YUKON ENERGY CORPORATION ("YEC")
2021 GENERAL RATE APPLICATION

REPLY ARGUMENT OF
THE CITY OF WHITEHORSE

October 19, 2021

INTRODUCTION

1. This reply argument is filed on behalf of the City of Whitehorse (the "City") which participates in this proceeding on behalf of the City and its residents, and is guided by what it considers to be in the best interests of the City as a corporation as well as what is in the best interests of its citizens.

2. The City has reviewed the arguments filed by Yukon Energy Corporation ("YEC"), Yukon Utilities Consumers' Group ("UCG") and Nathaniel Yee ("NY") in this proceeding. The City relies on its earlier filed Argument, and makes the following additional submissions. Failure to comment on any issue should not necessarily be taken to connote agreement with another party's position on that issue.

REPLY ARGUMENT

3. The City's Argument correctly anticipated and addressed many of YEC's arguments on the issues identified throughout the course of this proceeding. Accordingly, the City provides the following brief points in reply. For ease of reference, the City has maintained its use of the issue headings provided in its Argument.

a) Diesel Generation

4. The City's Argument includes an extensive discussion on YEC's use of rental diesel generation units during the test period and the forecast costs concerning the same.[1] In short, the City submits that YEC has failed to meet its onus of demonstrating that its use of rental units is reasonable and is the most cost-effective option to provide safe and reliable service. On that basis, the City agreed with Mr. Bell's view that if there is not adequate analysis in evidence to support the rental option, the entire amount of the corresponding costs should be disallowed.[2] The City also noted the Board's wide

[1] City Argument, commencing at pdf page 4, para 9
[2] City Argument, pdf page 10, para 31

discretion to disallow a portion of the costs forecast by YEC in relation to the rental units on the basis that YEC has failed to meet its onus.[3]

5. Section 2.2.2 of YEC's Argument relates to YEC's non-labour production expense, which includes costs related to YEC's rental of diesel generation units.[4] YEC has organized its comments in this section under four headings. The first heading of "2021 N-1 Dependable Capacity Shortfall" comments on YEC's need to meet N-1 capacity and its identification of a shortfall following a cold weather event in 2020.[5] YEC also provides some comments about its need for a permit to install diesel capacity under the final heading of "2021 Feasibility to Operate Rented Diesels if required for N-1 Event". The City recognizes YEC's obligation to ensure sufficient dependable capacity.

6. Under the heading "Rented Diesels only Feasible Option to address 2021 Capacity Shortfall" YEC asserts that it has "conducted several detailed assessments of more permanent options for addressing the dependable capacity shortfall since diesel rentals were first installed for the 2017/18 winter."[6] YEC then goes on to discuss its 2016 Resource Plan (the "2016 Plan"), which included the new 20MW diesel plant option, and its subsequent 10 Year Renewable Electricity Plan (the "10 Year Plan").[7] YEC's conclusion under this section is that rented diesels are the only feasible option for addressing its dependable capacity gap for the test year.[8]

7. A large part of the City's Argument on diesel generation dealt with the very position advanced by YEC. In short, the City discussed the 2016 Plan and the 10 Year Plan and noted YEC's failure to provide tangible evidence in support of its determination that it would only rent diesel units after the 2017/18 winter and continue to do so into the test

[3] City Argument, pdf page 10, para 32
[4] YEC Argument, commencing at pdf page 23
[5] YEC Argument, pdf pages 23-24
[6] YEC Argument, pdf page 24
[7] YEC Argument, pdf pages 24-25
[8] YEC Argument, pdf page 25

year.[9] Neither the 2016 Plan nor the 10 Year Plan provides an analysis of this issue that demonstrates YEC's chosen course of action is reasonable.

8. As predicted, YEC's Argument focuses on the 20MW plant option from its 2016 Plan and the 12.5 MW plant option noted in a YEC information response. This approach ignores YEC's obvious failure to consider alternative options, such as the purchase of units similar to those being rented, and turns a blind eye to the very items YEC itself has confirmed should be included in a proper business case.[10] Again, YEC has confirmed that it never solicited purchase prices for the diesel generation units it was renting[11] nor did it consider the purchase and resale of diesel generation units.[12] Without that information, the City questions how YEC completed a thorough analysis of its available options.

