REFERENCE: **Rate Base and Impacts to Rate payers**

PREAMBLE: Assuming the Board would agree with all the proposals in this PPA:

QUESTION:

1. How much does Yukon Energy anticipate to place into the Rate Base for the construction of this project?
2. Do you anticipate placing the costs associated with the Minto Mine contribution and spur line into the general rate base?
3. How much has the government contributed to this project? Do you anticipate placing this amount into the general rate base? Do you anticipate the need for further government funding for this project?
4. How will the 10 cents per kw.hr. charge to Minto or the $3 million per year take-or-pay cover the capital costs of constructing the C/S Stage 1 line and spur line (yearly Rate Base costs), the cost of borrowing this money, yearly operation and maintenance of this line, and the yearly return to Yukon Energy, especially in the early years as Minto will not be paying any principal?
5. Who will pay for cost over-runs or do you anticipate placing this cost into the general rate base?
6. How will the present firm Yukon ratepayers be protected from negative impacts on their rates if this C/S Stage 1 project is completed and Minto shuts down temporarily or if the Mine pulls the pin before any or all the Minto Capital costs have been paid?

ANSWER:

(1)

YEC anticipates that all capital costs for this project will be placed into rate base, less capital cost contributions towards the CS Project provided by Yukon Development Corporation and Yukon Government, and that the Minto Capital Cost Contribution under the PPA will be treated as a customer contribution offsetting the capital costs of the Mine Spur and $7.2 million of the CS Project capital costs. YEC's current estimates of in-service capital costs[1] for Stage One of the CS Project, net of all contributions, ranges

[1] See footnote 31 in the Application. Assumes in-service in quarter 3 of 2008 and 13% escalation in costs (due to inflation and interest during construction) from 2005$ estimates in Schedule 1 of Application.

from $10.2 million (mid-point estimate in Schedule 1 of the Application) to $13.4 million (high-point estimate, as reviewed at page 18 of Application).

(2)

See response to question 1. The net effect of the anticipated approach is that the customer contribution by Minto will fully offset the capital cost of the Mine Spur.

(3)

As indicated in Schedule 1 "Summary of Carmacks-Stewart Update Project Economics" on page 4 of the PPA the YTG funds to date have been $0.45 million. YEC does not anticipate requiring further government funds for Stage One of the CS Project. See response to question 1 for rate base treatment.

(4)

The PPA provides that Minto will pay 7.5%/year financing cost on all outstanding amounts of the Capital Cost Contribution. The other elements of the Firm Mine Rate payments (average rate in Schedule C of 10 cents per kW.h) as covered by the Minimum Take-or-Pay Amount of $24 million, or on average $3 million per year for 8 years, will not go towards any portion of the Capital Cost Contribution obligations of Minto, and will be included in the calculation of Mine Net Revenue (see response to YUB-YEC-1-15 for review of Mine Net Revenue Account impacts).

(5)

As indicated in Section 5.2 of the PPA Minto will pay for the actual capital cost of the Mine Spur, including any overruns, subject only to the Section 3.3. The Capital Cost Contribution of $7.2 million towards the CS Project is fixed and not subject to adjustment based on actual costs. Any cost overruns will be treated as part of the capital costs of the project (see response to questions 1 and 4 above as to rate base treatment and Mine Net Revenue Account impacts).

(6)

The Mine Net Revenue Account will address the event of a temporary shutdown and Minto will also still be responsible for providing the Minimum Take-or-Pay Amount (unless pursuant to 12.3 Force Majeure is claimed by Minto with regard to acts or omissions of Government Authorities and the Force Majeure directly results in a material closure of the mine) as well as the ongoing Capital Cost Contribution payments (which includes, from the outset, principal payments on the Mine Spur costs). As regards potential impacts from a material default by Minto and/or premature closure of the Mine, please see response to YUB-YEC-1-32 as well as YUB-YEC-1-34 as to the reasons why YEC has adopted a financing approach for the Capital Cost Contribution by Minto.

REFERENCE: Page 6 Application to Approve Minto Mine PPA

The 2008 Firm Mine Rate outlined in Schedule C provides for $15 kVA per month (demand charge) and $0.076 per kW.h (energy charge); together these rates equal approximately 10 cents per KW.h for Minto Mine purchase of 32.5 GW.h per year of electricity at a peak annual load of 4.4 kMA. This average rate includes the Demand Charge and Energy Charge rates in the Schedule C Industrial Primary Rate, **without consideration of ongoing Fixed Charge provisions relating to ongoing monthly payments by Minto** (page 7) **to confirm that this rate is in full compliance with Order-in-Council 1995/90 and that the rate is sufficient to recover forecast 2008 costs of service to the Major Industrial Customer class** (see Attachment A).

QUESTION:

1. Please explain fully the portion that is in bold script as in context with the rest of this statement.
2. Please confirm that any amount of usage over the $3 million per year take or pay will be returned to the Mine.

ANSWER:

(1)

The bold script is a mixture of footnote 5 from the Application (absent text at page 6) and the first two lines at the top of page 7 of the Application, i.e., these two elements were not written together as one coherent sentence. The footnote simply notes that the 10 cent average rate estimate is made prior to including Fixed Charge provisions requiring monthly payments for the Capital Cost Contribution. The quote from page 7 is part of a sentence stating that the Application, in Attachment A, includes evidence to confirm that the Firm Mine Rate complies with OIC 1995/90.

(2)

No, this cannot be confirmed as a general statement. Minto is obligated to pay the full rate on all power purchases in excess of the $24 million minimum take-or-pay obligation. Examples are provided below to clarify how the take-or-pay provisions are applied:

(a) If Minto pays $4 million for its power purchases in year one then Minto is only required, as a minimum, to pay $2 million in year two to total $6 million to date (average of $3 million per year); further, pursuant to Section 6.4 of the PPA, Minto would in this example have no “credit” to apply against purchases in year 2 that exceed $2 million (since Minto made no “take-or-pay” payments under Section 6.2 in year 1), i.e., Minto would be required to pay full amounts for all such added use in that year above the minimum $2 million amount in this example.

(b) However, if Minto instead had purchased only $2 million of power in year 1, it would then be required under Section 6.2 of the PPA to pay an added $1 million take-or-pay payment for that year; in year 2 Minto in this example would then also still have a minimum take-or pay obligation of the full $3 million. Under this example, if Minto in fact purchased $4 million of power in year 2, it could then (under Section 6.4 of the PPA) apply as a credit the $1 million take-or-pay payment made in year 1.

(c) Minto can use the credit provisions of Section 6.4 only until the ninth Annual Payment Date. Overall, these credit provisions only enable Minto to apply the $24 million first to actual power purchases made within the allowed time period. Minto is in no way excused from paying full rates for power purchases in excess of the $24 million.

REFERENCE: Page 6 Application to Approve Minto Mine PPA

Section 3.5 of the PPA confirms that the Firm Mine Rate may be amended by the YUB from time to time after 2008. Section 3.5 also provides that, after 2008, if the Firm Mine Rate is increased above the rate provided for in Schedule C by a decision of the YUB that is made on the basis of cost of service principles and methods which are inconsistent with the cost of service principles and methods in Schedule E of the PPA (or the YUB alters the terms and conditions of the PPA), and such increase or alteration materially adversely affects the cost savings to Minto under the PPA, then YEC and Minto will be required to amend the PPA to reduce the Minimum Take-or-Pay Amount to offset the loss of such cost saving to Minto and to amend the YEC Security so that it is no longer provided as continuing security for the Minimum Take-or-Pay Amount under Section 6.2 of the PPA.

PREAMBLE:

It is the UCG's understanding that Minto will be invoiced the demand charge and the energy charge each monthly like all other customers. At the end of the year, if the $3 million take or pay has been used or surpassed, the Mine account will be settled for that year and the process will repeat for the next 7 years. If for any given year the amount is less than the $3 Million, the mine will have to make up the difference. If the amount is over $3 million Minto will be reimbursed this amount.

QUESTION:

1. Please confirm if this is the correct interpretation of how the Take-or-Pay Account will operate. If not, please explain.

ANSWER:

Please see UCG-YEC-1-2(2) for an explanation on how the Take-or-Pay Account operates.

REFERENCE: **Page 6 Application to Approve Minto Mine PPA 4.1.2 Peak Shaving Rate Option**

The Peak Shaving rate credit is consistent with the cost of service evidence currently available for the Industrial class. Thus, if used, this rate option results in positive outcomes for the customer and all ratepayers.

QUESTION:

1. Please explain how the Peak Shaving rate credit is consistent with the COS evidence.
2. Please explain how this rate option results in a positive outcome for all other ratepayers.

ANSWER:

(1)

The COS analysis shows that the revenue lost by YEC under the Peak Shaving Credit is less than the COS removed from the Industrial class (see Attachment A to Application, page A-16 – Industrial revenue to cost ratio under maximum potential credit is 102.5%).

(2)

Peak shaving as indicated in section 4.1.2 “Peak Shaving Rate Option” in the PPA Application “benefits YEC by lowering the need to plan for and run peaking diesels” (Page 7). Impacts on diesel operation due to the PPA will initially affect only the Mine Net Revenue Account; however, in the longer-term, savings to this account will be to the benefit of all other ratepayers.

REFERENCE: **Application To Approve Minto Mine PPA; Page 8; 4.1.3 Low Grade Ore Processing Secondary Energy Rate**

- Secondary Energy under this rate is to be used only at a mine site engaged primarily in copper production for processing ore with less than 1% copper content ("Low Grade Ore"), and the customer will provide YEC with auditable reporting and controls as reasonably required by YEC to confirm that this secondary energy has been used only to process Low Grade Ore (any such energy use that is not so confirmed will be charged at the Industrial Primary Rate).
- The customer is also to provide reporting as is reasonably required by YEC to determine which portion of its recorded Demand and Energy in any billing month relates to such secondary energy use (any such Demand or Energy use that is not so confirmed will be charged at the Industrial Primary Rate) 9.
- Section 4.1(b) of the PPA provides maximum annual use levels by Minto of Secondary Mine Processing Energy Electricity (including, until June 30, 2015 or when the Capital Cost Contribution plus accrued interest is fully paid (whichever is earlier), a maximum annual use limited to permitted use in excess of 32 GW.h/year) 10. Secondary Energy in this instance will be used to process Low Grade Ore in the same processing equipment used to process high grade ore with Mine Firm Electricity; thus, unlike rate Schedule 32 Secondary Energy, this Rate Schedule 35 energy will not be separately metered from firm energy supplied by YEC. However, metering of the relevant processing equipment would at least allow for separating this processing use of electricity from other uses at the Mine Site.

