



November 1, 2019

Yukon Utilities Board
Box 31728
Whitehorse, YT Y1A 6L3

Attention: Deana Lemke
Executive Secretary

Dear Ms. Lemke:

**Re: Yukon Energy Corporation (YEC)
2017-2018 General Rate Application – 2nd Compliance Filing
Argument**

ATCO Electric Yukon (AEY) hereby submits the enclosed Argument.

If you have any questions or concerns, please contact me at (780) 420-5449 or chris.cullingham@atco.com.

Yours truly,

Chris Cullingham
Manager, Regulatory

CC/by
Encl.

1. This Argument is submitted on behalf of ATCO Electric Yukon (AEY) in support of its intervention in the Yukon Utilities Board (YUB or Board) proceeding regarding the Yukon Energy Corporation's (YEC) 2017-18 General Rate Application Second Compliance Filing (Application).
2. This Argument has two focuses:
 - A. Comments on the Application; and
 - B. Comments on the Energy Reconciliation Adjustment (ERA) and Low Water Reserve Fund (LWRF) as solicited by the Board at the end of YEC's Technical Session held on October 8, 2019.

Comments on the Application

3. Regarding the LWRF/ERA – with the understanding that:
 - A. YEC has not changed its ERA forecast charge for the 2017 or 2018 test periods, and that the expected ERA charge is zero¹; and
 - B. If any ERA amounts are invoiced to AEY, then these amounts will be recovered from ratepayers via AEY's approved purchase power deferral account and associated Rider S;

then AEY does not oppose approving the proposed mechanism for the test period.

4. However, AEY maintains its concerns as outlined in its last argument about YEC's proposed LWRF/ERA mechanisms. That is, the mechanisms:
 - i. remain overly complex, increasing regulatory burden;
 - ii. are based on forecasts from an untestable model; and
 - iii. are unpredictable, retroactive rate adjustments that could be material.
5. Therefore, AEY recommends the Board only approve these mechanisms for the 2017/2018 test period. Further comments on these mechanisms follow.
6. AEY has no further comments on the Application.

¹ YEC GRA 17 18 Compliance Filing, Appendix 2.2, page 5.

Comments on the ERA/LWRF

7. In YEC's Technical Session regarding the LWRF & ERA, the Board solicited comments from interveners for comments on these mechanisms.
8. As such, AEY offers its comments on the following areas of the LWRF & ERA:
 - A. Underlying basis
 - B. Price signals
 - C. Complexity
 - D. Alternative

Underlying Basis

9. AEY understands the underlying basis for the LWRF is driven by a "key requirement" to separate: "(a) thermal generation changes due to overall grid load changes from (b) thermal generation changes from LTA water conditions²." AEY believes YEC is citing this "key requirement" as the main reason for why it did not consider any other options to reduce the complexity of the LWRF calculation³.
10. AEY submits that YEC has not proven it can accurately isolate changes in thermal generation due to load or hydro availability. Conversely, no intervener can disprove that YEC has not accurately isolated changes.
11. Instead of plainly stating that it cannot isolate these variances when considering actual data, YEC has proposed an elaborate forecast-and-true-up-to-another-forecast system that cannot be tested or retroactively verified^{4,5}. As such, there is no evidence to suggest that this "key requirement" is met (or can be met).
12. AEY understands that the purpose for the "key requirement" is to try to properly divide thermal generation variance risk between utilities and ratepayers. However, given YEC's inability to meet the requirement and the uncertainty introduced by

² "Notes for Oct. 8-19 Technical Session Final.doc", page 6

³ YUB-YEC-1-1, "Yukon Energy Corporation: 2017-2018 General Rate Application – 2nd Compliance Filing."

⁴ YUB-YEC-1-4, "Yukon Energy Corporation: 2017-2018 General Rate Application – 2nd Compliance Filing."

⁵ YUB-YEC-1-5, "Yukon Energy Corporation: 2017-2018 General Rate Application – 2nd Compliance Filing."

the proposed mechanism, it is impossible to conclude that the risk is allocated as desired, or worse, whether some new, modeling risk is introduced. AEY submits that the cost and risk of error in the model proposed by YEC must be weighed against what the model is trying to accomplish – for example, this tribunal might be spending an inordinate amount of time and effort trying to parse out an immaterial actual variance while simultaneously introducing a material modeling risk. It is AEY's view that, given the burdensome record required to explain YEC's proposed mechanism and the risk introduced by its untestable model, the cost of keeping YEC's proposed mechanism does not satisfactorily justify the "key requirement".

13. As such, in future proceedings, AEY recommends the Board reconsider the "key requirement" to allocate thermal generation variances to hydro availability or to load. For instance, the pros and cons of keeping the "key requirement" versus removing it should be considered. Particularly, AEY believes

- the ability to perform the requirement competently or accurately,
- the resulting complexity of the model, and
- the ability to verify results with actuals

should be heavily weighted factors when considering the costs and benefits of keeping the "key requirement".