9. Under the heading "Renting Option for 2021 is Preferable to Possible Ownership" YEC takes the position that "the evidence confirms that any suggestion that a potential diesel ownership option simply has no merit."[13] In support of that position, YEC refers to levelized cost of capacity ("LCOC") cost comparisons it provided to the City[14] and provides comments on why it considers the purchase of the units it is renting to be "not a prudent or practical solution."[15]

10. As noted in the City's Argument, the LCOC comparison information provided by YEC considered a single alternative option (the 12.5MW plant) and YEC has confirmed that it makes certain assumptions when calculating LCOC.[16] Again, in the City's view, a comparison of a single option, by way of a formula that parties have not been able to consider or test, does not demonstrate that YEC's decision is reasonable.

[9] City Argument, pdf pages 5-6
[10] See City Argument, pdf page 8, para 13
[11] Transcript, Volume 2, page 306, lines 17-18
[12] Transcript, Volume 2, page 305, line 8
[13] YEC Argument, pdf page 27
[14] YEC Argument, pdf page 25
[15] YEC Argument, pdf page 26
[16] City Argument, pdf page 8, para 21

11. With respect to YEC's comments about purchasing diesel units, the City notes that YEC has chosen to focus on the idea of purchasing units it is currently renting. While it is YEC's position that "the current rental units are not the type of unit YEC would ever seek to secure as permanent units,"[17] YEC fails to engage with the option of purchasing other types of units. The record is noticeably absent any analysis by YEC in that respect. The same can be said in relation to YEC's statements about the potential purchase and resale of generation units.[18] Aside from assertions made during the oral hearing, YEC fails to provide any evidence showing that it considered this option in a meaningful way.

12. For the reasons discussed within the City's Argument and those noted above, the City maintains its position that YEC has failed to meet its onus with respect to its use of rental diesel generation units during the test period and submits that the forecasted costs should not be allowed within its revenue requirement.

b) <u>Normalization of Sales</u>

13. The City's Argument recommended that, for its next GRA, YEC should be directed to investigate the use of a simple linear regression to normalize retail sales and use per customer, and to forecast use per customer.[19] That recommendation was based on Mr. Bell's evidence that normalizing use per customer would allow YEC to "readily identify trends" and that such information would "facilitate the review of use per customer, and sales, and in fact reduce the regulatory burden of a rate application."[20]

14. Despite never completing weather normalization for the separate communities it provided retail sales to or even considering the availability of data concerning the same prior to the oral hearing,[21] YEC takes the position that it "is aware of the extra work

[17] YEC Argument, pdf page 26
[18] YEC Argument, pdf pages 26-27
[19] City Argument, pdf page 14, para 43
[20] Exhibit C3-6, A14, pdf page 14
[21] City Argument, pdf page 12, para 37

required to implement the recommendation, and has not seen evidence that it would provide any value or reduce regulatory burden of a rate application."[22]

15. As noted in the City's Argument, it was Mr. Bell's evidence that a simple regression was completed on an Excel spreadsheet and only took a few hours a year.[23] Mr. Bell also asserted that he was "…not convinced that doing a simple regression… at least investigating [this issue], wouldn't be worthwhile."[24]

16. YEC's Argument confirms that the utility's "residential sales and general service forecasts are made on a community by community basis, and based on three year historical averages."[25] YEC has also continued to raise the extended cold weather event that occurred in 2020.[26] On this point, the City questions how such three year averages may impact YEC's recovery in situations where there are extreme weather events like the one experienced in 2020. For example, if there were 2 "cold" years in the three year period used as an average and the test year was a "warm" year, would YEC under recover? As the City understands it, the intent of normalizing sales is to have longer term data available for setting rates. On that basis, one would think that YEC would at least be interested in exploring this issue.

