based on known areas of development in the communities, the results of streetlight audits, as well as a review of historic replacement requirements."

Request:

a) If YECL continuously consults with communities and municipalities to determine requirements for streetlighting, why is it necessary to refer to growth for the previous three years to develop a forecast? Why isn't the customer's requirement for new and upgraded streetlighting the best forecast of revenue for the streetlighting service?

b) What is the forecast increase in revenue based on customer demand for streetlighting in the 2008 and 2009 test years? Is this higher or lower than the historical growth in demand?

CW-YECL-13

Issue: **Forecast Process**

Reference: **Section 2, page 2-2**

Preamble: "The forecast process involves the review of historic sales data by customer class and takes into account the most recent information available at the time the forecast is prepared. The information is obtained through Yukon Electrical's work in the community as well as consultation with the City of Whitehorse, Yukon Government officials and local developers. The secondary sales forecast mainly comes from Yukon Energy as Yukon Energy is responsible for determining the forecast availability of surplus hydro."

Request:

a) If possible please provide, if not, please describe, the information that was obtained through Yukon Electrical's work in the community and how it affects the sales forecasts for each rate class for 2008 and 2009.

b) If possible please provide, if not please describe, the information that was obtained through consultation with the City of Whitehorse, Yukon Government officials and local developers and how it affects the sales forecasts for each rate class for 2008 and 2009.

c) What portion of Yukon Energy's available surplus hydro did YECL use yearly over the period 2003 through 2007 and what portion is YECL forecasting to use in 2008 and 2009?

CW-YECL-14

Issue: **Forecast Process**

Reference: **Section 2, Schedule 2.1, line 4**

Preamble: Forecast of Residential UPC

Request:

a) Please confirm that the actual residential UPC for 2007 is 9.8244 MWh per customer. If not confirmed please specify.

b) Please provide the calculation for the actual residential UPC for 2007.

c) Please confirm that the forecast residential UPC for 2008 is 9.7661 MWh and for 2009 is 9.7645 MWh per customer. If not confirmed, please specify.

d) Please provide the calculation for the forecast residential UPC values for 2008 and 2009.

e) Please explain and quantify the factors that YECL took into consideration when forecasting a reduction in residential UPC of 0.6% over the two year period from 2007 to 2009.

CW-YECL-15

Issue: **Forecast Process**

Reference: **Section 2, Schedule 2.1, line 10**

Preamble: Forecast of Commercial UPC

Request:

a) Please provide the calculation for the actual commercial UPC for 2007 of 55.0 MWh.

b) Please confirm that the forecast commercial UPC for 2008 is 54.5860 MWh and for 2009 is 54.2275 MWh per customer. If not confirmed, please specify.

c) Please provide the calculation for the forecast commercial UPC values for 2008 and 2009.

d) Please explain and quantify the factors that YECL took into consideration when forecasting a reduction in commercial UPC of 1.4% over the two year period from 2007 to 2009.

CW-YECL-16

Issue: **Forecast Process**

Reference: **Section 2, Schedule 2.1, line 45**

Preamble: Forecast total revenues

Request:

a) Please provide the calculation and rationale for the forecast total revenues of $45, 850,000 for 2008 and $47,075,000 for 2009.

CW-YECL-17

Issue: **Forecast Process**

Reference: **Section 2, page 1 of 3 of Attachments 1, 3, 5, 7, 9, 11, 13, 15, 17, 19, 21, 23, 25**

Preamble: YECL provides the actual and normalized residential UPC for the years 1994 to 2007.

Request:

a) Please provide the normalized sales per residential customer for 2008 and 2009 for the attachments referenced above.

CW-YECL-18

Issue: **Forecast Process**

Reference: **Section 2, Page 2-2**

Preamble: CW wishes to better understand the purpose of the regression analyses included in the application

Request:

a) Please confirm that regression analyses were not used to determine average UPC for residential or commercial customers by community.

b) If a) is not confirmed, please explain where regression analysis is used?

c) If a) is confirmed, please explain why regression analysis is not used and also explain the purpose of the regression analyses summary outputs shown in Attachments 2, 4, 6, 8, 10, 12, 14, 16, 18, 20, 22, 24, 26 and 30 of Section 2.

