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September 27, 2023

Mr. Richard Buchan, Chair
Yukon Utilities Board
Box 31728
Whitehorse, YT Y1A 6L3

Dear Mr. Buchan:

**Re: Yukon Energy 2023-24 GRA - Reply to Intervener Comments on Interim Rates**

Yukon Energy's 2023-24 General Rate Application proposes (among other things) a final Rider J increase in the total amount of 20.20 percentage points, to be implemented in the following three stages:

1. 4.80 percentage point interim refundable rate Rider J increase on October 1, 2023, as set out in Tab 4, Appendix 4.1A;
2. A further 12.02 percentage point interim refundable rate Rider J increase on January 1, 2024 (to correspond with expected reduction of the Rider F charge), as set out in Tab 4, Appendix 4.1B; and
3. Final incremental 3.38 percentage point increase on August 1, 2024 as part of the 20.20 percentage point final Rider J increase (to correspond with removal of YEC's 2021 true-up Rider J1), as well as any time limited 2023/24 GRA true-up Rider J1 required concurrent with the final Rider J implementation.

Consistent with prior Board direction, the interim refundable rates proposed to take effect on October 1, 2023 and January 1, 2024 are aimed at providing a smooth rate transition for customers in order to minimize rate shock and to provide greater bill stability to Yukoners.

Board Order 2023-19 invited Interveners to submit comments with respect to YEC's request for interim refundable rates, and stated that the Board would endeavor to provide a ruling on interim rates for a November 1, 2023 implementation.

Comments on YEC's interim rates were provided by John Maissan, Nathaniel Yee, and the Utilities Consumers' Group (UCG). Mr. Maissan sought clarifications on the interim rate applications and recommended Rider J interim increases of 3.4% on November 1, 2023 and 6.0% on March 1, 2024.

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UCG recommended that the proposed interim increases be denied and that YEC be ordered to provide clearer proposals "to ensure the rates of Yukon electrical ratepayers remain somewhat stable and predictable". Mr. Yee did not provide any specific recommendation on interim rates, beyond suggesting that customers would prefer bill instability when it reduces their bills, i.e., Mr. Yee states that when other charges or electricity bills are expected to be reduced or retired, "this should be passed on to the customer".

- **Mr. Maissan** and **UCG**'s submissions both mistakenly focus on the reference to the overall rate increase numbers stated in Table 1 on page 2 of the Application (e.g., 3.34% increase October 1, 2023, and 8.44% increase January 1, 2024),[1] instead of addressing the specific interim refundable Rider J increases that YEC is actually requesting, as outlined at page 7 of the Application as well as in Board Order 2023-19 (4.80% increase October 1, 2023 and 12.02% increase January 1, 2024). In that regard, Mr. Maissan asks YEC to provide clarifications about alternative information sources on the actual interim rates being sought.

- In his submission, **Mr. Maissan** also seeks clarification as to when Rider F expires, the basis for assuming Rider F would go to zero January 1, 2024, and when the current Rider J1 true up rider from YEC's 2021 GRA expires. Mr. Maissan also notes the AEY Rider R interim rate increase of 2.50% on January 1, 2024 per Board Order 2023-22.

- In its submission, **UCG** states concern that YEC and AEY "are using interim rates as a go-to for filing late applications into a test year." UCG notes that the Board has denied AEY's application for an interim rate reduction October 1, 2023, and asks how YEC's proposed interim rate will now provide greater bill stability and predictability. UCG also states that the Application fails to demonstrate how the proposed January 1, 2024 interim Rider J increase is the same amount as the expected Rider F reduction, asks about the AEY portion of Rider F, and raises questions as to what happens if what is "expected" does not occur for the Rider F reduction.

Yukon Energy's response reviews prior Board direction regarding interim rates, and then addresses the submissions provided by Mr. Maissan, Mr. Yee and UCG.

[1] The 3.34% and 8.44% figures in Table 1 reflect the proposed overall average interim rate increases for all classes of customers; this table also includes the total overall average final rate increase of 14.11% as detailed in Table 4.2 of the Application, as well as the 2.33% incremental rate increase proposed for August 1, 2024 to finalize this overall rate increase. As detailed in Table 4.2 of the Application, Rider J only applies to the base rates. As a result, the percentage increases for Rider J are always higher than the corresponding overall rate increases shown in Table 1.

