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Michael Buonaguro
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June 21, 2010

Yukon Utilities Board
Box 31728
Whitehorse, Yukon
Y1A 6L3

Attention: Shay Smart, Board Secretary

**Re: Yukon Energy Corporation / Yukon Electrical Company Limited
General Rates Application – Phase II**

Dear Ms. Smart:

Please find enclosed the interrogatories submitted by UCG.

Yours truly,

A handwritten signature in blue ink, appearing to be 'M. Buonaguro', is written over a light blue horizontal line.

Michael Buonaguro

**YUKON ENERGY CORPORATION / YUKON ELECTRICAL COMPANY LIMITED
2009 GENERAL RATES APPLICATION – PHASE 2**

**Utilities Consumers' Group
Information Request No. 1**

- 1) *Reference:* February 19, 2010 Application, Page 1
According to the Applicants, permitting the utilities “to fully collect their 2009 revenue requirements at test year forecast loads” translates into a Phase II Rate Application that excludes any “net change to the overall level of rates in Yukon”.

Request:

Please explain further the rationale behind this statement when existing rates are based on a different revenue requirement and load forecast.

- 2) *Reference:* February 19, 2010 Application, Page 4
- “First energy block for use up to 1,000 kWh per month (about 70% of residential non-government class annual bills do not exceed this level), with an adjusted base energy rate...”

Request:

- a. Please provide detailed and summary billing data used to make the 70% determination.
- b. Please provide the above data for 2005 through 2009.

- 3) *References:* February 19, 2010 Application, Pages 1-3, 1-6
- “Board Order 1996-7 approved the revised rates and ordered the utilities to target all classes to 90-110% R/C within 10 years.”
 - “There has been no opportunity to advance the rate rebalancing directives outlined by the Board in Order 1996-7, or (prior to this Application) to prepare an updated COS based on updated and approved revenue requirements for both Companies.”

Request:

Please explain why there has been “no opportunity” for the Applicants to come forward with a rate rebalancing proposal to allow for a gradual adjustment over the last decade.

- 4) *Reference:* February 19, 2010 Application, Page 1-5
- 20-Year Resource Plan 2006-2025

Reference: Yukon Utilities Board Report on Yukon Energy Corporation
20-Year Resource Plan, January 15, 2007, Page 51

- “Now is an appropriate time for YEC and YECL to have a complete review of all GRA Phase I and Phase II matters. The Board recommends that YEC and YECL file a full GRA application before October 31, 2007. The application should include a full cost of service, rate design and an update of the Electric Service Regulations. The Board also suggests that YEC and YECL consider a performance-based regulation mechanism. As well, the Board recommends that evidence be provided as to what other utilities provide for Maximum Company Investment and model theirs accordingly”.

Request:

Please identify where in the current application the Applicants have addressed a performance-based regulation mechanism or set out a plan for its discussion and development.

- 5) *Reference:* February 19, 2010 Application, Page 1-6

- “Whereas rate relief subsidies impeded rate rebalancing in the 1996/97 GRA, ...”

Request:

Please explain what rate relief subsidies are being referenced and how they impeded rate rebalancing within a Phase II-type proceeding.

- 6) *Reference:* February 19, 2010 Application, Page 1-6

- “An Interim Energy Rebate (“IER”) was implemented in 2009, as an interim measure, and it is currently understood that it may terminate in 2010 (subsequent to the Phase II proceeding).”

Request:

- a. Please provide an update on the Applicants’ understanding of the current life of the Interim Energy Rebate.
- b. Please provide a calculation of a residential bill at current rates with the Interim Energy Rebate and without the Interim Energy Rebate for a customer using 500 kWh, 1000 kWh and 1200 kWh in February 2010 and June 2010.

- 7) *Reference:* February 19, 2010 Application, Page 1-11

- “While inter-class rate rebalancing (among the customer classes) cannot be undertaken at present due to OIC 2008/149, retail runoff block adjustments do not need to be deferred and can be undertaken now to ensure that consumers begin to receive appropriate efficiency price signals.”

Reference: Order-in-Council 2008/149, October 3, 2008

- Directive to Amend the *Rate Policy Directive (1995)*
Retail Rate Adjustments
2.1(1) The Board must ensure that rate adjustments for retail customers apply equally, when measured as percentages, to all classes of retail customers.