PREAMBLE:

As is stated in a later IR, UCG is concerned with the protocol of this portion of the agreement. It was never brought forward in the Resource Plan proceeding to allow proper questioning and cross examination. Confusing messages are being sent in this application as well, i.e. will the Secondary Rate only be used at the tail end of the mine life when all high grade ore is utilized or the above statement which seems to say the Mine can go on Secondary Energy at any time they so wish to process ore with less than 1% copper content.

QUESTION:

1. Why was providing secondary power to Minto Mine or industry not brought forward in the Yukon Energy 20 Year Resource Plan proceeding?
2. Does this agreement give Minto the right to process low grade ore at any time they so wish as it appears to say above and on the next page of this application?
3. Since this secondary energy usage will not be separately metered, what exactly would be the auditable reporting and controls to be implemented by Yukon Energy to ensure the Mine would be complying?

ANSWER:

(1)

Providing secondary power to the Mine was not brought forward in the Yukon Energy 20 Year Resource Plan proceeding because it had not been discussed in negotiation with Minto at that time.

(2)

Minto can process Low Grade Ore anytime – the issue is when and to what extent they can have access to Low Grade Ore Processing Secondary Energy under Rate Schedule 35 for processing such Low Grade Ore. In general, subject to the conditions set out in Rate Schedule 35, Minto can have access to Rate Schedule 35 at any time subject to certain upper limits on its use in the initial years.

(a) The last paragraph at page 8 of the Application notes that Section 4.1(b) of the PPA "provides maximum annual use levels by Minto of Secondary Mine Processing Energy Electricity (including, until June 30, 2015 or when the Capital Cost Contribution plus accrued interest is fully paid (whichever is earlier), a maximum annual use limited to permitted use in excess of 32 GW.h/year)." [1]
(b) Footnote 10 explains the limits that apply for remaining years of the Mine Life.

[1] Footnote 11 at page 9 of the Application is in error on this point and should be disregarded in its entirety.

(3)

See YUB-YEC-1-11(2)

REFERENCE: Application to Approve Minto Mine PPA; Page 10;

Attachment B indicates that bringing Aishihik 3rd Turbine on line mitigates this situation by reducing diesel generation costs and extending secondary sales opportunities, e.g., baseload diesel generation required in 2016 is reduced to 1.8 GW.h (2016) with the 32.5 GW.h/year Minto Mine load and 6.6 GW.h/year (2015) with the 42 GW.h Minto Mine load. Bringing Aishihik 3rd Turbine on earlier (2010 as compared with 2013) is shown to result in slightly increased economic savings as regards diesel generation costs and secondary sales revenues 12.

PREAMBLE:

It appears to the UCG from the statement above and as we stated in the 20 year Resource Plan hearing, that bringing Aishihik 3 into service will be of benefit to the Mines and Secondary Power users.

QUESTION:

1. Please indicate how Yukon Energy will protect the interests of firm energy ratepayers from the impacts of Aishihik 3 construction which will clearly benefit industrial and secondary users of energy.
2. Please confirm that YEC intends to hold a review of the Aishihik 3 proposal before construction.

ANSWER:

(1)

The YUB January 15, 2007 Report re: the 20-Year Resource Plan at page 30 in effect recommends that the Aishihik 3rd Turbine proceed for in service in 2013 “unless YEC can justify an earlier in-service date”. To the extent that Aishihik 3rd Turbine is accelerated due solely to the PPA and the CS/MS Project, the incremental increase in expenses and return on rate base related to such accelerated development would be included as Incremental YEC Costs in the determination of Mine Net Revenue and, as such, would not affect rate schedules for other rate classes until this account is used to reduce rates.

(2)

YEC supports the YUB January 15, 2007 Report recommendation, on page 41, for a brief YUB proceeding to review timing of the Aishihik 3rd Turbine project if YEC would like to proceed with an in-service date before 2013 (for economic reasons).

REFERENCE: **Application to Approve Minto Mine PPA; Page 10 4.2.2 Diesel Units at the Mine**

The PPA requires YUB approval of provisions respecting the YEC purchase of the four Diesel Units (each with a continuous rating of at least 1.6 MW) as set out under Part 10 of the PPA for $2.24 million 13, with YEC to provide payments to Minto in this regard on the same basis as Minto's Mine Spur Capital Cost Contribution payments, i.e., in equal blended monthly payments of interest and principal over the first seven years of YEC service.

PREAMBLE:

The UCG remembers that a similar situation occurred with the Faro mine a number of years ago; Yukon Energy paid the Faro mine for services when they should have used this as collateral, and as the result Faro turned around and left a debt of over $3 million for energy used.

QUESTION:

1. Please explain why Yukon Energy should pay anything to Minto for these gensets until after the Mine has paid all its debts to YEC for construction of the lines i.e. hold these gensets as a small portion of collateral on the mine debt?
2. Is there a real need for Yukon Energy to purchase these diesel units? Please explain.

ANSWER:

(1)

Under the PPA, Minto is obligated under section 10.3 to make any payments payable under the Cat Leases, as well as to pay any amounts required to be paid on the termination or expiry of the Cat Leases, in order for YEC to acquire title to the Diesel Units from Caterpillar, free and clear of all liens, charges and encumbrances on or before September 6, 2009.

In consideration for the assignment of the Cat Leases YEC will provide monthly payments to Minto for the Diesel Units on the same basis as Minto's Mine Spur Capital

Cost Contribution payments, e.g., in equal blended monthly payments of interest and principal over the first seven years of YEC service (unless otherwise provided for in the PPA). YEC will be paying for the Diesel Units as Minto pays the costs of the Mine Spur and on the same general terms as the Mine Spur costs are paid off. These purchase payment arrangements for the asset will enhance YEC's security with regard to Minto's obligations to pay the Mine Spur Capital Cost Contribution.

(2)

Please see response to YUB-YEC-1-8(1) and (2).

REFERENCE: Application to Approve Minto Mine PPA; Page 11

5.0 PROTECTION FOR RATEPAYERS OVER THE LONGER TERM

5.1 NO ADVERSE IMPACT ON RATEPAYERS

As stated in the PPA, it is the Parties' intention that the costs of the Transmission Project required to provide Grid Electricity to the Mine will not adversely impact other ratepayers in Yukon. Accordingly, the PPA ensures that there is "no net cost to Yukon ratepayers", and further, that no individual ratepayer will see an increase to their rates due to the Transmission Project.

QUESTION:

1. Please explain how this portion of the PPA gives Minto Mine the responsibility to ensure there is no negative impact to ratepayers.
2. What guarantees are in this PPA besides the YEC Security, which is second to the Banks, to ensure that Minto will pay at least the required $24 million Take or Pay?

ANSWER:

(1)

Minto is not responsible for ensuring no negative impact on ratepayers. The PPA sets out a joint intent of Minto and YEC, and includes provisions to address this intent, e.g., the Firm Mine Rate, the Capital Cost Contribution, the Minimum Take-or-Pay Amounts, the Mine Net Revenue Account and the YEC Security. Please also see response to YUB-YEC-1-32.

(2)

The PPA does not provide "guarantees" beyond the provisions of the contract, the YEC Security backing the Minto commitments, and the fundamental interest in the owners (or those in control) of the Mine securing ongoing use of Grid Electricity to avoid the higher cost use of diesel generation to mine and process the recoverable ore at the Mine. Subject to the due diligence, YEC notes that the Current Bank Financing plus the recent

$40 million BMO financing (that is subordinate to the YEC Security) confirm a reasonable basis for YEC to proceed. Please also see response to YUB-YEC-1-34.

REFERENCE: Application to Approve Minto Mine PPA Page 12; YEC Security

- Minto will provide YEC with acceptable security (the "YEC Security") for the payment of the Capital Cost Contribution, the Minto Power Bills the Minimum Take-or-Pay Amount, the Decommissioning Cost Payment, and certain other obligations; the YEC Security will be discharged only when the Capital Cost Contribution, Decommissioning Cost Payment, and Minimum Take-or-Pay Amount have been paid in full.
- YEC will establish a deferral account (the "Mine Net Revenue Account") to ensure that incremental annual Mine Net Revenues (or net costs) do not affect YEC earnings or the determination of the revenue requirements affecting other ratepayers in Yukon.
- Upon commencement of delivery, YEC will acquire four 1.6 MW trailer mounted Diesel Units from Minto which will help to provide added security and also provide opportunities to minimize WAF system costs under certain circumstances.
- Minto is fully responsible for all Decommissioning Costs for the Mine Spur; these costs are to be provided for initially out of the Accrued Decommissioning Fund established to set aside an amount equal to 25% of the actual capital costs of the Mine Spur.
- YEC is to conduct comprehensive due diligence with regard to the YEC Security, Minto and the Mine.

QUESTION:

1. What good is YEC collateral security if the Mine only has sufficient assets to pay the Banks that are first in line?
2. What make up the incremental annual revenues or losses for this deferral account?
3. How will the acquiring of the diesel units add security if the YEC is paying for them rather than using them as collateral?
4. If Minto goes bankrupt or pull the pin how will they be held responsible for decommissioning costs?
5. Should not the Board and all interveners know the outcome of this Minto due diligence report before attempting to make any decision? Please explain.

ANSWER:

(1)

YEC does not understand that the Mine only has sufficient assets to pay the Banks that are first in line – if YEC thought this to be the case, it would not have negotiated the PPA. Please also see response to YUB-YEC-34.

Minto's security interest is only expected to be second in line to the Macquarie Bank for the first few years of the Mine's life. Under section 6.6 YEC has negotiated covenants with Minto in order to ensure that the amounts owing under the Current Bank Financing are paid off on or before November 30, 2009 for the PLF Agreement (the recent BMO $40 million financing, which is subordinate to the YEC Security, will now displace Minto use of the SLF Agreement financing).

Further, pursuant to section 6.6 (c) Minto has covenanted with YEC that Minto will not permit the amount of principal outstanding under the Current Bank Financing to exceed the following thresholds:

(i) in the case of the PLF Agreement by more than $5,000,000 (USD) the $57,788,051 in total commitments made under the PLF Agreement, provided such $5,000,000 may not be borrowed by Minto later than 90 days after the Commercial Operation Date;
(ii) $20,000,000 (CND) for the SLF Agreement; and
(iii) $20,000,000(USD) for the MRI Agreement.

