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OPENING STATEMENT OF YUKON ENERGY CORPORATION

2021 General Rate Application
before the Yukon Utilities Board

September 23, 2021

Yukon Energy is pleased to be before the Yukon Utilities Board with our 2021 General Rate Application (GRA or Application). We welcome this opportunity to review with the Board our revenues, costs, rates and plans going forward and the changes in this regard since Yukon Energy's last General Rate Application for 2017/2018.

Yukon Energy's 2021 GRA addresses adjustments to Yukon Energy's approved revenue requirement and other matters as required to implement overall rate adjustments needed to recover the revenue shortfall in the test year.

Context leading to GRA

Yukon Energy's last requested rate increase was for the 2017 and 2018 test years. Order 2018-10, issued in December 2018, approved 2018 forecast costs that were much lower than the actual costs incurred in that year. This resulted in an actual Return on Equity (ROE) of 6.25% for 2018 compared to the approved ROE of 8.70%.

YEC's actual ROE continued to erode seriously in 2019 (3.81%) and 2020 (3.88%). However, addressing this revenue shortfall with the next GRA application was delayed by a number of factors, including delay in approval of the 2017/18 GRA compliance filing to November 2019, the very large true up rider and customer bill increases that resulted from this, and the COVID-19 pandemic in 2020.

Proposed Approach for 2021 GRA

Yukon Energy has adopted an approach for the 2021 GRA to address its serious revenue shortfall without leading to a material change in bills for Yukon ratepayers.

The key to this approach is a one year GRA with rate increases timed to coincide with the reduction or expiration of rate riders scheduled in 2021.

An interim rate increase was sought and approved concurrent with expected reduction of Rider F on July 1, 2021; and to address delays in the process, YEC is filing for an additional interim rate increase effective December 1, 2021 to ensure no material impact on customer bills when the 2017/18 GRA Rider comes off on that same date.

With implementation of this rate strategy the change to customer bills from November 2020 due to the 2021 GRA is expected to be small, i.e., less than 1%.

Drivers for GRA Rate Increases

A rate increase is required for the 2021 test year to recover a forecast \$10.971 million revenue shortfall. Without this GRA, YEC's ROE for 2021 is forecast at only 3.10%.

YEC's 2021 forecast revenue shortfall is driven by material increased costs and growing load on the Yukon Integrated System (YIS) as described in Tab 1 of our Application. Four key drivers are worth highlighting:

1. **Load growth and growth in peak demand:** Ongoing population and economic growth in Yukon has driven growth on the YIS, and electrification of space/ building heating have also impacted peak demand. January 2020 saw a period of sustained cold weather in Yukon (first sustained cold weather period below -40 C since late 1990's) – and this cold weather period resulted in a new system peak. This peak load growth has exacerbated the existing N-1 dependable capacity shortfall – this has driven significant required investments and spending on dependable capacity.

Yukon Energy has ensured temporary solutions are in place to meet the N-1 capacity requirement each winter until more permanent solutions can be put in place. This has included connecting diesel rental units in Whitehorse and Faro for the 2021 test year to meet this requirement while longer term solutions are being developed.

Yukon Energy has also actively pursued more permanent solutions. The 2021 GRA brings the LNG Third Turbine into rates. The Board has just concluded a Part 3 proceeding on the Battery Energy Storage System project for future implementation. YEC's recently completed 10-Year Renewable Electricity Plan sets out other major resource developments on this matter that will affect future GRA requirements.

2. **Aging Infrastructure requiring ongoing and material investments in sustaining capital:** Yukon Energy has been implementing a range of major investments in sustaining capital to address aging infrastructure. The 2021 GRA includes sustaining capital projects such as the Mayo – McQuesten Transmission Line Project; Transmission Line Refurbishment Projects; the Breaker Replacement Program; and replacement of the P125 Headgate.

To address these issues Yukon Energy has also been required to focus on development of a Physical Asset Management Managed System (PAMMS) to ensure YEC's asset management practices are aligned with industry best practice, and to ensure that expenditures on sustaining capital and maintenance are as efficient as possible. Implementation of PAMMS is supported by the purchase and implementation of the Enterprise Asset Management (EAM) software system in 2021.

3. **Increased complexity of relationships with First Nations:** Developments on the National scale, including the United Nations Declaration on the Rights of Indigenous

Peoples (UNDRIP) and the Truth and Reconciliation Commission (TRC) calls to action, Federal and Territorial governments commitments to Reconciliation and First Nations increased involvement in regulatory processes relating to projects that have or will impact their traditional lands and activities, have changed materially the landscape that utilities operate in across Canada.

In Yukon this has resulted in First Nations playing a more active role in project planning, assessment and regulatory approvals processes. Given these new realities, planning and relicensing projects have required more extensive engagement with and involvement by First Nations, which has increased the complexity, duration and costs of these projects. In this respect Yukon Energy must also ensure that it has sufficient and capable dedicated resources on staff to address this requirement.

4. **Climate Change Policy:** Yukon Energy's planning processes must also recognize the policy context being set by the Federal government and the Yukon government, including the Yukon government's climate change action plan (Our Clean Energy Future). The YIS is already reliant on renewable resources, and new renewable Independent Power Production (IPP) connections to the YIS will start to augment this reliance in the 2021 test year.

The Yukon government plans to pass a Clean Energy Act requiring Yukon Energy to meet a Renewable Portfolio Standard of 93% long-term average renewable energy generation. In order to ensure alignment with understood government climate objectives, Yukon Energy is continuing to plan and pursue renewable energy projects to meet long term energy and capacity requirements for the YIS, including the WH2 and WH4 uprate projects being brought into service in the 2021 GRA test year to increase renewable generation.

2021 GRA Filings

Yukon Energy's Application details the 2021 sales, generation and revenue requirement forecasts – including forecast capital costs that will affect rates in the test year – and how these affect the revenue shortfall and proposed rate changes. There have been two rounds of IRs on these filings as well as motions to address revised IR filings. Yukon Energy's witness panel is here to address any further questions or clarifications on this extensive material – including updates and variances that have emerged since the November 2020 filing of the Application.

Yukon Energy's Application also addresses three other regulatory concerns not directly related to the revenue shortfall or proposed rates: the Rate Schedule 39 fixed charge for the

industrial customers served by the Mayo McQuesten Transmission Line (MRTL); the Defined Benefit Pension Deferral Account; and the Low Water Reserve Fund (LWRF) and the related OIC 2021/ 16 directions.

Conclusion

In conclusion, this public hearing is an opportunity not only to test our Application - it is also an opportunity to discuss and debate the challenges facing Yukon Energy and its stakeholders.

We want to keep the context of this GRA fully in mind – the challenges to get this GRA before the Board, the limited one year focus to address serious revenue shortfalls, the objective to minimize bill changes for all ratepayers while addressing these revenue shortfalls, and the timing for the 2021 rate changes needed to accomplish this.

All parties, including the Board, are facing multiple challenges this year – including the challenges linked to these innovative virtual hearings. Experience with Yukon Energy's 2017-18 GRA showed all parties the impacts of not being able to conclude a proceeding in a timely manner. We will be doing what we can in this proceeding to help the Board and the parties successfully to conclude this proceeding so that everyone can proceed with their next set of challenges.