17. While the City acknowledged the accuracy range provided by YEC in its Rebuttal Evidence,[27] it questions YEC's hesitancy to even "investigate the use of a simple linear regression" as recommended in the City's Evidence. Aside from the assertion that YEC does not consider doing such regression to be a worthwhile exercise, the record is noticeably absent information demonstrating why such regression would not increase the accuracy of forecasts. As noted in the City's Argument, "if there is potential for increased accuracy and a corresponding positive impact on rates (i.e. a decrease) by

[22] YEC Argument, pdf pages 13-14
[23] City Argument, pdf page 12, paras 38-39
[24] Transcript, Volume 3, page 494, lines 20-24
[25] YEC Argument, pdf page 12
[26] See for example, YEC Argument, pdf pages 23 and 25
[27] City Argument, pdf page 12, para 39

way of a simple calculation as suggested by Mr. Bell, then that exercise should be completed."

c) <u>Brushing Costs</u>

18. As discussed in the City's Argument, the evidence filed by the City in this proceeding raised concerns about YEC's distribution brushing costs and the potential for YEC to be managing total brushing costs to meet a budget rather than doing required work.[28] The ultimate recommendation that was provided was for the Board to direct YEC to adhere to its brushing strategy and not allocate funds away from one function unless there is explicit evidence that such an allocation would not increase the risk of tree strikes.[29]

19. The City notes that YEC's Argument only refers to "brushing" in a footnote related to non-fuel operating and maintenance expense.[30] There, YEC asserts that it has addressed the City's concerns in the Rebuttal Evidence and during the oral hearing. With respect, as noted in the City's Argument, YEC's Rebuttal Evidence and the evidence provided during the oral hearing actually raised additional questions for the City in respect of potential work being missed in years when a re-prioritization of work occurs.[31] The City's concerns ultimately relate to maintaining a safe and reliable system.

20. Despite the above concerns, the City was pleased to hear YEC confirm that the project that required the re-prioritization of brushing work in 2019 was completed in that year and that there were no projects in the test period that would have a similar impact on varying either its distribution or transmission brushing forecasts.[32] Based on that information, the City anticipated that YEC would not be opposed to the Board providing the direction recommended by Mr. Bell in the City's Evidence.[33]

[28] City Argument, pdf page 14, para 44
[29] Exhibit C3-6, A18, pdf page 12
[30] See YEC Argument, pdf page 17, footnote 23
[31] City Argument, pdf page 15, para 48
[32] Transcript, Volume 2, page 309, lines 10 & 15
[33] City Argument, pdf page 16, para 50

Recognizing that brushing is an important part of maintaining a safe and reliable system and YEC has asserted that it is "committed to its brushing strategy",[34] the City would question any opposition by YEC to such direction.

d) Herbicide Use

21. The arguments filed by YEC, UCG and NY are silent on the issue of herbicide use by YEC during the test period. As illustrated in the City's Argument, the use of herbicides both within and outside the City's boundaries is an important issue for the City.[35]

22. As noted in the City's Argument, YEC confirmed a number of points related to herbicide use during the oral hearing.[36] While the City is pleased with YEC's confirmation that did not use herbicides during the last test period and that it will not use herbicides during the 2021 test period, the City submits that this commitment should be formalized by the Board. Accordingly, the City respectfully maintains its request that the Board's decision in relation to YEC's Application confirms that YEC has committed to not using herbicides anywhere within its service area during the test period and that YEC shall adhere to that commitment unless it consults with applicable stakeholders and satisfies any questions or concerns they may have.

e) Recovery of Legal Costs

23. Section 2.3 of YEC's Argument provides comments on YEC's Hearing Cost Reserve Account and the inclusion of costs related to appeals of Board decisions within the same.[37] In short, YEC takes the position that costs related to appeals should be included in rates on the basis that any costs it incurs in ensuring decisions that materially impact its revenue requirement are reasonable should be considered prudently incurred.[38] On that basis, YEC then goes on to submit that the costs for the