Minto has also provided the following covenants to YEC (in all of these cases YEC consent is not to be unreasonably withheld):

- That it will not extend the maturity date for the facility under the PLF Agreement or the facility under the SLF Agreement by more than 6 months beyond the maturity date currently provided for in each such agreement, respectively, without the written consent of YEC.
- That it will not use any principal amount borrowed by Minto under the PLF Agreement or the SLF Agreement on the development of any mineral interests located outside the boundaries of the area comprised of the mineral claims more

particularly set out in Schedule 3 to the YEC Security without the written consents of YEC.

- That it will not agree to a change in the interest rates currently provided for in the Current Bank Financing without the written consent of YEC.

(2)

Examples as to the elements involved in this account are provided in Attachment C to the Application. The details of the PPA in this regard are reviewed below.

Under section 3.6, YEC will in each fiscal year prior to the discharge of the YEC Security, and thereafter as the YUB may determine until the Commercial Operation Cessation Date, determine the Mine Net Revenue as the amount equal to the Minto Power Bills in that fiscal year plus and Take or Pay Amount under section 6.2 paid in that fiscal year, less the Incremental YEC Costs in that fiscal year.

The Incremental YEC Costs are defined in the PPA as in any fiscal year, the incremental YEC expenses and return on rate base in that fiscal year, if any, as reasonably estimated by YEC, on a consistent basis form year to year, due to the supply of Grid Electricity to Minto by YEC, including, without limitation:

(i) any such incremental increase in expenses in that fiscal year related to incremental interest costs on the Flexible Term Note and incremental diesel generation expenses based on actual diesel fuel prices and long-term average water flows for hydroelectric generation; plus
(ii) any such incremental loss of income in that fiscal year related to displaced interruptible secondary Electric Energy sales to other YEC customers for space or process heating; plus
(iii) any depreciation, operating, and maintenance expenses, and return on rate base in that fiscal year related to the Transmission Project, the CS Project facilities, or the Diesel Units during the time period, if any, that the Diesel Units are owned by YEC; plus
(iv) any such incremental increases in expenses and return on rate base in that fiscal year related to accelerated development of other YEC generation projects to displace diesel generation that would otherwise have been related to the supply of Grid Electricity to Minto by YEC; for greater certainty, no such incremental amount will be estimated for any such generation project after the date when it is

reasonably estimated by YEC that the generation project would have been in service without the need for YEC to supply Grid Electricity to Minto.

(3)

YEC is purchasing the Diesel Units at the Mine at a cost of up to $2.24 million and these trailer mounted diesel generation assets will provide YEC with added security as to the recovery of the Minto customer contributions related to the Mine Spur. For further discussion please refer to UCG-YEC-1-7. Benefits of these diesel units to YEC and to YEC ratepayers are further detailed in YUB-YEC-1-8.

(4)

Under Section 11 of the PPA, YEC will establish an Accrued Decommissioning Fund account and Minto will make a Decommissioning Cost Payment of $850,000, as adjusted under section 11.2 (c) to reflect the actual Minto Spur Capital Costs. This payment is one of the Minto obligations covered by the YEC Security, i.e., YEC rights under this security will not end until this amount is paid, and will continue if Minto defaults[1]. This amount will be deposited in the Accrued Decommissioning Fund and YEC will invest the Accrued Decommissioning Fund at 6.5% per annum. The Parties intend that within three years after payment the invested Accrued Decommissioning Fund will equal the Estimated Decommissioning Costs.

The Decommissioning Cost Payment will be made (i) when Minto pays the outstanding balance of the Capital Cost Contribution under Section 5.2(d) at the end of the fourth year of service by YEC; or (ii) within 180 days after Minto otherwise pays the outstanding balance of the Capital Cost Contribution; or (iii) on or before the date on which Minto provides notice of the Commercial Operation Cessation Date.

(5)

Information on due diligence is provided in YUB-YEC-1-29.

[1] See response to YUB-YEC-1-32 for a general review of implications of a default by Minto.

REFERENCE: Application to Approve Minto Mine PPA Page 13; Costs vs. Revenues

- Mine Spur Capital Cost Contribution to be paid in equal blended monthly payments of interest at 7.5% per year and principal over the first seven years of YEC service. At the date of the Agreement the Capital Costs of the Mine Spur are estimated at $3.83 million; however, as provided in Section 5.1 of the PPA, within 30 days of the Transmission Project Start Date YEC will provide Minto with a revised estimated based upon received tenders.
- Carmacks-Minto Landing Capital Cost Contribution (CS Project contribution) of $7.2 million 17 to be paid in equal monthly payments of interest at 7.5% per year for the first four years of YEC service, and in equal blended monthly payments of interest and principal over the next three years of YEC service. It is anticipated that the total Capital Cost Contribution will be fully paid off within seven years from the commencement of delivery to the Mine by YEC. The PPA provides, however, for acceleration or extension of this timing under various circumstances.
- Minto is fully responsible for all Decommissioning Costs for the Mine Spur; these costs are to be provided for initially out of the Accrued Decommissioning Fund established to set aside an amount equal to 25% of the actual capital costs of the Mine Spur.

QUESTION:

1. Given the above costs for the construction, plus the cost of borrowing this money, plus the operation & maintenance costs of the line and providing energy to the mine site plus Yukon Energy's return plus other possible unforeseen costs, how does the PPA cover all of these costs through revenues charged to the Minto Mine to satisfy UCG that there will not be any negative impact on other firm rate payers?

ANSWER:

See answers to UCG-YEC-1-1 (1) to (6) and YUB-YEC-1-34.

REFERENCE: Application to Approve Minto Mine PPA Page 13;

- Under Part 5 of the PPA, YEC will require New YEC Industrial Customers (i.e., a YEC Major Industrial Customer other than Minto (e.g., Carmacks Copper) that receives Electricity through connection with the Transmission Project or the CS Project) to pay customer contributions for their share of capital costs for the CS Project and any spur lines on a similar basis to the Capital Cost Contribution payable by Minto19.

PREAMBLE:

It appears from this statement that you are requesting the Board to grace such a plan for further industrial customer contribution without the qualifications or contract from any other industrial customer. Also UCG understands you wish to isolate industrial customers when setting a rate for each particular mine.

QUESTION:

1. Is Yukon Energy saying that they will not entertain any other industrial customer on this line without an agreement to contribute their share of the capital cost of not only the C/S line Stage 1, but also the C/S line Stage 2 as well as full costs for any spur line? Please explain.
2. Does Yukon Energy concur that a set industrial rate for the Minto Mine will set a precedent for all other industrial customers? Please explain.
3. Does Yukon Energy rationalize that they can isolate an industrial customer rate as they have done with Minto Resources? Please explain.

ANSWER:

(1)

Generally, YEC is obligated under the PPA to secure such an agreement with any new industrial customer of either Stage One or Stage Two of the CS Project.

Section 5.7 of the PPA provides that New YEC Industrial Customers[1], as defined in the PPA, will be required by YEC to pay a Capital Cost Contribution for their appropriate share of Capital Costs of the CS Project and any spur lines. The contribution to the Capital Costs incurred by YEC assigned to a New YEC Industrial Customer for the CS Project would be "based on the segment and voltage level of a transmission line that each New YEC Industrial Customer would required to receive Electricity in the absence of the Transmission Project or the CS Project." Accordingly, the share of CS Project costs may or may not involve consideration of Stage Two CS Project costs, as determined by the circumstances. See also response to YUB-YEC-1-7.

(2) and **(3)**

The Firm Mine Rate is not "set" for the life of the Minto Mine, nor is it applicable only to the Minto Mine. The PPA will, however, provide a guide for arrangements with future industrial customers.

The Firm Mine Rate has been determined in the PPA only for 2008, and is subject to adjustment thereafter by the YUB. (see also response to YUB-YEC-1-16) Further, this rate is intended to apply to all Industrial customers – and is intended to be adjusted as required from time to time to recover COS for the Major Industrial Customer class as it may evolve in future to include mine customers in addition to Minto.

YEC does not agree that it has isolated Minto as one industrial customer as regards the Firm Mine Rate.

[1] This definition includes such a customer "receiving Grid Electricity from the Transmission Project of the CS Project.' As defined in the PPA, the CS Project includes the full project from Carmacks to Stewart Crossing to connect the WAF and MD grids.

REFERENCE: Application to Approve Minto Mine PPA Page 14

Section 5.2(d) ensures that the above Capital Costs payment schedule set out under Section 5.2(a) and b), and detailed above, is dependant upon Minto providing satisfactory documentation to YEC by December 31, 2008 of Minto's ability and commitment to process Additional Reserves and to extend the Mine life as stipulated. If Minto does not provide satisfactory documentation to YEC that supports an ability to continue such operations as stipulated then YEC may require Minto to pay off the balance of its Capital Cost Contribution on the earlier of either the fourth annual Payment Date or by December 31, 2013.

QUESTION:

1. Is not "may require" in a contract not enforceable? Please explain.

ANSWER:

"May require" means that it is fully within YEC's discretion as to whether it will or will not require Minto to pay off the balance of its Capital Cost Contribution on the fourth Annual Payment Date or by December 31, 2013. Such discretion does not diminish YEC's ability to enforce this provision if it deems it necessary.

REFERENCE: Application To Approve Minto Mine PPA; Page 14; 5.1.2 Mine Net Revenue Account

The PPA requires YUB approval of the provisions respecting the Mine Net Revenue Account as set out in Section 3.6 of the PPA. This deferral account, which continues to address annual Mine Net Revenue at least for so long as Minto continues to provide the YEC Security 21, is one of the key measures to ensure that there are no adverse rate impacts on other ratepayers in Yukon due to the PPA. Mine Net Revenue in each fiscal year will be assigned to the Mine Net Revenue Account and will not form part of YEC's earnings in that year. Page 15 In essence, during any fiscal year prior to the cessation of commercial operations at the Mine Site, any net impacts on YEC's earnings due to the Mine or due to the CS Project can be assigned to this deferral account and consequently not be considered when assessing the rate requirements applicable to other ratepayers. These provisions under Section 3.6 of the Agreement set aside positive net incremental earnings due.

QUESTION:

1. Please confirm that this Net Revenue Account will absolutely protect firm ratepayers from negative rate impacts that may result from the construction of the C/S line or this PPA. Explain.

ANSWER:

The Mine Net Revenue Account is one of a suite of measures (including, Minimum Take-or-Pay, YEC Security, Decommissioning Costs, Capital Cost Contributions) designed to help ensure that there will be no adverse impact on ratepayers due to the PPA. Even so, as reviewed in response to YUB-YEC-1-32 and YUB-YEC-1-14, the PPA unfortunately cannot and does not provide "absolute" protection against all risks.