Reference: Order-in-Council 1995/090, May 29, 1995 (as amended)

- *Public Utilities Act - Rate Policy Directive (1995)*

Interpretation

- “retail customer” means a customer of Yukon Energy Corporation or of The Yukon Electrical Company Limited, other than a major industrial customer, an isolated industrial customer, or a wholesale customer;
- “wholesale customer” means the Yukon Electrical Company Limited when it purchases electricity from Yukon Energy Corporation

Request:

- a. Please confirm the Applicants’ understanding that OIC 2008/149 only limits rate adjustments for “retail customer classes” and that this excludes major industrial customers and Yukon Electrical Company as a wholesale customer of Yukon Energy Corporation.
- b. Please confirm the Applicants’ understanding that, from an analytical point of view, it is possible to undertake a full cost allocation analysis that excludes the rate design limiting OICs that have been issued over the last few years.

8) *Reference: February 19, 2010 Application, Page 1-11*

- “OIC’s in place since 1988, including the current OIC 1995/90, have provided key directions in this regard:
 - To allocate throughout Yukon the benefits of lower cost heritage grid generation and transmission assets which the Board last implemented through first block rates approved in the 1996/97 General Rate Application; combined with
 - Runoff rates to recover incremental costs of higher cost non-renewable generation.

The Board has sought to implement this balance in conjunction with a long-term goal of moving each class closer to paying a reasonable share of the overall allocated cost of the system.”

Request:

Please provide references to the Board’s efforts since the 1996/97 GRA to “implement this balance in conjunction with a long-term goal of moving each class closer to paying a reasonable share of the overall allocated cost of the system”.

9) *Reference: February 19, 2010 Application, Page 1-12*

- “It is important to design rates with regard to firm loads that send the appropriate price signal based on the current costing environmental.”

Request:

- a. Please provide further explanation of what this sentence means.
- b. Please provide all studies undertaken by or for the Applicants which identify what could be regarded as “the appropriate price signal” for Yukon electricity ratepayers.
- c. Please provide the elasticity study used to demonstrate that by "designing rates with regard to firm loads that send the appropriate price signal based on the current costing environment" will achieve the goals proposed. Please explain what time lag is shown by this study for this to actually take effect.

10) *Reference:* February 19, 2010 Application, Page 2-2, Note 5

- “In preparing the Yukon Energy Compliance Filing, Yukon Energy was directed to use Yukon Electrical’s sales forecast for the purposes of forecasting wholesale sales. This was incorporated into Yukon Energy’s Compliance Filing for wholesale (Rate Schedule 42) sales, but was inadvertently not incorporated for wholesale Rider J collections. In forecasting Rider J collections, Yukon Energy used a wholesale rider recovery estimate that slightly overstated the recovery that should be forecast based on YECL’s approved load forecast. Consequently, Yukon Energy’s approved Rider J adjustment at forecast sales levels (to 12.46%) fails to collect \$0.054 million of YEC’s approved revenue requirement. The rates proposed in this filing (Tab 4) address this adjustment on a go forward basis (implies correct Rider J of 12.597%). No approvals are sought to adjust Rider J for this factor during the periods it was applicable.”

Request:

- a. Please explain why the Applicants believe that no approvals are required to change the conditions of a Board Order.
- b. Please provide all studies undertaken by or for the Applicants which identify what could be regarded as “the appropriate price signal” for Yukon electricity ratepayers.

11) *Reference:* February 19, 2010 Application, Page 3-5

- “Aishihik Plant (existing, excluding Aishihik 3rd Turbine) – Classified 100% to Energy - Under the new capacity planning criteria recently adopted in Yukon Energy’s 20-Year Resource Plan: 2006-2025 (driven by N-1 methods), Aishihik generation is considered to not contribute to the WAF system's ability to serve peak loads at critical times due to transmission constraints.”

Reference: Yukon Utilities Board Report on Yukon Energy Corporation 20-Year Resource Plan, January 15, 2007, Page 30

- “It should be noted, however, that the addition of the third turbine under YEC’s plan is not a capacity requirement determined by the planning criteria, but rather a requirement driven strictly by economic reasons, namely to offset future diesel generation that is expected to increase under the base-case load

forecast. However, should the actual loads turn out higher or lower than the loads under the base-case forecast, the optimal timing of the third turbine would move earlier or later than 2013. Therefore, to minimize the uncertainty around timing of the third turbine, the final decision to proceed with this project should be made closer to the date when economic reasons indicate that the turbine is needed. Therefore, the Board recommends that this project not proceed until that time unless YEC can justify an earlier in-service date.”