CW-YECL-19

Topic: **Revenues**

Reference: **Table 2, Page 2-5 and Schedule 2.1**

Preamble: CW would like to review the revenues on existing rates.

Request: Please provide the billing determinants in support of the revenues on existing and proposed rates as shown in Schedule 2.1.

CW-YECL-20

Topic: **Summary of Customers, Energy Sales and Revenues**

Reference: **Schedule 2.1**

Preamble: CW would like to assess the actual number of customers and sales per customer over the period 2005-2007.

Request:

a) Please expand Schedule 2.1 to include forecasts and actuals for 2005-2007.

b) Please provide an explanation for variances from forecast for 2005, 2006 and 2007.

c) Please provide the population of Whitehorse at year-end 2005, 2006 and 2007.

SECTION 3 – PURCHASE POWER

CW-YECL-21

Issue: **Purchased Power Expenses and Deferral Account**

Reference: **Pages 3-1 and 3-2 and Schedule 3.1**

Preamble: CW wishes to better understand the determination of the cost of purchase power.

Request:

a) Please provide the actual and forecast monthly billing determinants for purchased power expense for the years 2004-2009.

b) Please provide Schedule 3.1 expanded per (a) above but separately for the WAF system and the Mayo-Dawson system.

c) Please explain why Primary Purchase Power is forecast to increase for 2008 and 2009.

d) Please provide a continuity schedule of all costs and charges associated with the Purchased Power Deferral Account for the period commencing January 1, 2003 through the present.

CW-YECL-22

Issue: **Line Losses**

Reference: **Schedule 3.2**

Preamble: CW wishes to better understand the calculation of the line losses

Request:

a) Please explain how the level of line losses will affect customers' bills.

b) Please provide the Schedule 3.2 information separately for the WAF system and the Mayo-Dawson system.

c) For Schedule 3.2 and the schedules requested in a), please provide the breakdown between "Losses" and "Company Used" currently aggregated in line 3.

d) Please define "Company Used."

e) Please explain why the "company used" portion is considered to be a loss rather than a charge to the company.

SECTION 4 – DIESEL FUEL COSTS

CW-YECL-23

Issue: **Rider F**

Reference: **Pages 4-1 to 4-3**

Preamble: "Prior to 2008, Yukon Electrical recovered the difference between the forecast 1997 fuel rates and the current fuel rate using Rider F"

"The variance between actual and forecast fuel prices, as outlined in Schedule 4.2 are refunded to or recovered from customers through a diesel fuel price rider (Rider F)"

Request:

a) Please confirm that prior to 2008 the "Diesel Fuel Price Rider" (Rider F) collected the difference between the forecast cost of diesel in a given year (calculated using 1997 fuel rates) and the actual cost of diesel in that given year; and that Rider F has now changed so that it will collect (or refund) the variance between the forecast cost of diesel (based on current forecasts for 2008 and 2009) and the actual cost of diesel for 2008 and 2009.

b) If a) is not confirmed, please provide the appropriate explanation.

c) Please confirm that Rider F has been incorporated into base rates as of 2008 (as per page 4-1, lines 5-6).

d) If c) is not confirmed, please explain.

e) Please provide the rationale for incorporating a deferral account into base rates. Are there unique aspects about Rider F that make it amenable to being incorporated into base rates? If so, please discuss.

f) Please provide a continuity schedule for Rider F from January 1, 2003 to the present.

g) Please provide the calculation of the forecast dollar values that would be collected in 2008 and 2009 by the deferral account proposed for "Increased Fuel Costs Associated with Pelly Crossing" (p.4-3). Are these amounts significant enough to warrant creating a deferral account? Please explain.