Please see response to YUB-YEC-1-6 and YUB-YEC-1-15 for an explanation of how the Mine Net Revenue Account will operate to protect ratepayers and YUB-YEC-1-34 as regards Capital Cost Contribution financing risk assessment.

REFERENCE: Application to Approve Minto Mine PPA; Page 14; 5.1.3 Minimum Take-or-Pay Contract

Section 6.2 provides that, within the first eight years of YEC service and subject to Sections 3.5 and 6.3, Minto will pay YEC a minimum aggregate amount of $24 million for Grid Electricity regardless of the amount of Grid Electricity actually delivered by YEC or consumed by Minto; provisions are also included during this eight year period for minimum cumulative annual payments averaging $3 million per year.

QUESTION:

1. Please qualify this statement (i.e., is Minto being charged only $3 million per year regardless if they use in excess of this amount in the 12 month billing period for the number of kw. hrs. used at approximately 10 cents per kw.hr.?)

ANSWER:

No. The take-or-pay is a minimum amount payable each year for Grid Electricity regardless of the amount of Grid Electricity actually delivered by YEC or consumed by Minto. See response to UCG-YEC-1-2 and UCG-YEC-1-3.

REFERENCE: Application To Approve Minto Mine PPA; Page 14

The stipulated YUB decisions either (a) increase the Firm Mine Rate (after the PPA is approved) by a decision made on the basis of cost of service principles and methods which are inconsistent with the cost of service principles and methods in Schedule E of the PPA, or (b) alter the terms and conditions of the PPA.

QUESTION:

1. Who stipulates the cost of service methodology, Yukon Energy or the Board? Explain.

ANSWER:

The Board alone has the power to set rates and determine cost of service methods used for rate setting purposes pursuant to its constituent legislation and regulations.

In setting out the cost of service principles and methods in Schedule E YEC has not attempted to "stipulate a cost of service methodology", but is merely distilling and restating the key cost of service principles and methods reflected in OIC 1995/90, past decisions of the Board based on OIC 1995/90 with regard to rates charged to Faro mine and cost of service assessments regarding such rates and the Major Industrial Customer class, and specific requirements consistent with such past principles and methods as are needed to address the current circumstances related to the PPA and the mine.

Please see response to YUB-YEC-1-16.

REFERENCE: YEC PPA Approval Application; Page 16 YEC

The YEC Security is expected to be enhanced by the new C $45 million debenture financing announced February 8, 2007 that will replace the SLF debt included in the Current Bank Financing, as continuing security for the payment of the Capital Cost Contribution plus accrued interest, the Minto Power Bills, the minimum take-or pay obligations, the Decommissioning Cost Payment, and Minto payments to Caterpillar related to the Cat Leases after these leases are assigned to YEC. Further, Page 19: The Current Bank Financing of senior and subordinated debt that Minto has secured with Maquarie Bank Limited 34 for approximately $85 million is covenanted by Minto in the PPA to be fully repaid by November 30, 2010, i.e., within a period just over the planned initial two years of YEC service to the Mine. After the Maquarie financing has been repaid, YEC 33 Minto has announced promising results from drilling of Area 2 adjacent to the mine. Minto's plans anticipate confirmation during 2007 of material additional high grade reserves 34. The balance of the Current Bank Financing as provided by MRI Trading AG of Switzerland is the Copper Concentrate revolving inventory finance facility in the principal amount of up to $20 million (USD).

QUESTION:

1. Who is this $45 million debenture financing with and will they become another bank financing in front of Yukon Energy in Minto collateral?

ANSWER:

Sherwood Copper Corporation has entered into an agreement with a syndicate of underwriters led by BMO Capital Markets. The debenture financing would operate to reduce the total amount of bank financing and would be subordinate to (not be a charge in front of) the YEC Security. This financing was completed on November 28, 2007.

According to a Sherwood Copper Press Release dated February 8, 2007, it is anticipated that the net proceeds of the financings will be used to complete the development of Sherwood's high-grade Minto copper-gold project in the Yukon, to accelerate the Phase 2 expansion to 2,400 metric tpd ahead of the previous schedule, to continue the aggressive exploration of the Minto property for additional high grade reserves, and for general corporate purposes. On completion of these financings, Sherwood intends to cancel the $20 million subordinated debt facility announced October 17, 2006, reducing the level of bank debt.

REFERENCE: YEC PPA Approval Application; Page 18 5.2 RISKS

YEC's service to the Mine is targeted to start by September 30, 2008. Based on the assumed 10 year Mine life and the target in-service date for YEC service, YEC power sales to the mine at about 32 GW.h/year would be expected to continue for approximately 9 years. Minto's Take-or-Pay commitment of $24 million in effect reflects a minimum cumulative purchase of $3 million per year (30 GW.h/year at the initial firm rate of 10 cents/kW.h) for 8 years.

PREAMBLE:

The UCG recognizes that the Minto Mine wants some type of set stabilized rate for longevity as do all Yukon ratepayers; we also know that the Board is legislated to make certain the industrial customer pays 100% of the cost to provide service.

QUESTION:

1. How can the YEC rationalize a firm Cost of Service to the mine @ approximately 10 cents Kw/hr. for 8 years when due diligence has not been undertaken to assure what is enshrined by legislative order i.e. a full review of the Cost of Service for all ratepayers in the Yukon will not take place until October 2007?
2. Is this request a temporary rate request until a firm rate can be qualified by a proper undertaking by the Board? Explain.

ANSWER:

(1)

The PPA does not do what this question suggests. Please see answer to UCG-YEC-1-11(2) which addresses the central point and (3) as well as YUB-YEC-10 and 20, 21, 23, 24, 25 and 26 which address COS issues.

(2)

YUB approval of the Firm Mine Rate as set out in Schedule C of the PPA is sought for initial YEC delivery of Electricity to Minto in 2008. The Board is asked to approve a Firm Rate for the mine, not a temporary or interim rate, and comprehensive evidence has been provided as needed. As reviewed in response to (1), the PPA provides for the YUB adjustment of this rate after 2008 if and when such adjustment is needed or appropriate.

REFERENCE: YEC PPA Approval Application; Page 18

Minto's commitment is also to pay fully by the end of the seventh year of YEC power sales (i.e., two years prior to the end of the expected Mine life) the Capital Cost Contribution (interest and principal) for the Mine Spur and the $7.2 contribution to the CS Project. By the end of the 7 years of service, the Minto Take-or-Pay commitments will equal at least $21 million, i.e., an amount well in excess of the net CS Project Stage One high remaining net capital cost estimate of $13.4 million.

PREAMBLE:

The UCG is concerned with the clause about take-or-pay commitment may sound like a good thing, but in reality there seems to be no commitment by Minto in this PPA to pay their monthly bill for both demand and energy charge (together approx. 10 cents per kw. hr.) like all other ratepayers must do.

QUESTION:

1. Where in the agreement does it state that Minto Mine will pay their monthly bill or will face cut-off of service as is the policy with all other ratepayers? Please explain.

ANSWER:

Section 4.7 of the PPA sets out that the Electric Service Regulations **(ESRs)** apply to YEC and to Minto with regard to Electricity delivered by YEC to Minto under the PPA including, without limitation, the provision regarding the responsibility and liability of each party. Section 11.3 of the ESRs provides that the company may terminate a customer's service if "the customer neglects or refuses to pay the charges for service due to the Company within 30 days of the date the bill for such service was rendered." This provision is also recognized in Section 3.1 of the Direct Agreement between Minto, YEC and Macquarie Bank (see response to YUB-YEC-1-32 regarding provisions of the Direct Agreement affecting timing of termination so along as Macquarie Current Bank Financing remains). Section 6.9 of the PPA also makes Minto subject to the Service Charge on any Minto Power Bills from the due date of payment (15 Business Days after date of delivery of the bill to Minto) until payment is made in full.

REFERENCE: YEC PPA Approval Application; Page 18

Under the above assumptions, the Mine will have stock piled but not processed most of the Low Grade Ore reserves mined in association with the high grade reserves; these low grade reserves may potentially be processed after the assumed 10 year Mine life (thereby adding to the effective length of time for YEC power sales at the assumed annual energy use levels). Further, Page 19 Risk that Mine life may be only 7.2 years with today's high grade reserves: Based on current announced Mine plans, the Mine today has sufficient high grade ore reserves to operate for six years at the power levels assumed in YEC's current forecasts, i.e., if the Mine starts commercial operations in June 2007, it would be expected to continue such operations using high grade reserves until June 2013, and (based on the current Mine plan) then to process some of the stockpiled Low Grade Ore for 1.2 years until at least September 2014. Based on current Mine plans and the target in-service date for YEC service, YEC power sales to the Mine at about 32 GW.h/year would be expected to continue for approximately 6 years based on today's established high grade ore reserves.

PREAMBLE:

For the UCG this again all sounds good for the longevity of the Mine life and increased sales of energy, but in reality we are getting mixed messages as to the processing of the low grade ore protocol.

QUESTION:

1. Is the mandate of this PPA to allow low grade ore only be processed after the 10 year Mine life or whenever Minto decides to use secondary power to process this ore as seems to be the message in other areas of this agreement?
2. If an industrial secondary energy rate is allowed by the Board, how will the Yukon Energy make assurances that Minto is using secondary power to process only low grade ore, if this is not done at the back end of the mine life or in isolation i.e. when all the high grade ore has been processed?

ANSWER:

(1)

See response to UCG-YEC-1-5(2). The PPA does not specifically mandate that the Low Grade Ore will only be processed after the 10 year mine life.

(2)

Please see response to YUB-YEC-1-11(2).

The rate will only apply when reporting as reasonably required by YEC can be established to confirm or determine what is secondary energy as distinct from firm energy under the Firm Mine Rate and further to confirm that all such secondary energy has been used only to process Low Grade Ore. Failing to provide such reporting as reasonably required by YEC, all energy use will be charged at the Firm Mine Rate.

REFERENCE: YEC PPA Approval Application; Page 20

There is not expected to be any material ratepayer impacts from temporary shutdowns of the Minto Mine and, until the YEC Security is discharged, the Mine would remain liable under the PPA for its Capital Cost Contribution, and Minimum Take-or-Pay Amount and Decommissioning Cost Payment as noted above (as well as any minimum bill payments under the Firm Mine Rate)

PREAMBLE:

As Yukon Energy continually states that there will be no adverse ratepayer impacts from this project, the above statement by Yukon Energy sends up red flags to the UCG.