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***Prior Board Direction regarding Interim Rates***

The Board in Appendix A to Board Order 2021-08 (paragraphs 3-5) reviewed its jurisdiction to approve interim rates, and provided the following directions regarding interim rates:

> "The Board considers that the purpose of interim rates is two-fold. First, interim rates provide a smooth rate transition for customers to new rates in order to minimize rate shock. Second, they provide additional cash flow to the utility to cover increased costs while its rate case is being tested. The Board assesses an interim rate request with this purpose in mind.
>
> In deciding on an interim rate request, the Board considers some or all of the following factors:
>
> - the quantum of the interim rate increase and need for the increase, including the impact of the proposed interim rates and any shortfall in revenue to the utility;
> - whether the proposed interim rates promote rate stability and erase rate shock, and whether interim rates help maintain intergenerational equity;
> - the need to accommodate regulatory lag to preserve a utility's opportunity to recover the revenues ultimately determined by the Board to be just and reasonable for the year to which the interim rates apply; and
> - the merits of the applied-for revenue requirements have not been tested."

The Board's directions recognize that, absent interim rates, rate changes to reflect test year conditions would be delayed until a final Board approval of a compliance filing for the Application. Interim rates address that delay in a manner that avoids rate shock and intergenerational inequity resulting from the large true-up added rate rider that would otherwise be required to recover the resulting revenue shortfalls for the test years in the Application.

In this broader context, the objective of bill stability is enhanced when required interim rate increases can be timed to coincide with the reduction or expiration of existing rate riders. The Board fully recognized this benefit in its interim rate orders for YEC's 2021 GRA (Board Orders 2021-08 and 2021-14). However, as demonstrated in prior YEC and AEY GRA proceedings, interim rates continue to be required and approved regardless as to whether there are opportunities for these rates to coincide with the reduction or expiration of existing rate riders.

In dealing with GRAs with two test years, Board Order 2023-22 on AEY's interim rate rider directed that only one interim rate be implemented January 1, 2024, rather the applied for interim rate

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reduction October 1, 2023 following by the interim increase applied for January 1, 2024. In Appendix A to Board Order 2023-22 (paragraph 12), the Board noted that "Having a small rate decrease occur in October 2023 only to have a relatively large rate increase occur in January 2024 does not correlate with the Board's view of stable rates."

***Yukon Energy Interim Rates Comply with Board Directions***

Yukon Energy's requested interim rates comply with the Board's stated purpose and factors to be considered for interim rates:

- **2023 -** The proposed Rider J interim rate increase of 4.80 percentage points, now effective November 1, 2023, is forecast to provide approximately $0.7 million added revenue in 2023, or only about 11% of the forecast $6.7 million revenue shortfall for the 2023 test year. This interim increase continues to be required for implementation at the earliest opportunity, even though it can no longer be offset by any AEY interim rate reduction. Even with this interim rate, it is reasonable to expect material unrecovered 2023 revenue requirement that will need to be addressed in the final true-up rider.

- **2024 -** The proposed total Rider J interim rate increase of 16.82 percentage points (i.e. 4.80% on November 1, 2023, plus further 12.02% increment) effective January 1, 2024 is forecast to provide added revenue equal to approximately 83% of the forecast $15.3 million revenue shortfall for the 2024 test year. This interim increase does not implement 100% of the applied for 20.20 percentage point final Rider J increase, recognizing that the merits of the applied for revenue requirements have not yet been tested. Implementing this interim rate on January 1, 2024 allows for bill stability benefits through coordination with Rider F reduction (see further review below), reduces future true-up potential rate impacts, provides for intergenerational equity, and accommodates regulatory lag. The approval of an AEY interim rate increase for this same date does not provide any reasonable basis for either reducing or delaying this Yukon Energy interim Rider J increase – any delay in particular would introduce added and unnecessary bill instability.

- **Combined 2023-2024 -** Overall impacts of interim rates on final true-up rider requirements will depend on the time needed to finalize new rates (YEC has sought final rates for implementation on August 1, 2024, when the 2021 GRA true-up rider ends), as well as whether another interim rate is implemented on August 1, 2024 if needed to accommodate added time needed for finalizing rates (Board Order 2021-14 adopted this option for the 2021 GRA).

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Based on the forecast revenue requirements in the Application – and assuming the total Rider J increase is set at August 1, 2024 (either on a final or interim basis if needed) at 20.20 percentage points – the overall revenue shortfall would exceed $7 million or about one-third of the total $22 million shortfall forecast for the two test years.

In summary, the proposed interim refundable rates comply with Board directions in recovering only 83% of the 2024 forecast revenue requirement, and only about two-thirds of the combined 2023-2024 forecast revenue requirement. Additional issues raised by interveners are addressed below.