SECTION 5 – OPERATION & MAINTENANCE

CW-YECL-24

Issue: **Required Employee Compensation and Benefits**

Reference: **Application page 5-2, lines 2-13**

Preamble: YECL states: "Over the past number of years, identifying, competing for, securing and retaining qualified personnel has become one of the most challenging and important ongoing activities of Yukon Electrical. Due to unprecedented demand for labour, due to western Canadian construction levels, as well as, pending work force retirements, skilled labour shortages have forced most employers, including utilities, to become very aggressive with respect to their compensation and quality of work/life packages. In dealing with a tight "south of 60" labour market, Yukon Electrical has had to respond to these competitive market forces and the reluctance of people to move to the north, when high paying jobs are available in the south, by developing and offering a compensation package that provides a fair compensation for the real and/or perceived remoteness of the north, while at the same time building upon the inherent benefits of living in a smaller northern community."

Request:

a) What steps has YECL taken to determine what "compensation and quality of work/life packages" are necessary to stay competitive and attract a skilled labour force? If YECL has taken none or not consulted with personnel professionals, what evidence or studies does YECL possess that might indicate its compensation and benefits are not competitive? Please provide.

b) Has YECL consulted with affiliates located "south of 60" to determine what compensation packages are necessary for the affiliates to attract skilled labour and professionals? If yes, please provide the information provided by the affiliates. Have these affiliates provided compensation studies that have been placed on the public record before other Boards and Commissions? Please provide all studies that have been placed on the public record.

CW-YECL-25

Issue: **Forecast Operations and Maintenance Expenses**

Reference: **Pages 5-1 to 5-4, Schedule 5.1**

Preamble: "A separate forecast is developed for labour and non-labour costs."

Request:

a) Please indicate when the O&M forecast was prepared and what actual results for 2007 were incorporated into the forecast.

b) Please provide a copy of the 2007-2008 collective agreement with the Yukon Electrical's employee association.

c) Please split Schedule 5.1 into labor and non-labor costs

d) Please fully define "in-scope" and "out-of scope" and further split labor into in-scope, out-of-scope and variable or incentive pay.

CW-YECL-26

Issue: **Forecast Operations and Maintenance Expenses**

Reference: **Pages 5-2**

Preamble: HR requires further information to fully understand and assess the forecast operating and maintenance expenses for the test years

Request:

a) Please fully describe and provide the incremental cost for the proposed "increase in 2008 and 2009 for certain job classifications that are technical in nature and are mandatory to delivering safe and reliable service to customers."

b) Please fully describe and provide the incremental cost for the proposed "additional travel benefits" to which employees will be entitled commencing in 2009.

c) Please indicate the specific lines where each of the above incremental costs is reflected in Schedules 5.1 and 5.2

CW-YECL-27

Issue: **Forecast Operations and Maintenance Expenses**

Reference: **Page 5-3**

Preamble: "The total labour costs are calculated by multiplying the number of staff per job class by the rate of pay for each job class. These labour costs are then distributed to operations and maintenance accounts or capital accounts depending on the nature of work being performed by the staff in that job class."

Request:

a) Please provide the actual/forecast headcount at year-end 2003-2009, the number of actual and forecast FTE's for each of those years (other than actuals for 2008 and 2009) and the vacancies for each of those years.

b) Please provide the total labor expense forecast to be charged to each of O&M, capital and other for each of 2003-2009 and the actual amounts charged to each for the years 2003-2007.

c) Please show the calculation of how the vacancy rate of 4.0% (2.25 FTE's) for 2008 and 1.7% (1.0 FTE) for 2009 was applied to all labour expenses to arrive at the forecast total labour cost.

d) Why does YECL expect the vacancy rate to decline in 2009 given its acknowledged difficulties in recruiting personnel?

CW-YECL-28

Issue: **Forecast Operations and Maintenance Expenses – Affiliate Costs**

Reference: **Page 5-3**

Preamble: "Yukon Electrical outsources certain major administrative functions to affiliate companies, such as ATCO Electric, to take advantage of the economies associated with the scope and scale of services available from a larger utility. The cost of these services is detailed in Schedule 5.3 and is based on a fully allocated cost methodology that does not contain any element of profit or return."