14. If the requirement to differentiate between "thermal variance due to load" and "thermal variance due to water availability" is relaxed or removed, then AEY believes simpler mechanisms can be investigated.

Appropriate Price Signals vs Long Term Rate Stability

15. In the Technical Session, there was discussion around long term forecasts versus short term forecasts.

16. Generally, AEY submits most of the electric utility industry is moving toward shorter-term price signals via time-of-use (TOU) rates. Although TOU rates are not

currently available in the Yukon, AEY submits that shorter-term price signals are superior to “long-term average” price signals when considering hydro availability.

17. To clarify, AEY submits that:

- A. if water is forecast to be low or is low; and
- B. thermal generation is forecast to be used or is being used;

then, to the extent practical and possible, ratepayers should receive a contemporaneous, transparent, and representative price signal in an effort to curb fuel usage and associated costs.

18. AEY is concerned that YEC’s proposed mechanisms lack transparency and obscure actual costs facing ratepayers.

19. For example, YEC’s proposed mechanism allows significantly more than a year to pass before a price signal *might* be sent to ratepayers that water levels are low, and expensive thermal generation is being deployed. For example, YEC states that it must report LWRF balances within 60 days of year end⁶, after which, an LWRF or ERA rider may or may not be implemented, which may or may not provide ratepayers with a price signal reflective of low water availability. Therefore, if there is a water shortage and thermal generation is required starting in any given January, then it would be, at minimum, 14 months later before a price signal *might* be sent for the thermal generation that would be deployed.

20. While YEC suggested it was open to considering short- or long-term price signals in the Technical Session, YEC advocates for long-term average price signals in response UCG-YEC-1-4, suggesting the problems with short-term price signals:

- “Increase rate instability;
- Mask, rather than display, the expected long-term cost of power; and

⁶ AEY-YEC-1-2, “Yukon Energy Corporation: 2017-2018 General Rate Application – 2nd Compliance Filing.”

- Frustrate, rather than facilitate, intergenerational equity and fair treatment related to the benefits provided by hydro generation over its long-term economic life.”
21. AEY acknowledges that short-term price signals might introduce some rate volatility, however absent any proposal and analysis of a reasonable short-term mechanism, it remains unclear whether any instability would be material or, instead, just a minor adjustment. For example, some smoothing could result from the cap on the fund and/or any potential demand elasticity. For comparison, other jurisdictions employ quarterly transmission riders and hourly pool prices, and these jurisdictions seem to survive the rate instability (while offering customers more appropriate/timely price signals).
 22. For YEC’s second two bullets, AEY believes the determined pursuit of an “expected long-term cost of power” is puzzling. To the extent possible, accrual-based accounting and decades-long depreciation rates help to spread the costs & benefits of legacy hydro assets to different generations of ratepayers. Beyond that, pursuing an “expected long-term cost of power” neglects current load and generation conditions facing the grid. When there is a water shortage and thermal generation is being deployed, AEY submits that ratepayers should not be under the impression that their consumption has no impact on said thermal generation, that an “expected long-term cost of power” will spread these thermal costs to future ratepayers, and that their usage should not be curtailed.
 23. Ultimately, AEY is concerned that YEC’s mechanism design, with its delayed price signals and its “expected long-term cost of power”, makes no effort to influence ratepayer behavior when thermal generation costs are accumulating. Absent a transparent, contemporary price signal for thermal costs, AEY is concerned the overall cost of electricity will be higher (including any potential ERA charges).

Complexity

24. AEY is concerned that the complexity of YEC’s proposed mechanism has woven a reliance on niche expertise into the Yukon regulatory framework which is not conducive to regulatory efficiency.

25. AEY believes any deferral/contingency fund should (a) true up to actuals, and (b) be straightforward enough to be easily reviewed and tested by the Board (and other hearing participants) without any specialized labor.

Alternative

26. Apart from identifiable volume variances⁷, AEY understands fuel volume variance only occurs due to water availability or load changes. Unfortunately, in the Yukon, AEY does not believe retroactively parsing these variances can be done with confidence and therefore the mechanism should not seek to do so. As such, AEY recommends these mechanisms should be redesigned and the “key requirements” altered.
27. AEY submits a better solution would abide by realistic & achievable principles, provide relevant price signals, and value simplicity over complexity. With redesigned “key requirements”, a straightforward deferral/contingency fund mechanism can be implemented.

⁷ Specific, identifiable, non-water-related thermal operation risks include: risks related to Reserve for Injuries and Damages (RFID) events, capital projects, thermal unit fuel efficiencies, and generation maintenance.