***Response to Intervener Comments***

The above review responds fully to comments from Mr. Yee and UCG that question the purpose and need for interim rates, as well as the value of mitigating interim rate bill impacts by timing interim rate increases to coincide with the reduction or expiration of existing rate riders.

The above review also confirms that there is no reasonable basis for UCG's recommended Board denial of the proposed interim rates or its recommendation that YEC come back with clearer proposals to ensure rates remain somewhat stable and predictable.

Mr. Maissan's and UCG's clarification requests are addressed as follows:

- The correct Rider J interim refundable rate increase requests are identified above, and differ from what Mr. Maissan and UCG assumed. The relevant information was provided in the Application and correctly set out in Board Order 2023-19. YEC has updated the rate schedules on its website.

- The Rider J1 true-up rider from the 2021 GRA expires on August 1, 2024. The Application clearly states that this is the reason that YEC is seeking final 2023-2024 GRA rates to be effective on that date – to further bill stability.

- Rider F is forecast as at January 1, 2024 to be reduced to zero from its current $0.01635/kWh. The impact of this reduction relative to the proposed interim Rider J increase of 16.82% as at January 1, 2024 over the current retail customer Rider J of 34.84% is reviewed in Appendix 4, Tables 4.2A-3 and 4.2A-4 (which confirms the significance of the Rider F reduction in enhancing bill stability).

- It is most appropriate to reduce Rider F to zero as at January 1, 2024 given that there is currently a negative balance in the Fuel Price Variance Account (FPVA) for Rider F (i.e.

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owing from customers), which (a) is due to 2023 fuel price variances calculated using the pre-2023/24 GRA approved fuel prices and efficiencies, and (b) will be significantly reduced or removed when recalculated with the more current fuel prices included in the GRAs filed by YEC and AEY. Based on past practice, any future Rider F changes regarding fuel price variances from the GRA forecasts will be deferred until the new GRA fuel prices and efficiencies are approved by the Board as part of determining approved 2023-2024 test year forecast revenue requirements.

- The forecast reduction of Rider F to zero as at January 1, 2024, in the context of AEY and YEC's current GRAs, is consistent with past practice (most recently in YEC's 2021 GRA[2]), and will offset the impact of interim increases for both YEC and AEY thereby reducing bill increases in winter months. Any Rider F changes during 2023-2024 will be addressed in due course through final AEY and YEC GRA rate revenue approvals and related true-up rate riders.

Based on the evidence and Board directions reviewed above, Mr. Maissan's recommended Rider J changes should be rejected:

- Mr. Maissan's recommended rates are of no assistance to the Board, because they were incorrectly based on overall average rate increases and not on the actual interim Rider J increases requested by YEC.
    - He assumed mistakenly that YEC sought a 3.34% Rider J increase as at October 1, 2023, which was the basis for his recommendation of a 3.4% Rider J increase as at November 1, 2023.
    - He also mistakenly assumed that YEC is seeking a further 8.44% Rider J increase as at January 1, 2024, which was the basis for his recommendation of a 6.0% Rider J increase as at March 1, 2024.

- Bill stability would also be seriously and adversely impacted if the proposed material Rider J increase is postponed until March 1, 2024, two months after the implementation of a material Rider F reduction on January 1, 2024. Accordingly, based on Board directions supporting bill stability, Mr. Maissan's recommended shift in the date for Rider J adjustment in early 2024 should be rejected.

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[2] YEC's 2021 GRA filed in November 2020 proposed an interim rate effective July 1, 2021 timed to coincide with an expected Rider F reduction to zero based on related Rider F forecasts. The Board approved this interim rate effective July 1, 2021 in Board Order 2021-08, and Rider F was reduced to zero effective July 1, 2021.

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- In addition to being based on incorrect assumptions, Mr. Maissan's recommended reduction of the amount of the early 2024 interim Rider J increase would also be likely to materially increase the amount of the true-up rider required for final rates, and therefore should not be adopted by the Board.

In summary, the interim refundable Rider J rates proposed by Yukon Energy in Appendix 4.1A (adjusted to start November 1, 2023) and Appendix 4.1B (for January 1, 2024) will promote rate stability to the extent feasible in the circumstances. The interim increase on January 1, 2024 also has built in ample cushion to take into account the fact that the applicant may not receive the entire Rider J increase applied for.

Accordingly, the interim refundable rates requested by YEC (adjusted to start November 1, 2023) are just and reasonable to both the utility and customers, and should be approved by the Board.

Should you have any questions, please contact the undersigned.

Yours truly,

Jason Epp
Vice President, Finance and CFO