Request: Please provide a current copy of the Master Service Agreements between Yukon Electrical and ATCO Electric and a copy of the code of conduct which governs those agreements.

CW-YECL-29

Issue: **Forecast Operations and Maintenance Expenses – Affiliate Costs**

Reference: **Page 5-4**

Preamble: "In addition to the labour support provided from ATCO Electric, Yukon Electrical purchases information technology and billing system services from ATCO I-Tek and ATCO I-Tek Business Services respectively. Yukon Electrical is aware the costs associated with these services are being reviewed as part of a benchmarking process and that a final report is to be filed by ATCO with the Alberta Utilities Commission (AUC). Yukon Electrical will update the placeholders included in this application once the appropriate approvals have been finalized and approved by the AUC.

Request:

a) ATCO Gas updated its Information Technology and Customer Care & Billing placeholders by filing on February 28, 2008. Please update the Yukon Electric placeholders

b) Please provide a copy of the Master Service Agreements with ATCO I-Tek and ATCO I-Tek Business Services and any updating Statements of Work that govern the provision of Information Technology and Customer Care & Billing services to Yukon Electric.

CW-YECL-30

Issue: **Forecast Operations and Maintenance Expenses**

Reference: **Schedules 5.1**

Preamble: CW requires further information to fully understand and assess the forecast operating and maintenance expenses for the test years

Request:

a) Please split each line item in Schedule 5.1 to labour, contractor and materials & supplies and indicate the percentage escalation or inflation applied to each of these categories in each actual and each test year.

b) Please expand Schedule 5.1 to include forecast amounts for each line item for 2003 through 2007. Please provide explanations for any variances between forecast and actual greater than 10%.

c) Please provide additional information regarding the higher than normal increases in 2008 and/or 2009 to the following line items on Schedule 5.1

   i) 64600 - Diesel Generation - increases in 2008 and 2009
   ii) 84600 – Diesel Maintenance - increase in 2008
   iii) 87300 – Maintenance - increases in 2008 and 2009
   iv) 87400 – Underground Maintenance – increase in 2008

v) 87800 – Street Light Maintenance – increase in 2008
vi) 70100 – Public Information Administration – increase in 2008
vii) 71100 – Customer Applications and Service Orders – increase for 2008
viii) 71300 – Customer Billing and Accounting – increases in 2008 and 2009
ix) 71400 - Revenue Collections – increase for 2009
x) 72100 – Administrative – increase for 2008
xi) 72300 – Insurance – increase for 2008
xii) 72500 – Employee Expenses – increase for 2009
xiii) 72600 – Training and Safety – increase for 2008

SECTION 6 – TAXES OTHER THAN INCOME

CW-YECL-31

Issue: **Property Taxes**

Reference: **Page 6-1**

Request:

a) Please expand the table on page 6-1 to include actual property taxes for 2003 through 2005.

b) Please provide an explanation for the increase in forecast property taxes for the 2008 and 2009 test years.

SECTION 8 – RETURN ON RATE BASE

CW-YECL-32

Issue: **Return on Equity**

Reference: **Foster Associates Report p. 4, l. 105 – p. 6, l. 150**

Preamble: In the referenced sections, Ms. McShane discussed two distinct approaches to setting a rate of return on common equity by regulatory Boards and Commissions in Canada. One method could be described as determining a benchmark rate of return adjusting capital structure in accordance with risk profile and the second would be "acceptance of the specific regulated company's actual capital structure for regulatory purposes, or deeming a capital structure that adequately protects bondholders" while determining a company-specific rate of return.

Request:

a) In this application, is Ms. McShane advocating the first method, the second method or some blending of the two methods? Please explain.

b) What method did Ms. McShane advocate in her appearance before the NWTPUB in the proceeding leading to Decision 13-2007?