QUESTION:

1. Please confirm which of these statements are correct, i.e. will there be no negative ratepayer impacts, or will possible temporary shut-downs of the Minto Mine cause an impact to other ratepayers as would seem rational? How will this be reconciled in this application to the Board?

ANSWER:

The PPA does not categorically state that there will be no adverse ratepayer impacts from any possible cause, but states: “it is the Parties’ intention that the costs of the Transmission Project required to provide Grid Electricity to the Mine will not adversely impact other ratepayers in Yukon”[1], To this end, the PPA includes terms and conditions to help ensure that the provision of Gird Electricity to the Mine through the Transmission Project will have no adverse impact on Yukon ratepayers in either the near-term or the longer-term. Such terms and conditions include: the Capital Cost Contribution, the Minimum Take-or-Pay, the YEC Security, provision for a Mine Net Revenue Account, the acquisition of Diesel Units, provision for Decommissioning Costs and comprehensive due diligence with regard to the YEC Security, Minto and the Mine (see YUB-YEC-1-29 for more on due diligence). Please also see response to YUB-YEC-1-32 which addresses risk related to default and premature closure of the Mine.

[1] See PPA, page 1, Background item “C”.

Should there be temporary shutdowns of the Mine during the first eight years after commencement of delivery Minto would still have to provide annual Take-or-Pay Amounts until the $24 million minimum payment had been fully discharged.

Should a temporary shutdown be due to Force Majeure, Section 12.3 provides that no Force Majeure invoked or claimed by Minto will relieve Minto of its take-or-pay obligation unless the Force Majeure is under Section 1.1(uu)(iv) (acts or omissions of Governmental Authorities) and the Force Majeure directly results in a material closure of the Mine.

In addition to the continuance of the Take-or-Pay Amounts throughout any temporary mine shutdown, the Mine Net Revenue Account would also operate to shield ratepayers from net losses due to the provision of service to the mine. Please see response to YUB-YEC-1-15 on the Mine Net Revenue Account.

REFERENCE: YEC PPA Approval Application

5.3 HOW THE PPA WILL APPLY TO OTHER INDUSTRIAL CUSTOMERS

Section 5.7 of the PPA provides that New YEC Industrial Customers, as defined in the PPA36, will be required by YEC to pay a Capital Cost Contribution for their appropriate share of Capital Costs of the CS Project and any spur lines. This will not reduce or otherwise alter Minto's liability for the Capital Cost Contribution in the PPA. Section 5.7 states that the contribution to the Capital Costs incurred by YEC assigned to a New YEC Industrial Customer for the CS Project would be "based on the segment and voltage level of a transmission line that each New YEC Industrial Customer would require to receive Electricity in the absence of the Transmission Project or the CS Project." The Minto PPA will be used as a template for future PPA customers thus insuring "no negative impact on ratepayers" in this contract will protect ratepayers from being adversely impacted when other industrial customer join the system 35 Impacts on ratepayers related to net CS/MS Project capital costs not covered by the Minto mine revenues and payments may also be prevented or mitigated if other mine loads are connected to the CS/MS Project. A New YEC Industrial Customer is a YEC Major Industrial Customer, other than Minto, that receives Grid Electricity from the Transmission Project or the CS Project. One potential example would be Carmacks Copper.

PREAMBLE:

Again this sounds good to use the YEC/Minto as a template for future PPAs, but there seems to be nothing in this application on how another mine coming on stream would affect the cost of service.

QUESTION:

1. Please confirm that bringing any new mine or industrial customer on the grid stream would affect the cost of service for all ratepayer groups. Explain.
2. How is this accommodated in this application?

ANSWER:

(1)

The Firm Mine Rate is subject to adjustment after 2008, including adjustment as needed to reflect the COS impacts of new mine customers in Yukon. See response to UCG-YEC-1-11(2) and (3).

Please see YUB-YEC-1-10 for a full rationale regarding the cost of service methods used to determine the Firm Mine Rate set out in Schedule C of the PPA.

Appendix A at Page A-16 specifically sets out that, "COS estimates are subject to change as assumptions change." Current information suggests that 10.0 cents average COS for 2008/2009 is a reasonable forecast estimate that is unlikely to be materially changed absent some major new adjustment such as an additional new 2008/09 major industrial load (e.g., an additional new near-term major industrial load on WAF such as the Carmacks Copper mine resulting in a significant increase in WAF diesel generation, which would affect COS estimates for the Industrial class (as well as other classes)).

(2)

The PPA provides (section 3.5) for the YUB to adjust the Firm Mine Rate from time to time after 2008. The COS principles and methods in Schedule E to the PPA fully accommodate COS adjustments as required to reflect new mine or industrial customer loads.

REFERENCE:

Prior Concerns Remain with the PPA and UCG Jan. 04/07 Submission re: PPA Term Sheet (*numbers at far left are from UCG submission)*

PREAMBLE:

3. UCG submits that any review undertaken of a power purchase agreement between YEC and Minto should be part of a Part 3 review of the proposed Carmacks-Stewart transmission line and any proposed customer feeder lines.

II. LACK OF EXAMINATION PROCESS

5. The referred term sheet for the proposed power purchase agreement was not submitted to the YUB until after all arguments had been submitted in the Resource Plan proceeding.

6. First, the late submission has left no opportunity for interested parties to submit information requests regarding the proposed term sheet and the underlying Letter of Intent nor any opportunity to cross-examine any party with respect to the proposed term sheet regarding, amongst other issues, any alternative terms that were considered prior to settling on the filed term sheet.

V. CONDITIONS TO PROCEED WITH TRANSMISSION PROJECT

25. The term sheet identifies conditions that must be fulfilled in order for the Minto mine to have electricity available to it prior to the end of 2008.

26. UCG submits that the YUB should not feel pressured by the term sheet provisions to provide any capital or rate approvals prior to undertaking full due diligence reviews of proposals.

27. It appears that YEC equates approval of the purchase power agreement in a subsequent proceeding with approval of the project as a whole, which is not necessarily the case. It is possible that the purchase power agreement may be, with modifications, acceptable to the YUB, but that the specifics of the project may not. Accordingly UCG

would expect that the term sheet would include the precondition that the YUB approve the project itself, and not simply the purchase power agreement.

Add UCG's February 14, 2007 letter to the Board re: scope, combining reviews, and the IR process of this proceeding:

QUESTION:

1. With all these concerns in mind will Yukon Energy commit to a more strenuous review of the M/S line and the PPA which will allow for a proper flow of information requests and a thorough cross-examination of all the new information that has come forth since the Resource Plan Review, i.e. final PPA with Minto Mine, YEC due diligence report about the Mine (yet to come), Cost of service filing and new industrial mine rate, cost of service filing and secondary industry mine rate?
2. Will Yukon Energy commit to thorough review of the Second Stage of the M/S line before commencing construction?

ANSWER:

(1)

YEC considers the current process in place, combined with the earlier Resource Plan hearing review, is appropriate to review the adequacy of the PPA and also reflects the April 30, 2007 milestone condition in the PPA. The CS/MS Project is also currently subject to review by YESAB. YEC will participate in any other regulatory review as required, subject to continuing confidence that such review and other activities allow the Stage One Project to be in service on a timely basis as required for its feasibility.

(2)

YEC supports the YUB January 15, 2007 Report recommendation at page 41 for a YUB review of the Second Stage of the CS Project at such time as YEC proposes to proceed with this stage. YEC notes that any such review will be able to build on the foundation of the earlier review, and may also be subject to tight timing considerations.

REFERENCE: **Prior Concerns Remain with the present PPA as with UCG Jan. 04/07 Submission re: Term Sheet (numbers at far left are from UCG submission)**

PREAMBLE: **III. NO ADVERSE IMPACT ON OTHER RATEPAYERS**

11. The term sheet indicates that the power purchase agreement will meet the requirement that there will be "no adverse rate impacts on other ratepayers in Yukon due to PPA". UCG submits that the provisions of the term sheet do not guarantee that this requirement will be met. **UCG submits the same holds true for the PPA.**

Customer Contributions

12. The proposed plan on how Minto's customer contribution will be paid does not protect other Yukon ratepayers from having to assume accumulated bad debt that may result from serving the mine.

QUESTION:

1. What happens if YEC's cost of capital varies from the stipulated 7.5%? Is there an adjustment mechanism built into the power purchase agreement? If not, why not?
2. Why isn't the value of Minto's diesel generators or up-front money used as a security deposit similar to that required of other Yukon ratepayers?

ANSWER:

(1)

There is no adjustment mechanism in the PPA. This number was considered more than adequate to protect ratepayer interests under current weighted average cost of capital conditions (i.e., well above YEC's current cost of long term debt), and Minto wanted a fixed rate in place.

(2)

Under the PPA YEC will acquire the diesel units upon Commencement of Delivery; these units will help to provide added security as well as opportunities to minimize WAF system costs under certain circumstances. See response to UCG-YEC-1-7.

It should be noted that Macquarie bank has a security interest over all of Minto's assets and that this security interest has priority over any security interest of YEC except for rights under Miner's Lien. Using the diesel units as collateral or as a security deposit would not negate the security interest that Macquarie would have over any real property rights that Minto has with regard to all buildings, improvements and fixtures at the mine site. The Direct Agreement specifically provides under section 2.5 that YEC cannot enforce its security before liabilities of the Finance Parties under that agreement have been paid, and under section 2.6 all payments or distributions of any kind or character, whether cash, property or securities, which may be payable or deliverable to YEC in respect of YEC Liabilities must be held in trust for the benefit of the Finance Parities represented by Macquarie Bank.

REFERENCE: **Prior Concerns Remain with the present PPA as with UCG Jan. 04/07 Submission re: Term Sheet (numbers at far left are from UCG submission)**

PREAMBLE: **III. NO ADVERSE IMPACT ON OTHER RATEPAYERS**

Customer Contributions

15. UCG sees no evidence of Minto taking on any risk in the proposed customer contribution scenario.

QUESTION:

3. Why isn't Minto being asked to contribute something upfront that would be equivalent to the immediate savings they will incur by switching from diesel generation to a YEC supply?

ANSWER:

Section 5.2 of the PPA provides that Minto will commence making Capital Cost Contribution payments after Commencement of Delivery. Such payments will include equal blended monthly payments of principal and interest at 7.5% per year on the Mine Spur and equal monthly payments of interest at 7.5% per year for the first four years of YEC service and equal blended monthly payments of interest and principal over the next three years of YEC service. The PPA includes provisions for accelerated payments if required at the end of the fourth year of YEC service.