Request:

Please explain the Applicants’ reasoning of “transmission constraints” versus the Board’s determination that the third turbine was driven by the need to offset diesel use.

12) *Reference:* February 19, 2010 Application, Page 3-6

- “Mayo Hydro – Classified 100% to Energy – The Companies in this Application propose to change the classification of hydro plant at Mayo (from that proposed by the Companies and recommended by the Board in 1992 and subsequently approved in Order 1993-8 and 1996-7) due to material changes in circumstances on the system since the 1996/97 GRA.”

Request:

Please provide details of the loads met by the hydro plant in Mayo during 2009.

13) *Reference:* February 19, 2010 Application, Pages 3-10, 3-11, 3.2A-6

- “The Companies have reviewed and updated the customer/demand classification factors for Distribution plant using Yukon specific data and the same methodologies that were approved in ATCO Electric’s 2010 Distribution Tariff Application as well as Northland Utilities (NUY) and Northland Utilities (NWT) 2008-2010 Phase II General Rate Applications.”
- “The Companies view the above classifications to be consistent with the goals of identifying cost causation. These classifications are also supported by the National Association of Regulatory Utility Commissioners’ (NARUC) Electric Utility Cost Allocation Manual and are consistent with the practices of other Canadian utilities.”
- “YECL studied the results of the zero-intercept and minimum plant studies and consider an average of the two methodologies to be the most appropriate and accurate. The zero-intercept method can produce results that allocate more costs to demand rate classes (large consumer) and the minimum plant method can produce results that allocate more costs to the customer (residential) rate classes. An average of the two methods helps mitigate these biases. This approach is consistent with the approved methodology of ATCO Electric Ltd. (Decision 2009-231) as well as Northland Utilities (NUY) (Decision 1-2009) and Northland Utilities (NWT) (Decision 2-2009).”

Request:

- a. Please provide regulator decision details of the customer / demand classification factors that were most recently approved for ATCO Electric and Northland Utilities.
- b. Please provide any additional evidence indicating that any other utility blends the results of the zero-intercept and minimum plant classification methods to determine its classification factors.
- c. Please provide details on the total costs that have been shifted from one rate class to another by moving to the proposed classification split.
- d. Please provide an analysis of the impact of going with just the zero-intercept or the minimum plant methods.
- e. Please provide documentation showing support from NARUC and other Canadian utilities for this proposed classification method.

- 14) *Reference:* February 19, 2010 Application, Page 3-12, Table 3.1

Request:

Please provide details on the total costs that have been shifted from one rate class to another by moving to the proposed demand load allocators.

- 15) *Reference:* February 19, 2010 Application, Page 3-12, Note 5

- “NCP demands are used for allocating distribution system related costs, such as distribution poles and wires. These assets are largely not relevant to industrial customers.”

Request:

- a. Please confirm that the industrial class has been allocated its fair share of distribution system related costs. Please identify the amount in relation to the total.

- 16) *Reference:* February 19, 2010 Application, Page 3-13, Table 3.2

Request:

- a. Please explain the significant shifts in the revenue-to-cost ratios of the street lights and sentinel lights classes.
- b. Please explain why the Residential Non-Government class revenue-to-cost ratio has not been adjusted toward the Board prescribed range?
- c. Please provide details of the plan the Applicants have developed to move all revenue-to-cost ratios toward the Board prescribed range and outline the public consultation that will be undertaken.

- 17) *Reference:* February 19, 2010 Application, Page 3-14, Table 3.3

- “Cost per customer: Customer related costs for a distribution level customer

(residential or general service) vary from approximately \$453/year to \$475/year.”

- “Embedded costs of energy: The energy related costs for distribution level customers (residential or general service, as well as lighting classes) is 8.5 cents/kWh at the customer meter, and for transmission level customers (industrial) the cost is 7.8 cents/kWh.”

Request:

- a. Please explain the variance for different types of distribution customer.
- b. Please provide the customer level cost per customer and explain whether any weighting factor was used to determine the average customer-related cost levels (i.e., did a residential customer carry the same weight as an industrial customer).
- c. Please explain the difference between the energy-related costs by customer class.

