

**IN THE MATTER OF YUKON
ENERGY CORPORATION
("YEC") ENERGY
RECONCILIATION
ADJUSTMENT ("ERA") PART 1
APPLICATION**

REPLY ARGUMENT

YUKON ENERGY CORPORATION

March 29, 2018

TABLE OF CONTENTS

1.0	INTRODUCTION.....	1
2.0	SPECIFIC ISSUES RAISED IN INTERVENOR ARGUMENTS.....	1
2.1	REPLY TO ATCO ELECTRIC YUKON (“AEY”).....	1
2.2	UTILITIES CONSUMERS’ GROUP (“UCG”)	2
2.3	CITY OF WHITEHORSE (“CW”).....	3

1.0 INTRODUCTION

Yukon Energy's reply argument ("Reply") addresses issues raised in the three intervenor Final Arguments regarding the Yukon Energy ERA Part 1 Application for requested approvals to comply with the direction of the Yukon Court of Appeal and the further directions of the Yukon Utilities Board ("YUB" or "the Board") in Order 2017-08.

2.0 SPECIFIC ISSUES RAISED IN INTERVENOR ARGUMENTS

2.1 REPLY TO ATCO ELECTRIC YUKON ("AEY")

The AEY Final Argument in effect addresses two separate matters:

- Go-forward concerns with the ERA and DCF mechanisms; and
- ERA final amounts for 2012-2016.

Go-Forward Concerns with ERA and DCF Mechanisms

AEY notes ongoing concerns with the ERA and DCF mechanisms that "remain and are significant,"¹ and argues that "further investigation is warranted to consider a more traditional, deferral account-type mechanism" and that "the DCF and ERA mechanisms should not be approved for use on a go-forward basis."

Yukon Energy's Reply is that the ERA Part 1 Application deals solely with determinations regarding ERA charges for 2012 through 2016. AEY's Final Argument does not propose that the ERA mechanism be changed with regard to the 2012 to 2016 period that is the subject of the current ERA Part 1 Application. Yukon Energy notes that all of AEY's go-forward concerns for 2017 and beyond regarding the ERA and DCF mechanisms can be addressed, as directed by the Board, as part of the ongoing 2017/18 GRA proceeding and therefore Yukon Energy has no further comment on these matters as part of the ERA Part 1 Application proceeding.

ERA Final Amounts for 2012-2016

With regard to the ERA final amounts for 2012 through 2016, including the revised ERA amount of \$501,000 for 2012, AEY indicates that it is satisfied that the ERA costs are calculated consistently with the current ERA and DCF mechanisms. Yukon Energy therefore has no comment on this portion of the AEY Final Argument.

¹ In summary, this includes the assertion that these "difficult to understand mechanisms are not easily audited or tested by the board or intervenors"; that "YEC's thermal cost and net income is not affected by how it operates the system" and that "some diesel-related operational risks by be absorbed by the DCF, and are therefore borne by ratepayers" and "the DCF does not appear to isolate and attribute variances solely due to water and wind availability." AEY also argues that "further investigation is warranted to consider a more traditional, deferral account-type mechanism".

2.2 UTILITIES CONSUMERS' GROUP ("UCG")

The UCG Final Argument includes assertions that are fundamentally incorrect or misconstrue the determinations made by the Yukon Court of Appeal.

UCG also expresses other concerns (Paragraph 5) regarding "what impact any retroactive change to the 2012 ERA amount will have on ratepayers going forward", and argues (Paragraph 14) that "YEC has not provided the required comprehensive cost of service for the Yukon rate zone that is required for the rates and charges being proposed in this application."

UCG does not otherwise comment on the final ERA amounts for 2012 to 2016, or on the amended Rate Schedule 42 as proposed in the ERA Part 1 Application.

Court of Appeal Determinations

On determinations made by the Yukon Court of Appeal, UCG asserts as follows: "As was determined by the Court of Appeal, YEC did not actually incur an additional \$439,000 in diesel generation costs" (Paragraph 13), implying that the Court found no actual YEC cost incurred in this regard. In support of its above assertion, UCG referenced (Paragraph 10 of Final Argument) the Court of Appeal finding at Paragraph 66 of the judgment, with UCG underlining to highlight the words re: YEC "did not incur that \$439,000 in 'actual' diesel generation costs." UCG is misinterpreting 'actual' diesel generation costs and total diesel generation costs as explained below.

UCG also asserts (Paragraph 11) that the Court in the final paragraph of its Decision has left it with the YUB "to determine the exact amount (if any) of the net DCF payment made by YEC attributable to AEY's above-forecast wholesale purchases of electricity that should be recovered as part of diesel generation costs."

Separately, at Paragraph 7 of its argument, UCG also asserts that, since YECSIM has yet to be tested or verified, "it stands to reason that no quantum can yet be set."

Contrary to UCG's assertions, the Court of Appeal's findings and directions on the matter of "actual diesel generation costs", and what the YUB is to do regarding YEC's wholesale rate, clearly direct that YEC is entitled to recover all of its diesel generation costs and that these costs include any net DCF payment attributable to AEY's above-forecast wholesale purchases of electricity. The following paragraphs of the Decision are noted in this regard:

- **[Paragraph 66]** "Yukon Energy was required by a Board-approved mechanism to pay an additional \$439,000 into the DCF for the above-forecast electricity purchased by Yukon Electrical even though it did not pay that \$439,000 in 'actual' diesel generation costs." The Court of Appeal then went on in the next paragraph to state: "Nevertheless, the additional net DCF payment of \$439,000 in 2012 was real and it was reasonable. Unless the Board used a consistent definition of Yukon Energy's diesel generation costs for both the DCF and the ERA, it was also otherwise unrecoverable."

- **[Paragraph 71]** The direction of the Court in the final paragraph made no mention of determining any specific amounts. The direction to the Board was "to set a wholesale rate that enables Yukon Energy to recover all of its diesel generation costs, which costs include any DCF payment made by Yukon Energy attributable to Yukon Electrical's above-forecast wholesale purchases of electricity."

In summary, the Court of Appeal agreed that YEC is entitled to collect its full cost of generation which includes actual diesel generation plus net DCF payments, and UCG's interpretation of the Decision is incorrect.

On UCG's assertion that "no quantum can yet be set" as the YECSIM model is untested, UCG ignores the Court of Appeal Decision finding that the YECSIM verification issues do not affect the issue of YEC's actual costs to be recovered through its wholesale rate. (See Paragraph 69 of the Decision where the Court states [in part]: "The Board's reference to concerns regarding YECSIM verifiability was unresponsive to the costs definition issue.").

Other UCG Concerns

UCG's comments regarding "retroactive changes" and an alleged requirement for a cost of service study in order to determine the ERA amounts are without merit in relation to the ERA Part 1 Application. The ERA is an unsettled matter from the 2012/13 GRA and the 2014 DCF/ERA Proceeding that has been before the Courts and was not finally determined until September 2017. Yukon Energy is seeking finalization of charges to AEY for 2012 ERA amounts following the Court's Decision. Neither the Court's Decision, nor principles established in Canada for utilities (including past decisions of the Board on ERA matters), provide any basis for UCG to assert that an ERA to recover actual Yukon Energy costs for 2012 requires a cost of service study for the Yukon rate zone.

2.3 CITY OF WHITEHORSE ("CW")

The Final Argument of the City of Whitehorse did not raise any specific issues with approval of the ERA Part 1 Application as filed and therefore YEC has no comments.

ALL OF WHICH IS RESPECTFULLY SUBMITTED



P. John Landry
Counsel for Yukon Energy Corporation

March 29, 2018