The scheduled timeframe within which such payments musts be made under the agreement is intended to be less than the total life of the Mine, ensuring that the Mine Spur is fully paid off well before the Mine closes and that the capital contribution of $7.2 million towards the Carmacks-Minto Landing Segment of the Transmission project has also been fully paid.

Please see response to YUB-YEC-1-34 as to the reasons for the PPA approach in this instance.

REFERENCE: **Prior Concerns Remain with the present PPA as with UCG Jan. 04/07 Submission re: Term Sheet (numbers at far left are from UCG submission)**

PREAMBLE: **III. NO ADVERSE IMPACT ON OTHER RATEPAYERS**

Security

16. The only security provided to YEC (should the price for copper collapse within two or three years) is a charge which is second to whomever provides Minto's Current Bank Financing.

QUESTION:

4. What guarantee is there that whoever provides Minto's Current Bank Financing would be able to sell off Minto's bankrupted assets for more than its own debt?

ANSWER:

There are no such "guarantees".

The central risk issue relates to assessment of the risk of such an event occurring that would render the Mine asset subject to premature closure well before its expected life. The recent $40 million of BMO new debenture financing as well as the earlier Macquarie financing are evidence of major financial institutions that, based on their own separate due diligence, have concluded that such risk is not likely to be material.

The strong expectation is that the Macquarie Current Bank Financing will be fully repaid long before closure of the Mine, at which time YEC will have first charge on the Mine. In this circumstance, YEC's best security remains the likelihood that the Mine remains profitable to continue operation over its expected life, i.e. that it has sound and mineable reserves that can be mined and processed at reasonable incremental operating costs relative to likely market prices.

See response to YUB-YEC-1-32.

REFERENCE: Prior Concerns Remain with the present PPA as with UCG Jan. 04/07 Submission re: Term Sheet (numbers at far left are from UCG submission)

PREAMBLE: III. NO ADVERSE IMPACT ON OTHER RATEPAYERS

Security

17. Contrary to the term sheet's suggestion **(and now the same scenario in the PPA**), UCG submits that, given the Yukon's past experience with mines, there should be no situation that would warrant the ending of security provisions from industrial customers.

QUESTION:

5. Where are the up-front security provisions? Please explain.

ANSWER:

Security provisions to be in place (under Section 3.1(f)) by May 31, 2007 are described in section 6.5 of the PPA and involve a charge over all assets of Minto, including the Mine, second only to the Current Bank Financing, and will operate to secure payment for the Capital Cost Contribution plus accrued interest, the Minto Power Bills, the minimum take-or-pay obligations, the Decommissioning Cost Payment and Minto payments to Caterpillar related to the Cat Leases after the leases are assigned to YEC.

The YEC Security will only be discharged under 6.5(f) after the Capital Cost Contribution plus accrued interest under section 5.2, the Decommissioning Cost Payment under section 11.2(b) and the Minimum Take-or-Pay Amount obligation have been paid in full.

REFERENCE: **Prior Concerns Remain with the present PPA as with UCG Jan. 04/07 Submission re: Term Sheet (numbers at far left are from UCG submission)**

PREAMBLE: **III. NO ADVERSE IMPACT ON OTHER RATEPAYERS**

Take-or-Pay Provision

18. UCG submits that an eight year take-or-pay provision does not provide any security if the mine does not operate more than a few years. There appears to be nothing preventing the mine from limiting its payments to YEC in the early years and then abandoning operations prior to the requirement to pay the remainder of the $24 million.

QUESTION:

6. Please explain Yukon Energy's position on the above statement.
7. In the PPA what is preventing the mine from limiting its payments to YEC in the early years and then abandoning operations prior to the requirement to pay the remainder of the $24 million?

ANSWER:

(6) and **(7)**

See UCG-YEC-1-2(2) regarding operation of the take-or-pay provisions. Capital Cost Contribution Payments must also continue to be paid on a monthly basis as set out in the PPA.

The take-or-pay arrangements provide that Minto may only pay less than the average $3 million per year in circumstances where they have accrued some creditable amount that may be carried forward and applied against future payments. Minto cannot become significantly in arrears from year to year and each year their payments to date must average $3 million. The Mine is only alleviated of its take-or-pay obligation under Force Majeure in circumstances where “acts or omissions of Governmental Authorities” directly result in a material closure of the mine under section 12.3 of the PPA. Further, the YEC Security is not discharged until the Minimum Take or Pay Amount is paid off (and other specified payment obligations are also fully met).

REFERENCE: **Prior Concerns Remain with the present PPA as with UCG Jan. 04/07 Submission re: Term Sheet (numbers at far left are from UCG submission)**

PREAMBLE: **III. NO ADVERSE IMPACT ON OTHER RATEPAYERS**

Net Revenue Account

19. The conditions attached to the proposed Minto Net Revenue Account provide no benefits to other Yukon ratepayers.

QUESTION:

8. If industrial customers are required to pay 100% of the cost to supply them electricity, why would there need to be any provisions for payments that would exceed that cost?
9. Would not any rate charged to an industrial customer such as Minto have to recover the entire, fully allocated cost of service for providing the mine with electricity?

ANSWER:

(8) and **(9)**

Industrial customers are required to pay 100% of the average embedded costs under the cost of service methodology required by OIC 1995/90 and past Board orders. Average embedded costs differ from incremental costs and revenues from a new industrial customer which affect the overall ongoing revenue requirements. There is no fixed relationship between average embedded costs and incremental costs. [1]

The Mine Net revenue Account addresses incremental revenues and costs as specified in the PPA. See also response to YUB-YEC-1-15.

[1] By way of example, Minto would pay a much lower firm rate today if it only had to pay for its incremental costs imposed on the WAF system - and as a result, other Yukon ratepayers would not benefit from new sales of surplus hydro power. The same rate issue was addressed with the Faro mine, and OIC 1995/90. In contrast, if the hydro surplus no longer existed, new customer loads from any rate class will result in increment generation costs based on diesel generation and incremental costs will be materially higher than average embedded costs used under COS.

REFERENCE: **Prior Concerns Remain with the present PPA as with UCG Jan. 04/07 Submission re: Term Sheet (numbers at far left are from UCG submission)**

PREAMBLE: **IV. YUB APPROVAL OF RATES**

Net Revenue Account

21. The term sheet identifies specific components of a power purchase agreement that the YUB will be requested to approve. It has been quite some time since any efforts have been undertaken to verify that all Yukon ratepayers are paying their allocated cost of service. Also OIC 1995/90 (as amended) specifies that rates charged to industrial customers be “sufficient to recover the costs of service to that customer class”,

QUESTION:

10. UCG questions how any rate (seasonal or otherwise) for the Minto operation could be established without first undertaking a complete cost allocation and rate design review?
11. Please verify that these provisions are being maintained when any new industrial customer is added to the system.

ANSWER:

(10)

Adequate evidence is provided in the Application on current bulk power costs (generation and transmission) of the Yukon system and past COS assessments as required to assess 2008 COS for the Major Industrial Customer class sufficient to confirm compliance with OIC 1995/90, i.e., that the Firm Mine Rate is sufficient to recover cost of service as required under this OIC.

Please see response to YUB-YEC-1-10, 16, 18, 20, 21, 23, 24, 25, and 26.

(11)

It is anticipated that the Minto PPA will be used as a template for future PPA customers. In any event, OIC 1995/90 provisions remain as a directive to the YUB on the matter of industrial rates. See response to UCG-YEC-1-11 and 21.

REFERENCE: **Prior Concerns Remain with the present PPA as with UCG Jan. 04/07 Submission re: Term Sheet (numbers at far left are from UCG submission)**

PREAMBLE: **IV. YUB APPROVAL OF RATES**

23. The term sheet **(now PPA as well)** is proposing what amounts to a commodity-based rate for processing low grade ore at the Minto mine. UCG suggests that there is limited information provided on exactly how the commodity-based rate will be determined and how the mine will be held accountable for such energy usage.

QUESTION:

12. Why were not other conditions considered, i.e. profitability rate riders established to facilitate the payment of funds by industrial customers during periods of high profitability to a rate stabilization fund used to the benefit of all Yukon ratepayers. Industrial customers could then be considered for a reduction in electricity costs paid during periods of low profitability which would be funded by the rate stabilization fund. As well, within the negotiated power service?
13. How will this special incentive rate offered be self-sustaining in that benefits will at least pay for the subsidy between normal utility rates and the special incentive rate?

ANSWER:

(12) and **(13)**

The Firm Mine Rate and other elements of the PPA in general have no similarity to a commodity-based power rate, i.e., the proposed rates do not in any way vary depending on copper or other commodity prices. YEC did not considered making its firm mine rate subject to commodity prices, in part because the floor price required under OIC 1995/90 cannot be varied based on such considerations, in part because of the nature of any such risk management approach, and in part because Minto was not interested in paying higher rates today along with the other payments being required in the PPA.

The Low Grade Ore Processing Secondary Energy Rate is only relevant in the near term under surplus hydro conditions and after supplying rate Schedule 32 customers.

REFERENCE: **YEC Security That Would Protect Yukon Ratepayers from the Risks Associated With This Proposed Transmission Line Project**

QUESTION:

1. Why did YEC not require suitable upfront security deposit from Minto Mine?
2. Why did YEC not require a reasonable payment schedule by the mine on the debt plus interest starting immediately on commencement of purchasing power from YEC?
3. Why did YEC not provide for security on a percentage of each of the ore loads leaving the mine?
4. Why did YEC not provide for security on the used Minto diesel generators?
5. Why did YEC not provide for security up-front, for each year, on the amount of savings Minto is expected to incur by replacing diesel generation with the YEC hydro grid?

ANSWER:

(1), **(2)**, **(4)**, and **(5)**

Please see answer to question UCG-YEC-7 and 23-(a),(b) and (c), and YUB-YEC-1-34.

(3)

YEC has a charge over all assets including the mine. MRI currently has a charge over the copper concentrate on the mine site; however, MRI and Minto are currently in the process of renegotiations such that MRI will purchase and pay for the Copper Concentrate on the Mine Site. See also Direct Agreement Schedule B description of YEC's Security interest.

REFERENCE: Proposed Purchase Power Agreement Attachment E

PREAMBLE:

Supposing the Board would accept all of the concepts in this PPA agreement, including the YEC's Cost of Service, Firm Mine Rate and Low Grade Ore Processing Secondary Energy: In Schedule C of the PPA it requests no rate riders are applicable.