CW-YECL-33

Issue: Return on Equity

Reference: **Foster Associates Report page 8, lines 208-213**

Preamble: Ms. McShane states: "The generic return on equity established by the EUB in Decision 2004-052 and adjusted automatically each year in subsequent Orders is virtually identical to "benchmark" ROEs adopted by other Canadian regulators, including the National Energy Board and, implicitly, by the Public Utilities Board of the Northwest Territories when it established the allowed ROE for Northwest Territories Power Corporation in Decision 13-2007 (August 29, 2007)."

Request: What does Ms. McShane mean by the NWTPUB "implicitly" adopted a benchmark ROE? How does this differ from explicit adoption?

CW-YECL-34

Issue: **Return on Equity**

Reference: **Foster Associates Report page 8, footnote 5**

Preamble: Ms. McShane states: "In my opinion, as well as that of Yukon Electrical, the EUB benchmark return on equity is below the level commensurate with the comparable returns standard. The EUB as well as the NEB have initiated proceedings to determine whether their automatic adjustment mechanisms continue to produce a fair return. In the ATCO Utilities' view (with which I concur), as filed with the AUC on April 4, 2008, the automatic adjustment mechanism does not produce a fair return. Nevertheless, until such time as the issue has been reviewed by the AUC, Yukon Electrical is prepared to accept the EUB "benchmark" as a point of departure for establishing its allowed ROE for 2008 and 2009."

CW wishes to understand YECL's position regarding the process to reconsider 2008 return on Equity and capital structure initiated in AUC Decision 2008-051.

Request:

a) Does acceptance of "the EUB 'benchmark' as a point of departure for establishing its allowed ROE for 2008 and 2009" mean that YECL will or will not revise its evidence if the AUC process is concluded prior to the October hearing?

b) If YECL does propose revising its evidence based on the process initiated by AUC Decision 2008-051, will YECL revise other portions of its application based on other changed circumstances prior to the hearing?

c) If YECL does propose revising its return on capital evidence and the AUC process is not concluded prior to the hearing, does YECL propose that Ms. McShane's recommendations be accepted as a benchmark until such time as the AUC process is concluded?

d) If the AUC process results in a significantly different benchmark ROE for 2009 than for 2008, will YECL accept the 2008 ROE for 2009?

e) Aside from Ms. McShane's and ATCO's opinion, is it possible that the AUC process could result in a lower benchmark ROE? Should the Board reduce YECL's ROE if this is the outcome of the AUC process?

CW-YECL-35

Issue: **Return on Equity**

Reference: **Foster Associates Report, page 36, lines 956-963 and Section 8, Attachment 1-1, Section 5, page 3 of 3**

Preamble: Ms. McShane states: "In this regard, Canadian utility returns compare unfavourably to the returns that are being allowed for U.S. utilities. The average return on equity that has been allowed by state regulators for U.S. electric and gas utilities over the period 2005-2008Q1 has been approximately 10.4%, approximately 1.5 percentage points higher than the corresponding allowed returns for Canadian utilities. The returns allowed by the Federal Energy Regulatory Commission for (lower risk) transmission operations have been in the approximate range of 10.75-13.8%"

Request:

a) Is Section 8, Attachment 1-1, Section 5, page 3 of 3 the source of Ms. McShane's comparison between Canadian and U.S. allowed utility returns? If yes, where is the corresponding yearly data for FERC regulated transmission operations? Please identify the utilities and transmission operations that comprise the U. S. and Canadian samples and identify which utilities and transmission operations are federally and state/provincially regulated.

b) By transmission operations, does Ms. McShane mean electric transmission utilities or are natural gas pipelines included in Ms. McShane's FERC sample? If pipelines are not included, what are the corresponding allowed returns for interstate pipelines?

c) Please provide for the same time period as Section 8, Attachment 1-1, Section 5, page 3 of 3, the allowed and achieved returns for each entity in the Canadian and American samples.

