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OPENING STATEMENT OF YUKON ENERGY CORPORATION

2012/2013 General Rate Application

before the Yukon Utilities Board

November 12, 2012

Mr. Chairman, members of the panel, Yukon Energy is pleased to be here today in front of the Yukon Utilities Board with our 2012/2013 General Rate Application to continue development of Yukon's capability to meet ongoing growth with reliable, affordable and environmentally responsible power that is flexible to changing loads and conditions.

Due to past legacy hydro and transmission developments to meet earlier growth, Yukon continues today to offer the lowest electrical rates in Northern Canada. Yukon Energy is working to keep this advantage while meeting current and future growth needs.

In my opening statement in 2005, I said that Yukon Energy was committed to working with the Board to find a mechanism to ensure that we were before you on a regular basis. This is our seventh appearance in a public hearing before this Board since spring 2005. Yukon Energy's ability to greatly expand its transmission and generation capabilities over the past seven years while reducing rates is a testimony to the work of many parties since 2005, including this Board's timely hearings to review Purchase Power Agreements (PPAs) for Minto and Alexco and Part III Energy Certificate Applications for the Carmacks-Stewart Transmission Project (CSTP) and the Mayo B Hydro Project.

Yukon Energy submitted its current Application on April 27, 2012, requesting approval to recover forecast costs to supply customers in 2012 and 2013, including approval for the first increase in Yukon Energy's firm retail rates to be approved by the Board for non-industrial customers since 1998/1999. The Application also seeks approval of specific additional proposals, including proposals for enhanced rate stability related to planning study costs required to minimize future high cost diesel requirements and related to diesel generation costs that can fluctuate from year to year in response to fluctuations in annual hydro generation.

Yukon Energy is a young company run by Yukoners. We continue to be focused on the future - and this Application is another important step in addressing key regulatory issues and development challenges to meet the future needs of Yukon ratepayers.

Ratepayer Savings Today from Successful Measures Over the Last 10 Years

In addition to the continuing ratepayer savings from legacy hydro and transmission developed many decades ago, Yukon ratepayers today also secure savings from more recent initiatives undertaken by Yukon Energy over the last ten years.

Despite continuing cost pressures from many sources over the last several years, Yukon Energy has successfully implemented various measures to avoid the need for rate increases and ensure that costly diesel generation is minimized as the load grows.

For example, measures successfully implemented since the 2008/2009 GRA have resulted in material reductions today in our applied for GRA revenue requirements -- $6.8 million reduction for 2012 and $6.5 million reduction for 2013 made up of

- Ratepayer savings of $3.0 million in 2012 and $2.6 million in 2013 arising from the reduction in diesel generation requirements following completion of 3 major legacy projects (CSTP 2, Mayo B and Aishihik 3rd Turbine).

- Ratepayer savings of $1.5 million annually in the test years from the refinancing of Yukon Energy's long term debt at the end of 2010.

- Ratepayer savings of $2.3 million in 2012 and $2.4 million in 2013 arising from reductions requested today in the depreciation rates of key generation and transmission assets.

Additional savings flow from measures taken before the 2008/09 GRA which reduced the applied for revenue requirement at that time by more than $6 million and which in many cases continue to provide ongoing cost savings to ratepayers - these successful earlier measures include:

- Completion of the Mayo Dawson transmission line in 2003, resulting in ongoing displacement of diesel generation at Dawson and Stewart Crossing (net cost saving in 2008 of $2.5 million).

- The 2008 completion of Carmacks-Stewart transmission project stage 1, resulting in ongoing diesel displacement at the Minto mine and at Pelly Crossing and net revenue benefits for Yukon ratepayers (overall savings in 2009 exceeding $1.5 million).

- Material secondary sales revenues that help to reduce the rates needed for firm sales (net benefits of $0.5 million/year in 2009).

- Debt refinancing in 2003 that materially reduced ongoing interest costs (approximate savings of $0.7 million/year).

- Depreciation study changes in 2005 that materially reduced ongoing depreciation expenses (approximate savings of about $1.2 million).

All of these measures demonstrate very clearly Yukon Energy's commitment to keep rates as low as possible while addressing significant growth in the Yukon.

New Era of Depleted Hydro Surplus and Increasing Diesel Generation

The 2008/2009 GRA indicated that the WAF system was reaching a point where the material surplus hydro generation available since the closure of the Faro mine was becoming greatly diminished. Further, with ongoing non-industrial load growth and expressed interest from potential industrial customers, it was anticipated that the then existing hydro generation would likely be fully utilized within a few years -- highlighting the need to look ahead to developing the next era of affordable and environmentally responsible projects to meet this forecast growth.

The current Application confirms that continued non-industrial and industrial load growth has outstripped the available surplus hydro generation, notwithstanding the additional hydro capability which new legacy projects have brought to the system since 2009, to the point that diesel generation is once again required to supply growth.