QUESTION:

1. Although we understand that the proposal is to have Minto Mine provide diesel fuel when necessary diesel usage is required, what about other diesel associated costs, i.e., O&M of diesel generators at mine site, standby costs of diesel generators at mine site?
2. What if Whitehorse or Faro diesels are required to maintain the integrity of the grid?
3. In Schedule D of the PPA in the Rate section there is no Demand Charge, only Energy Charge. Please explain.

ANSWER:

(1)

Generally, YEC is responsible for all costs of operating and maintaining the Diesel Units, except under the special circumstances addressed in Sections 4.8 and 10.4(b). These operating costs would become part of YEC’s overall costs, and would also be subject to being considered for inclusion as Incremental YEC Costs when determining the Mine Net Revenue in a fiscal year.

Section 10.4 of the PPA provides that subject to 10.4(b), YEC will be responsible for operation and maintenance costs for the Diesel Units for so long as the Diesel Units are leased by YEC from Caterpillar or owned by YEC and remain at the Mine Site. Minto is fully responsible under Section 10.3(b) for all payments to Caterpillar for these units.

Section 10.4(b) provides that during any period when YEC is unable to provide Grid Electricity to the Mine, and YEC is also otherwise unable to use the Diesel Units to supply Electricity to the WAF grid, Minto may by providing written notice to YEC require that the Diesel Units be used to supply the Mine with Electricity with the sole cost to Minto being costs for fuel and operator assistance. Section 4.8 provides Minto with similar rights and cost obligations if it notifies YEC that it requires the Diesel Units be used to supply the Mine with Electricity under certain circumstances where Minto considers its equipment at the Mine to be at risk of damage from the supply of Grid Electricity and YEC is also unable to use the Diesel Units to supply Electricity to the WAF grid.

(2)

The Diesel Units at the Mine are available, after completion of the Transmission Project, to be used as required by YEC for the WAF system. All diesels on WAF will be available for use as required, in accordance with the economic stacking order and any other relevant considerations.

After the Mine is connected to the WAF grid the Diesel Units will in effect add 6.4 MW of reasonably low cost and low risk diesel capacity to the WAF system and also provide added security to YEC and Minto with regard to reliable supply at the Mine. When WAF diesel operation is required, YEC operation of at least two of the Diesel Units at the Mine Site (especially for baseload operation) is expected to be cost effective due to the minimization of line losses and related additional diesel generation requirements. Between two and three of the Diesel Units at the Mine Site would rank next to the top of the WAF diesel generation stacking order, reflecting their capability to supply expected Mine load levels at efficient fuel operation levels. In the near term these units provide cost effective contingency protection until such time as other potential major mine loads as well as capacity supply options are better clarified.

See also response to YUB-YEC-1-8(1) and (2).

(3)

Since is it a secondary power rate and not firm power, there is no demand charge related to providing firm service during peak winter load time periods (same as is the case for Rate Schedule 32 secondary energy sales today).

REFERENCE: **Cost of Service Review**

PREAMBLE:

In the 1992 Board Report to the Commissioner in Executive Council regarding Review of Cost of Service to and Rates Charged to Electricity Customers in Yukon, the Board states: "The fair apportionment of costs to each of the customer classes requires a cost of service study. A cost of service study usually proceeds in three steps, functionalization, classification and allocation, in order to estimate the costs caused by each customer class."

QUESTION:

1. Does Yukon Energy agree with the above statements? Please explain.
2. Has Yukon Energy followed these principles in determining their Firm Mine Rate/Industrial Primary? Please explain.
3. Has Yukon Energy followed these principles in determining their Rate Schedule 35/Low Grade Ore Processing Secondary Energy? Please explain.
4. Does Yukon Energy confirm that any new major project coming on line significantly influences each of these three steps? Please explain.

ANSWER:

(1), **(2)**, and **(4)**

YEC agrees with the three step method, and has adopted same in its filing. See Schedule E of the PPA document which sets out COS principles and methods and Attachment A of the PPA Application which sets out the COS principles and methods used to determine the 2008 Firm Mine Rate.

Please also see response to YUB-YEC-10(4) and 16, 18, 20, 21, 23, 24, 25, and 26.

(3)

A cost of service is not required to determine a secondary energy rate, i.e., it was not used or suggested to be needed to determine the current rate Schedule 32. For a more thorough discussion of the rate set out in Rate Schedule 35 please see YUB-YEC-1-11.

REFERENCE: Cost of Service Review

PREAMBLE:

In the 1992 Board Report to the Commissioner in Executive Council regarding Review of Cost of Service to and Rates Charged to Electricity Customers in Yukon, the Board states "The Board recommends that a target revenue to cost ratio of 100% be established for the industrial rate class, and that the rates charged to Curragh should be determined by the Board only after a public hearing."

QUESTION:

1. Does Yukon Energy confirm that a cost of service/rate design study and Board review is the only accountable way to determine rate allocation? Please explain.

ANSWER:

The quote from the 1992 Report supports the OIC 1995/90 directive that industrial customer rates be at least sufficient to recover costs of service determined on a Yukon wide basis reflecting consolidated rate revenue requirements of both YEC and YECL. The YEC Application and COS in Attachment A as used to determine the Firm Mine Rate in the PPA fully reflect these requirements.

Please see YUB-YEC-1-10(4) and 16, 18, 20, 21, 23, 24, 25, and 26.

REFERENCE: PPA

PREAMBLE:

The Board requested submissions on the Yukon Energy-Minto Mine Term sheet and stakeholders gave various concerns.

QUESTION:

1. Please explain why the PPA did not resolve any of these stakeholder concerns in this final agreement with Minto Mine.

ANSWER:

The Term Sheet was filed with the Board to inform the Board of material progress on the PPA and to notify the Board that YEC will be bringing forward an application to approve the PPA by the end of January. At that time intervenors provided various comments. Four intervenor submissions raised issues relating to specific terms and conditions to be included in the PPA including issues relating to rates and the adequacy of the security and payment schedules for the Mine's contribution to the CS line and the Mine Spur.

Since the Term Sheet was provided to the Board on December 21, 2006, the PPA document evolved considerably and these key issues have been taken into further consideration in at least the following areas:

1. **Low Grade Ore Secondary Energy Rate**

   The Term Sheet proposed a new secondary energy sales rate set at 6 cents per KWh for processing ore at the Mine with less than 1% copper content. This rate was subject to the stipulation that the secondary energy sold under the rate would only be available from the surplus hydro-electric energy that remained after supplying customers served under the current secondary energy rate; however, the proposed rate set out in the Term Sheet provided that Minto could gain priority access to available secondary energy if it paid the full energy charge.

Under the PPA, the secondary energy rate for processing Low Grade Ore remains 6 cents per KWh but the provisions for priority access over other customers served under the current secondary energy rate have been removed and Minto will gain access to secondary energy only after the needs of current secondary rate customers have been met, thus alleviating concerns that Minto would gain access to secondary energy resources in priority or preference to current YEC secondary energy customers on the system.

2. Customer Contribution Payments

The Term Sheet had set out that Minto Customer Contribution would include payments based on the costs incurred by YEC to develop and commission the Mine Spur as well as a $7.2 million dollar payment towards the costs to develop and commission the Carmacks-Minto Landing segment of the CS Project.

The Term Sheet set out that Minto would make annual payments to YEC for seven years for both the Mine Spur contribution and the Carmacks-Minto contribution on the following basis:

- Interest only payments for the first four years.
- Equal blended annual payments of interest and principal from year five through year seven.
- If Minto did not provide documentation to YEC by December 31, 2008 confirming Minto's ability and commitment to extend Minto operations to the end of 2016 at consumption levels of 30 GWh/yr, Minto would be required to pay the balance of interest and principal at the end of the fourth year.

In response to concerns that Minto was not paying any principal towards Capital Costs until the end of year 5, Part 5 of the PPA now provides that Capital Cost Contributions will be made in the following manner:

- For the Mine Spur, monthly payments of principal and interest will be made starting from the Commencement of Delivery until the Mine Spur Capital Cost Contribution is paid out at year seven.
- For the Carmacks-Minto Landing Capital Cost Contribution, monthly payments of interest will be paid from the commencement of delivery until year four; from year five equal blended payments of interest and principal will

be paid until the Carmacks-Minto Landing Capital Cost Contribution is paid out at year seven.

- If Minto does not provide documentation to YEC by December 31, 2008 confirming Minto's ability and commitment to process Additional Reserves prior to December 2017 and sustain an additional three years of processing at a defined daily processing level, YEC may require that Minto pay the outstanding balance of the Capital Cost Contribution at the earlier of the fourth annual payment date or December 31, 2013.

3. Loan Security and Repayment Terms

Interested parties raised concerns about the fact that YEC will have security second to the Current Bank Financing.

Under section 6.5, the YEC Security will be fully discharged only when the Capital Cost Contribution plus accrued interest under Section 5.2, the Decommissioning Cost Payment as required under Section 11.2(b), and the Minimum Take-or-Pay Amount obligation have been paid in full. However, it is noted that under section 3.5 of the PPA, in the event that certain stipulated YUB decisions materially adversely affect the cost savings to Minto under the PPA, the YEC Security would no longer be provided as continuing security for the Minimum Take-or-Pay Amount and consequently the security would be amended and restated. The YEC Security is expected to be enhanced by the new C$45 million debenture financing announced February 8, 2007 (and now concluded) that will replace the SLF debt included in the Current Bank Financing and reduce the amount of Current Bank Financing that is ahead of YEC's security interest.

In devising additional terms for the YEC Security in the PPA, these concerns have been addressed in section 6.6 of the PPA with regard to representations and covenants between Minto and YEC with regard to the Current Bank financing.

Minto has covenanted with regard to the Current Bank Financing that Minto will not permit the amount of principal outstanding under the Current Bank Financing to exceed the following:

- For the PLF Agreement, more than $5,000,000(USD) the $57,788,051(USD) in total commitments made under the PLF Agreement provided such $5,000,000 may not be borrowed by Minto later than 90 days after the Commercial Operation Date.
- For the SLF Agreement $20,000,000 (CDN).
- For the MRI Agreement $20,000,000 (USD).

Minto covenants that the amounts owing under each of the PLF or SLF Agreements will be paid on or before the following dates:

- The PLF Agreement will be paid in full on or before November 30, 2009.
- The SLF Agreement will be paid in full on or before November 30, 2010.