d) For each entity in the two samples, please identify which utilities and transmission operations in this sample operate in a fully regulated environment, which utilities are subject to incentive regulation schemes and which utilities are deregulated and the extent to which they are deregulated.

e) What are the prospective 2008 and 2009 (if available) returns for state-regulated U.S. gas and electric utilities and for FERC-regulated transmission operations

------------ Issue 8. b. i. Capital Structure and Cost of Capital --------------

CW-YECL-36

Issue: **Capital Structure and Cost of Capital**

Reference: **Foster Associates Report page 2, lines 42-47**

Preamble: Ms. McShane states: "Since the forecast average long-term Government of Canada bond yield for 2008-2009, at 4.5%, is virtually identical to the forecast relied on by the EUB to determine the allowed ROE for 2008, the application of the automatic adjustment formula produces a benchmark return on equity of approximately 8.75% for 2008-2009. The indicated benchmark return on equity of 8.75% would be applicable to Yukon Electrical at a common equity ratio of 52.5%."

Request:

a) For comparison, what are the benchmark capital structures for electric distribution and electric transmission utilities set by the EUB in Decision 2004-052?

b) In any other jurisdictions that employ benchmark rates of return, what are the benchmark capital structures for integrated electric utilities for distribution-only and transmission-only electric utilities?

CW-YECL-37

Issue: **Capital Structure and Cost of Capital**

Reference: **Foster Associates Report, page 10, lines 287 – 290**

Preamble: Ms. McShane states: "Based on these forecasts and a continuation of the current 50 basis point spread between 10- and 30-year Canada bond yields, I anticipate that the 30-year Canada bond yield will average 4.7% in 2009."

Request:

What is the actual current spread between 10- and 30-year Canada bond yields?

CW-YECL-38

Issue: **Capital Structure and Cost of Capital – Risk Factors**

Reference: **Foster Associates Report, page 16, line 441 – 443**

Preamble: Ms. McShane states: "Business risk encompasses those market demand, supply and regulatory factors that expose the shareholders to the risk of under-recovery of the required return on, and the return of, their capital investment."

Request:

a) Has YECL failed to achieve its required rate of return in any year during the 2003-2007 period? For required rate of return please use the last allowed rate of return for YECL for 2003 and the AEUB benchmark rate of return for the 2004-2007 period as a proxy for allowed rate of return.

b) Please summarize all the changes in market demand, supply and regulatory factors from the 2003-2007 period and the 2008/9 test years that would either increase or decrease the risk profile of YECL.

CW-YECL-39

Issue: **Capital Structure and Cost of Capital – Risk Factors**

Reference: **Foster Associates Report, page 16, line 441 – 443**

Preamble: Ms. McShane states: "Supply and physical (operating) risks faced by an integrated electric utility comprise the risk of under-earning due to the inability to deliver electricity, or the inability to recover costs associated with the acquisition or delivery of electricity."

Request:

a) On a retrospective basis, has YECL faced any supply constraints in past years?

b) On a prospective basis, what specific supply risks has Ms. McShane identified in her discussion referenced at page 20, line 534 – page 21, line 562 that would increase YECL's total risk during the test years?

c) When evaluating the supply risk of YECL, has Ms. McShane included all the supply risks of YEC or just the supply risk of generation owned by YECL?

CW-YECL-40

Issue: **Capital Structure and Cost of Capital**

Reference: **Foster Associates Report, page 16, line 456 – page 17, line 459**

Preamble: Ms. McShane states: "The regulatory framework in which a utility operates is, next to the basic demand risks, the most significant aspect of risk to which shareholders in a regulated firm are exposed. The financial community is very conscious of the regulatory environment, as highlighted in reports of both bond rating agencies and investment analysts."