- Non-industrial grid load growth has been higher than the 2006 Resource Plan forecast of 1.85% per year and the 2011 Resource Plan forecast of 2.26% per

year. By the end of 2013, non-industrial grid load growth as projected in the GRA is expected to grow by approximately 35 GWh over the 2009 approved forecast. More recent internal forecast updates indicate non-industrial grid load is expected to exceed GRA forecasts in 2013 by more than 7 GWh.

- Industrial growth by the end of 2013 as projected in the GRA is expected to increase by approximately 33 GWh over 2009 approved forecasts. Our experience in 2012 with the Minto mine in particular shows materially lower growth than expected and Minto's latest updated forecast show industrial grid load in 2013 at almost 16 GWh below the GRA forecast.

A notable share of the added growth today must be met with diesel generation and, absent new initiatives, as the load continues to grow the share of growth served by diesel generation will continue to become more and more significant. For example:

- With the 2011 load of 401 GWh, diesel generation would on average supply 30% of the next 5 MWh of growth above 401 GWh

- With the 2012 GRA forecast load of 416 GWh, diesel generation would on average supply 49% of the next 5 MWh of growth above 416 GWh

- With the 2013 GRA forecast load of 430 GWh, diesel generation would on average supply 59% of the next 5 MWh of growth above 430 GWh.

This fundamental change on the system that is forecast to occur during the test years means that absent bringing on new lower cost sources of generation, an increasing portion of new load on the system must be supplied using costly diesel generation.

To demonstrate the impact this reality is having on Yukon Energy's costs -- the GRA forecasts diesel fuel costs in 2013 (assuming long term average hydro generation) at over $4.7 million more than the diesel cost approved for the 2009 Revenue Requirement.

The GRA mitigates this cost increase by proposing, as a transition measure, to include only 59% of long term average diesel generation fuel costs in the requested revenue

requirements for 2013 and 66% for 2012. As reviewed in response to YUB-YEC-12, the 2009 approved diesel fuel costs recovered only 32% of long term average diesel generation costs - accordingly, the current Application moves a good portion of the distance towards full recovery of long term average costs. And as noted in response to YUB-YEC-1-3, without this transition measure an additional cumulative rate increase of 3.59% would be needed by 2013 to recover 100% of long term average diesel generation costs. However, even with this transition proposal, diesel fuel costs in 2013 are still forecast to be more than $2.6 million higher than the diesel fuel costs approved for 2009.

Growth of System Driving Increase in other Yukon Energy Costs

In addition to increasing costs of diesel generation, ongoing load growth is leading to substantial increases in capital expenditures, the size of Yukon Energy and planning costs.

Increases in capital expenditures

In terms of capital expenditures -- Overall, by 2013 an approximate $213 million increase is forecast in gross assets since 2009. Capital additions include

- Completion of three major legacy asset investment opportunities
- Refurbishment of old assets and projects to enhance grid reliability including major investments in the Mayo Hydro Substation ($10.1 million), and in the Aishihik Generation Station (Redundancy Project - $6.4 million).
- Overall mid-year net rate base growth over this period of $93.7 million excludes approximately $119.69 million in new net contributions.

Keeping in mind that the impact on ratepayers of this unprecedented level of capital expenditures has been greatly moderated by approximately $120 million of no cost contributions – the overall impacts on revenue requirement forecast for 2013 compared to 2009 approved forecast costs are an increase in depreciation and amortization expense of $3.1 million and, despite lower average cost of capital, an increase in return on rate base

expense of approximately $3.6 million. YEC's forecast average cost of capital (debt plus equity) in 2013 in 5.85%, which is well below the 7.09% forecast cost approved for 2009.

Increase in labor and O & M costs

The significant overall forecast growth in assets since 2009 is also expected to require a material increase in the size of Yukon Energy, increasing both labour expense and non-labour expense. Forecast labour expense by the end of 2013 is $2.5 million higher than in 2009 approved costs, reflecting a forecast increase in 12.26 FTE positions. Non-fuel and non labour O&M is forecast to increase by $2.7 million over 2009 approved costs.

Increase in Planning Costs

As anticipated in the 2008/09 GRA, Yukon Energy has carried out extensive feasibility planning studies since 2009 to assess potential options for reducing diesel generation, and deferred costs for these planning studies have remained in work-in-progress (WIP) for consideration at this GRA. This includes forecast spending to the end of 2013 of $4.8 million for planning related to Marsh Lake Storage, $3.0 million for DSM, $2.2 million for Atlin storage, $4.4 million for Gladstone Diversion, $1.7 million for LNG, $2.6 million for geothermal, $2.1 million for Mayo Lake Storage Enhancement and $1.6 million for waste to energy.

Given the unprecedented levels of planning costs incurred since 2009, an updated planning cost accounting policy is included in the Application to ensure that these costs are addressed in a manner that helps to moderate risks, that recognizes the need for near term and longer term rate stability, and that does not result in undue rate impacts.