[34] Exhibit B-30, pdf page 5
[35] City Argument, pdf page 16, para 51
[36] City Argument, pdf page 16, para 52
[37] YEC Argument, pdf page 29
[38] YEC Argument, pdf page 29

appeal of the Board's decision related to demand-side management ("DSM") costs were prudently incurred and should be included in rates.[39]

24. The City strongly disagrees with YEC's position on this issue and notes the nominal submissions provided within YEC's Argument in support of the same. The City's Argument provided a fulsome discussion of this issue.[40] While the City refers the Board to that discussion, it again submits that the recovery of legal costs related to an appeal of a Board decision should be dependent on an analysis of the specific matter. Recovery should certainly not be the default as suggested by YEC.

25. The City's Argument also provided an analysis regarding YEC's appeal of the Board's decision related to DSM costs. While the City will not reproduce its initial submissions here, that analysis clearly supports a finding by the Board that YEC should not be able to recover its applicable appeal costs from ratepayers.[41] For clarity, the City maintains its submission that YEC's legal expenses related to its DSM appeal, as shown in YEC's responses to Undertakings #15 and #31, should not be approved for recovery from ratepayers out of the reserve account or otherwise.[42] YEC has failed to provide any submissions that would suggest an alternative outcome is warranted.

f) Updated Forecasts

26. The City's Argument addressed the issue of updated forecasts provided by YEC throughout the proceeding.[43] With reference to an excerpt from the Board's decision concerning YEC's 2012-13 GRA, the City submitted that the Board should take note of the updated forecasts and approve costs commensurate with the most accurate and current information available to it at the time of the hearing.[44]

[39] YEC Argument, pdf page 29
[40] City Argument, commencing at pdf page 17, para 54
[41] City Argument, pdf pages 17-21, paras 57 - 71
[42] City Argument, pdf page 21, para 72
[43] City Argument, commencing at pdf page21, para 73
[44] City Argument, pdf page 22, paras 75-76

27. With respect to this issue, the City notes that YEC's Argument refers to a comment made by YEC's Mr. Mollard during the oral hearing regarding what he considered to be an appropriate update.[45] In that respect, Mr. Mollard indicates, in part that "I think it needs to be a fulsome update of all projects" (emphasis added).[46] Despite that assertion, YEC's Argument takes the position that "it is important to distinguish the updates that can be easily accommodated from other updates that cannot properly be done without more evidence" before submitting that "[w]here adequate evidence is not available to address the integrated impacts of updates on test year costs the Board needs to rely on the Application forecasts."[47] YEC then goes on to suggest that updates should only be included with respect to two specific areas, namely "IPP updates" and "Major capital project updates", and not for other items where forecasts have been provided during the course of the proceeding.[48]

28. In the City's view, YEC's position lacks consistency in logic and would go against the very principle affirmed by the Board in the above noted decision, being that "… the most accurate and current information available at the time of the hearing should be used to make a decision on an application."[49] Further, YEC's assertion that certain forecasts are subject to "a wide range of interacting factors" and its suggestion that the use of updated items "ignores other potential offsetting updates not in evidence"[50] falls flat when one considers the fact that YEC could have provided such evidence on the record of this proceeding if it felt it was relevant to the Board's consideration of the applicable forecasts.

29. As a sophisticated entity, YEC should have known that updated forecasts provided during the hearing would be considered by the Board when finalizing YEC's 2021 revenue requirement. Instead of providing evidence on the "interacting factors" and

[45] YEC Argument, pdf page 10
[46] YEC Argument, pdf page 10 with reference to Transcript, Volume 3, page 468
[47] YEC Argument, pdf page 9-10
[48] YEC Argument, pdf page 10
[49] Board Order 2013-01, Appendix A, paragraph 39
[50] YEC Argument, pdf page 10

"other potential offsetting updates" during the proceeding, which would have allowed the Board and intervening parties to test that information, YEC chose to rely upon a single paragraph in its argument. In the absence of evidence demonstrating the validity of YEC's position on this issue, it should be disregarded by the Board.

All of which is respectfully submitted this 19th day of October, 2021.

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