Request:

a) What references have been made in the financial community respecting the YPUB's regulation of YECL? Does the financial community regard the YPUB as increasing YECL's regulatory risk or as decreasing its risk?

b) Does Ms. McShane concur with these comments (if any) on YECL's regulatory environment?

c) Does Ms. McShane's comment at page 21, lines 571 - 573 that "On balance, the regulatory environment in the Yukon has been even-handed and reasonable in its approach" mean that, retrospectively, YECL's regulatory risk has not added to its overall business risk?

d) Does Ms McShane's comment at page 21, lines 575 - 576 that "Nevertheless regulatory decisions can also have a negative impact on utilities." mean that she expects that the Board's decision as a result of this process will increase YECL's business risk? If yes, what decisions might the Board make that will have a "negative impact" on YECL?

e) Does a fully regulated environment create a more or less risky environment than partial or full deregulation? Please discuss the variation of risk along the regulation/deregulation spectrum.

CW-YECL-41

Issue: **Capital Structure**

Reference: **Foster Associates Report, page 20, lines 635-639**

Preamble: Ms. McShane states: "Approximately 12% of Yukon Electrical's rate base is comprised of generation assets (approximately 90% of which is diesel). The presence of generation assets in rate base generally increases the business risk of Yukon Electrical relative to a pure distribution utility, as the operational risks associated with generation exceed those of "wires" operations."

Request:

a) What percentage of YECL's total supply is represented by these generation assets in rate base?

b) Does YECL own transmission assets? If yes, what percentage of the rate base is comprised by transmission assets?

c) Are transmission rate base assets considered more or less risky than generation assets? Please refer to the benchmark deemed capital structure of transmission–only electric utilities in jurisdictions that employ a benchmark rate of return?

CW-YECL-42

Issue: **Capital Structure**

Reference: **Foster Associates Report, page 24, lines 635-639**

Preamble: Ms. McShane states: "With respect to the recent Northwest Territories Power Corp. (NTPC) decision, for the 2007/08 test year, the Public Utilities Board of the Northwest Territories adopted a common equity ratio of 48.86% and an incremental equity risk premium of 0.50% for NTPC, a higher business risk utility than Yukon Electrical."

Request:

a) Please confirm that Ms. McShane references NWTPUB Decision 13-2007 previously mentioned at page 8 of the Foster Associates Report.

b) In Decision 13-2007, the NWTPUB states at page 34, "The Board considers, with the eventual retirement of the high cost sinking fund debt, the coverage ratios and the financial risk of the utility would likely improve. Therefore, the capital structure accepted by the Board should not be viewed as solely reflecting NTPC's business risks but rather as one that takes into account NTPC's particular circumstances with respect to high cost debt." Do the same circumstances of the cost debt being higher than the cost equity apply to YECL?

------------ Issue 8 b. ii. Cost of Debt --------------

CW-YECL-43

Issue: **Cost of debt**

Reference: **Application page 8-2, lines 10-14 and Schedule 8.2**

Preamble: YECL states: "The cost of debt includes the weighted average cost of all long term advances from Yukon Electrical's parent company. The cost of issuing the debt is included in the overall embedded costs. Yukon Electrical's forecast embedded cost of debt of 6.60% for the test period is based on Foster and Associates, Inc.'s 4.55% Long Canada Bond yield forecast, a 200 basis point spread and 5 basis points for issue costs."

Request:

a) Is the 200 basis points based on the discussion at page 12, line 330 to page 13, line 375 of the Foster Associates Report? If not, or if YECL has supplementary evidence in support of a 200 basis points spread, please provide.

b) On what does YECL base its issuance costs of 5 basis points? Please provide evidence or documentation that this is an appropriate estimate of issuance costs during the test years.

c) Is the "long Canada plus 200 basis points" formula a notional prospective cost of debt rather than an actual prospective cost of debt?

d) Are all other debt issues, other than Issues T and U, in Schedule 8.2 the actual costs of these issues?

CW-YECL-44

Issue: **Cost of debt**

Reference: **Application page 8-2, lines 10-14 and Schedule 8.2**

Preamble: Ms. McShane states: "In turn, Yukon Electrical should contribute its fair share toward the maintenance of the debt ratings through its own capital structure and return on equity. It would be inequitable for customers to receive the benefits of debt costs that reflect an A(high)/A debt rating while the common equity ratio (or equity thickness) is only adequate, for example, for a (notional) BBB rating."