Cost Pressures have been growing since 2009

As can be seen by reviewing Yukon Energy's results over the last several years, Yukon Energy has been experiencing these wide ranging cost pressures for some time. Since

2008/2009 GRA there have been significant shortfalls from the 8.49% YUB approved return on equity (ROE):

- 7.92% in 2009 (Actual)
- 7.45% in 2010 (Actual)
- 6.59% in 2011 (FYF in GRA, subsequent Actual)

Absent new rate increase, forecast ROE at existing rates without the Application falls to 4.38% in 2012 and -0.97% in 2013. In short, ongoing cost pressures as reviewed in the Application have become simply too material to continue without a reasonable rate increase at this time.

Dealing with Rate Stability Issues - DCF and Other Measures

The transition measures proposed for moving to full long term average diesel generation cost recover have capped the current rate increase at 6.40% in 2012 and 6.50% in 2013. As a result, diesel generation included in the proposed revenue requirement equals 65.6% of long term average (LTA) costs in 2012 and 59.0% in 2013.

The requirement for material non-peaking diesel generation in the revenue requirement, even at less than 100% of LTA, brings the Diesel Contingency Fund (DCF) back into play. The Application's forecast diesel generation reinstates the need for DCF measures to enable rates to recover diesel fuel and O&M costs based on LTA hydro generation rather than forecast actual diesel generation. The Application also includes proposed measures to update and permanently trigger the DCF as of January 1, 2012, measures to have future secondary sales net revenues go to the benefit of ratepayers through funding of the DCF, and measures to adjust the Wholesale Rate Schedule 42 Energy Reconciliation Adjustment (ERA) to reflect the DCF updates. The increased need for baseload diesel generation signals increased ratepayer risks related to low water or drought conditions when costly requirements for diesel generation can greatly exceed 100% of LTA diesel generation costs.

Other rate stability measures proposed in the Application include the new planning cost accounting policy (Appendix 5.1), a new Demand Side Management (DSM) accounting policy (Appendix 5.2), and the Mayo B Flexible Debt provisions (Appendix 5.3).

Yukon System Planning Challenges

I want to end my opening comments by highlighting some of the significant opportunities and challenges the Yukon faces in planning for the anticipated future load growth on the integrated grid.

Yukon Energy's 2008/09 GRA reviewed the on-going need to undertake significant planning activities to ensure the next generation of low costs supply resources is available to meet continued growth on the integrated grid and to displace diesel requirements. In Board Order 2009-8 the Board addressed these activities and stated as follows: "it understands that YEC does not have the luxury of waiting for those loads to, with full certainty materialize before taking any action" and further that "YEC's obligation to serve does require it to plan the system to meet these expected loads and any other requirements that may arise".

As in the past, major new loads on the Yukon system create opportunities to develop new non-diesel supply options. Yukon Energy's ongoing resource planning process continues to update forecast non-industrial and industrial grid load scenarios and related default diesel grid generation through to 2030. During 2011, we updated the 2006 20-year Resource Plan as part of an extensive public engagement process that commenced with our March 2011 charrette. In June 2012 we updated the 2011 20-year Resource Plan grid load forecasts - and in November we have once again updated these forecasts to reflect evolving conditions.

The fundamental realities faced by the Yukon system make planning for future load growth a challenging exercise.

- The Yukon system is an isolated system with no outlet to external markets to secure or sell electricity in response to conditions on the Yukon grid.

- The Yukon system also has a relatively small customer base over which the cost of investments in new assets must be spread.

- The Yukon system is also winter peaking hydro grid with limited water storage capability and considerable seasonal and annual variability in hydro generation supplies.

These challenges emphasize the importance of having affordable, flexible and reliable non-hydro power supply capability able to deal with these conditions.

Yukon Energy also faces substantial challenges in forecasting and planning for major loads (mines or new subdivisions) – these potential load changes have material impacts in Yukon compared to larger and non-isolated provincial grids. Investments in assets to serve new large loads are expensive on the Yukon System and can have material hangover effect if the load disappears.

These realities also emphasizes the importance of having flexible supply capability ready to serve such loads while managing the rate impact risks related to the hangover effect.

Yukon Energy has been actively and continuously engaged since 2005 in identifying and assessing a range of new resource supply options to meet these challenges. Attention initially focused on enhancement of our existing hydro and other infrastructure. In recent years, however, the range of our assessment has expanded as we approach the time when resource development must move beyond enhancement of what was previously developed. Today we are truly on the cusp of needing to move forward with major new measures to displace the need to otherwise rely on diesel generation as the default supply option to meet Yukon's growing grid generation requirements.

Conclusion

In conclusion -- as can be seen from the extensive material filed in our Application and the extensive questioning we have received on that Application, the last several years have been incredibly challenging for Yukon Energy and its staff. We have completed the largest capital expansion program in YEC's history while at the same time undertaking an unprecedented level of planning activities to prepare for the major load growth that is forecast to occur in the next few years. 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 in this new era of significant growth in loads and power supply capabilities.