18) *Reference:* February 19, 2010 Application, Terms and Conditions of Service

- Page 5-2 – “Changes to Schedule B, Maximum Company Investment - The Companies propose changes to the Maximum Company Investment levels for Residential, General Service and Street Lighting customer classes as well as for non-standard customers for 2011. YECL seeks further approval of incremental increases over the period 2012-2015 based on an “average cost” standard, as set out in the YECL Maximum Investment Level (MIL) study provided in Attachment 5.4, which YEC does not support. Schedule B also addresses Maximum Company Investment approach for Industrial customers.”
- Page 5-3 – “The proposed changes, as contained in the Terms and Conditions of Service document in Appendix 5.2, reflect agreement between the Companies with one exception. The Terms and Conditions of service are proposed by YECL to be updated to eliminate what is presently section 4.18(d) in respect of “reconnection” (the terms related to reconnection are revised to now be section 4.15).”
- Page 5-6 – “Agreement exists between the Companies in respect of the present Application, for one-time increases to the Maximum Company Investment to take effect as part of this Application, for connections starting January 2011. There is no agreement between the Companies in respect of the “cost based approach”, or any multi-year implementation of the Maximum Company Investment levels summarized in Table 5.3.”

Reference: Yukon Utilities Board Report on Yukon Energy Corporation
20-Year Resource Plan, January 15, 2007, Page 51

- “Now is an appropriate time for YEC and YECL to have a complete review of all GRA Phase I and Phase II matters. The Board recommends that YEC and YECL file a full GRA application before October 31, 2007. The application should include a full cost of service, rate design and an update of the Electric Service Regulations. The Board also suggests that YEC and YECL consider a

performance-based regulation mechanism. As well, the Board recommends that evidence be provided as to what other utilities provide for Maximum Company Investment and model theirs accordingly.”

Request:

- a. Please explain how the Board and intervenors should be able to address the issue of Maximum Company Investment when the two utilities that have been asked to work together and present a united proposal in Phase II of the GRA are unable to come to an agreement on a fundamental component of this issue.
- b. Please explain why this issue should not be removed from further discussion until the two utilities come forward with a unified proposal.

19) *Reference:* February 19, 2010 Application, Rate Design

- Page 4 YEC-1 - “While the Companies jointly filed two rate design options on February 19, 2010 for review by the Board (Option A and Option B), the Companies were not able to arrive at common descriptions of the options, the relative merits or drawbacks of each of the options, or the underlying system conditions driving the need to re-establish efficiency-based price signals to customers.”

Request:

- a. Please explain how the Board and intervenors should be able to address the issue of Rate Design when the two utilities that have been asked to work together and present a united proposal in Phase II of the GRA and are unable to come to an agreement on fundamental components of this issue.
- b. Please explain why this issue should not be removed for further discussion until the two utilities come forward with a unified proposal.
- c. Please provide an illustrative set of rates where each rate class has a revenue-to-cost ratio of 1 and an analysis of the bill impacts of these illustrative rates.

20) *Reference:* February 19, 2010 Application, Rate Design, Page 4YEC-10

- “In addition to complying with rate policy OIC direction (provided by OIC 1995/90) and past Yukon practice, it is relevant to reflect rate design principles and practice currently being implemented in other jurisdictions throughout Canada, particularly the increasing emphasis on ensuring incremental usage by larger customers (from larger residential customers through to industrial) reflect incremental supply costs on the system.”

Request:

- a. Please provide details on the practices “currently being implemented in other jurisdictions throughout Canada” used to develop the rate design proposals identified by the Applicants.
- b. If practices in Quebec were not originally included in the Applicants’ analysis, please comment on how Quebec deals with the impact of large customers on the availability of the pool of “cheap” energy by requiring those customers to

deal with an extra regulatory scheme based on that customer's impact on society at large, as opposed to simply their impact on energy charges (i.e., from the utilities' perspective, the large customer is treated like all other customers, and pays a "normal" rate set by "normal" cost allocation principles). Outside the regulated rate, however, the customer may have to pay extra or receive a discount through the government based on other factors.

- 21) *Reference:* February 19, 2010 Application, Rider D Supplemental
- Page 2 - "Yukon Electrical's proposed Rider D is intended to reflect the nature of Riders used in other similar jurisdictions such as Northland Utilities (NWT) Limited Rider I – Diesel Generation Rider."

Request:

- a. Please provide details of the NWT Diesel Generation Rider and details of riders "used in other similar jurisdictions".
- b. Please explain why a quarterly application of Rider D would not promote a more stable environment for ratepayers and still provide the relief requested by YECL.
- c. Please provide details of the actual credits and debits to the wholesale purchase power deferral account in 2008 and 2009.