Request:

a) In providing an A(high)/A debt rating to CU Utilities, haven't the bond rating agencies already factored in the actual capital structures and returns on equity of YECL and its CU affiliates when determining CU's corporate bond rating? If not, why haven't the bond rating agencies taken YECL's financial performance into account when rating CU Utilities?

b) Isn't Ms. McShane's proposition that "Yukon Electrical should contribute its fair share toward the maintenance of the (CU) debt ratings through its own (thicker) capital structure and (higher) return on equity" (brackets added) equivalent to extra compensation to CU for floating YECL's debt?

SECTION 9 – CAPITAL ADDITIONS

CW-YECL-45

Issue: **Capital Additions – Forecasting accuracy**

Reference: **Schedule 9.1**

Preamble: CW wishes to better understand YECL capital expenditure forecasting accuracy.

Request:

a) Please expand Schedule 9.1 to also include actual and forecast plant additions for 2003 and 2004 and also forecast additions for 2005 to 2007.

b) Please provide explanations for any variances between forecast and actual greater than 10%.

CW-YECL-46

Issue: **Capital Additions – 2008 and 2009 Forecast**

Reference: **Pages 9-1 to 9-28**

Preamble: CW wishes to better understand the 2008 & 2009 forecast capital additions.

Request:

a) Generation Plants are forecast to cost $3,124,000 in 2009. Please provide detailed cost estimates for the Carcross New 1.5 MW Power Plant

b) Distribution New Extensions are forecast to be $3,141,000 in 2008. Please provide detailed cost estimates for the Mountain Air Subdivision, the Hamilton Blvd Main Infrastructure Extension, Whitehorse Copper Phase II 2008, CoW Stan McGowan Subdivision, and the Selkirk FN Mino Connect.

c) Distribution New Extensions are forecast to be $2,962,000 is 2009. Please provide detailed cost estimates for the Miscellaneous U/G Services – Various Subdivisions, Whistle Bend Subdivision, and Arkell Infill.

d) Distribution Improvements are forecast to be $2,967,000 in 2008. Please provide detailed cost estimates for the Tagish Road Rebuild, Marsh Lake Reliability Fix, Yukon Electrical Tie Between 1st Street and 6th Avenues, and the Pelly Crescent to Grey Mountain H Frames

e) Distribution Improvements are forecast to be $2,532,000 in 2009. Please provide detailed cost estimates for the Tagish Section to Tagu, the Hillcrest Conversion, Lambert Street – DQ Alley, and Teslin – Klondike Alley.

f) Regarding Street and Sentinel Lighting, please provide detailed cost estimates for the CoW Hamilton Blvd. Extension Lighting in 2008 and the Miscellaneous Projects and Mountainview/Other in 2009

g) AMR Installation is forecast to be $330,000 and $3,855,000 for 2008 and 2009 respectively. Please provide the business case and detailed cost estimates. How many units are to be installed each year? Please provide a cost benefit analysis and indicate where the meter reading savings occur in the test years and thereafter.

CW-YECL-47

Issue: **Capital Additions – North 60 New Billing Systems**

Reference: **Pages 9-11, 9-17**

Preamble: CW wishes to better understand the 2007 actual and 2008 forecast capital costs for the North 60 New Billing System.

Request:

a) Please provide a copy of the business case and any other documentation that explains the purpose of the North 60 New Billing System.

b) Please explain the basis of the allocation of $480,000 (32% of the total project cost) to 2007 while $1,008,000 (68% of the total project cost) is allocated to 2008. What was the CWIP treatment of this project?

c) Why is Yukon Electrical including these costs in rate base when it contracts for Billing Service with ATCO I-Tek (as per Schedule 5.3, line 11)? Shouldn't these costs be included in ATCO I-Tek charges?