Minto must seek YEC consent prior to:

- extending the maturity date for the facility under the PLF Agreement or the facility under the SLF Agreement by more than 6 months beyond the maturity date currently provided.
- using any principal amount borrowed by Minto under the PLF Agreement or the SLF Agreement on the development or any mineral interest located outside the boundaries of current mineral claims.
- not agree to change in interest rates currently provided for the current bank financing.

In all cases YEC's consent is not to be unreasonably withheld.

4. Due Diligence:

To further alleviate concerns regarding the YEC Security that were raised with regard to the term sheet, YEC has examined the extensive due diligence conducted by the bank and has also commenced financial and legal due diligence of its own with regard to Minto's operations. The financial due diligence and the legal due diligence is being conducted by Behre Dolber and Davis and

Company LLP respectively. Please see YUB-YEC-1-29 for more on due diligence.

REFERENCE: Application, Section 1.0 - Introduction, Page 1

"Yukon Energy and Minto have now concluded the PPA (see Attachment E), which is hereby filed with the Board. As noted in the PPA, the PPA will not be effective until it has been approved by the YUB, and such approval will be needed on, or before, April 30, 2007 in order to complete the Transmission Project prior to September 30, 2008."

QUESTION:

1. Given that the Minto mine will have an on-site power supply until the proposed Transmission Project is complete, please provide YEC views on the repercussions to ratepayers if the in-service date of the Transmission Project is delayed. Please indicate what time delay (e.g., 6 months, 12 months, 18 months, etc.) would be considered a "deal breaker".

ANSWER:

Ratepayer impacts from delays in timely completion of the Transmission Project in 2008 are expected to reduce ultimate ratepayer benefits by at least $250,000 per month of delay (see YUB-YEC-1-4 for review of this and other related benefits of timely completion).

Beyond such loss of benefits from delay, there are material consequences in terms of Capital Cost Payments and take or pay payments if service to the Mine is delayed beyond September 30, 2009 (see below).

The PPA provides benchmarks which impact on the amount of the Capital Cost Contributions that may be received by YEC from Minto the longer the project is delayed longer than one year beyond the September 30, 2008 target for in-service, consequently reducing the cost savings to Minto:

- If Commencement of Delivery occurs after September 30, 2009, the Capital Costs for the Mine Spur included in the Capital Cost Contribution will not include any interest on such Capital Costs after January 1. 2009.
- If Commencement of Delivery occurs after March 31, 2010, the Capital Cost Contribution payment will be adjusted pursuant to section 5.3 or 5.5. of the PPA:

- **Section 5.3:** if Commencement of Delivery does not occur until after March 31, 2010, the payments payable by Minto to YEC under 5.2(b) (equal blended payment of principal and interest for Mine Spur and CS Segment) will be extended by one month (or any portion thereof) for each month (or any portion thereof) that the Commencement of Delivery is delayed beyond March 31, 2010, provided the Additional Reserves under 5.2(d) have been confirmed; the extension of payments under 5.3 will not go beyond the date which Minto confirms that ore reserves at the Mine are planned to be processed at the Mine, provided that the processing level planned is not less than the Daily Processing Level.
- **Section 5.5:** if Commencement of Delivery occurs after March 31, 2013, Minto will pay the Capital Cost Contribution plus interest per annum at the Cost of Capital on the unpaid balance, to be paid in equal blended monthly payments of interest and principal on the Capital Cost Contribution payable within 5 Business Days of the end of each month such that the Capital Cost Contribution will be paid out in full on the third Annual Payment Date. Minto will have no obligation to make payments under section 5.5 after the Commercial Operation Cessation Date at which point Minto's obligations under section 5.5 will cease. Further, under no circumstances will the Capital Cost Contribution exceed $0.24 per kilowatt hour less the cost of Electrical Energy use for that period. If the Mine resumes processing after the Commercial Operation Cessation Date, the Capital Cost Contribution payable under this section 5.5 will resume until the date of the next Commercial Operation Cessation Date.

Under section 6.3 of the PPA, the take-or-pay contribution is also reduced by $250,000 for each month that the Commencement of Delivery is delayed beyond September 30, 2009.

In summary, the longer it takes to get the required approvals to build the transmission line in order to provide for commencement of delivery of power to Minto, fewer benefits will be available and greater cost risks will arise for YEC starting after September 30, 2009. In addition to the cost impacts noted above, YEC would be concerned about the likely remaining life of the Mine during which YEC would be able to provide service to the Mine being shortened by such delays, thereby adding to YEC risks regarding full recovery of its costs.

Prior to the approval of construction contracts for the Transmission Project, the YEC Board of Directors will assess the risks and benefits of proceeding with the project and make a final determination regarding whether or not to proceed. YEC is not prepared at this time to indicate what specific time delay would be considered a “deal breaker”.

REFERENCE: Application, Section 2.0 - Overview of the PPA and Requested Approvals, Page 2

"On October 13, 2006, YEC filed with the Yukon Environmental and Socio-economic Assessment Board Executive Committee a Project Proposal Submission for the Carmacks-Stewart/Minto Spur Transmission Project."

REFERENCE: Application, Section 3.1 – Update from Other Filings, Including YESAB

"On January 25, 2007 the YESAB Executive Committee completed its adequacy review for the Carmacks-Stewart Crossing / Minto Spur (CS/MS) Transmission Project, and the project has proceeded to the Executive Committee Screening stage of the YESAB approvals process."

QUESTION:

1. Please provide an update on the status of the YESAB submission and the expected time frame for YESAB approvals.

ANSWER:

YEC received an adequacy notice February 2, 2007, and on February 12, 2007, YESAB published notice of the screening. A 30 day period of public comment commenced February 12 that will conclude March 14, 2007.

YEC is currently targeting for the YESAB draft screening report to be available for public comment by April 30, 2007 and the Final YESAB Report with recommendations by June 30, 2007. Approvals, which are provided by each government Decision Body, are targeted to be secured by July 30, 2007. These target dates, which reflect YEC planning requirements related to seeking a construction start this fall, are subject to material delay risks related to the regulatory processes.

YEC's current focus on April 30, 2007 is to enable the YEC Board to proceed, if it so decides, in May to order (with cancellation provisions) long-lead equipment such as power transformers. Ordering such long-lead equipment this May is expected to be required to ensure that the equipment will be available for installation on site within the next year during the expected construction schedule.

REFERENCE: **Application, Section 2.0 - Overview of the PPA and Requested Approvals, Page 2**

"Section 3.1(a) of the PPA provides that prior to proceeding with and completing the Transmission Project under the Agreement, on or before April 30, 2007 the YUB will have approved the PPA."

PREAMBLE:

In its January 15, 2007 Report to the Executive Commissioner on YEC's 20-year Resource Plan, the Board noted that the Minister of Justice had said in her letter of August 29, 2006 to the Board that "prior to the implementation of any proposed significant energy projects by YEC (e.g., construction of the Carmacks-Stewart transmission line), it is the government's intention to refer the details of such projects to the YUB for review and recommendation under provisions of Part 3 of the Public Utilities Act".

The Minister of Energy, Mines and Resources has publicly indicated that an official "full scrutiny" hearing into the proposed power line extension from Carmacks to Pelly Crossing, (and then on to Stewart Crossing in phase two) will take place.

Given that the proposed power purchase agreement submitted by YEC and the Part 3 review of the proposed power line extension are inextricably linked, it appears unlikely that the proposed PPA will be approved by April 30, 2007.

QUESTION:

a) Please explain the permits and approvals that YEC understands are required in order to proceed with the proposed Transmission Project and the anticipated timing of each of these permits and approvals.
b) Given UCG's understanding that the YUB's January 15, 2007 Report to the Executive Commissioner on YEC's 20-Year Resource Plan with respect to the proposed Transmission Project contained only recommendations, please provide YEC's understanding of any approvals it feels were provided by the Board in its Report.
c) Please confirm that the proposed power purchase agreement will be terminated if approval for the PPA is not provided on or before April 30, 2007.

ANSWER:

(a)

In addition to approval of the Minister responsible for Yukon Development Corporation pursuant to Order-in-Council 1993/108, regulatory permits and approvals are required for land use (Crown lands and settlement lands), river and stream crossings and other activities related to the Project's development.

Table 1.5-1 in the Carmacks-Stewart Minto Spur Line Project Proposal Submission Document lists the regulatory permits and approvals that have been identified. Construction of the Project is planned to be in conformance with Fisheries and Oceans Canada (DFO) "Overhead Line and Overview Construction Operational Statement, Version 2. 2006" and accordingly no DFO permit requirement is included in Table 1.5-1.5.

Activity	Permit Required	Regulation
Clearing or installing a utility ROW Conducting geotechnical studies (for substations)	Land Use Permit Land Use Permit	*Territorial Lands (Yukon) Act, Lands Act, Land Use Regulations*
Clearing or installing a utility ROW on settlement lands	First Nation access for construction approval	*N/A*
Tenure for Land Lease	Application for Land	*Territorial Lands (Yukon) Act, Lands Act, Land Use Regulations*
Tenure/easement for Land Lease on settlement land	As-built easement or equivalent for ROW on settlement lands	*N/A*
Construction of new road access Construct road access on highway ROW Use of land within highway ROW Perform work within highway ROW Erect a sign within highway ROW	Above, and Permit under Highways Act Section 7(2) Access Permit License of Occupation Work in ROW Permit Sign Permit	*Highways Act, Highways Regulation*
Permission to obtain gravel/sand from quarry	Quarry Permit (submitted along with Land Use Permit)	*Quarry Regulations, Territorial Lands (Yukon) Act, Quarry Regulations, Lands Act*
Timber cutting – if less than 1000 m³ per year Timber cutting – if greater than 1000 m³ per year	Commercial & Personal Use Permit Timber Permit or Timber Harvest Agreement	*Territorial Lands (Yukon) Act, Timber Regulation*
Burning refuse (wood)	Burning Permit	*Forest Protection Act, Forest Protection Regulation, Territorial Lands (Yukon) Act*
Work over or across any navigable water	Application for Approval of Proposed Works under the Navigable Water Protection Act, and Lands Act (Yukon)	*Navigable Water Protection Act* *Territorial Lands (Yukon) Act, Lands Act, Land Use Regulations*
Storage and handling of Petroleum Products	Storage Tank Systems Permit, Land Use Permit	*Environment Act, Storage Tank Regulation* *Territorial Lands (Yukon) Act, Lands Act, Land Use Regulations*
Handling, Disposal, Generation or Storage of Special (Hazardous) Wastes	Special Waste Permit (Environment Act)	*Environment Act, Special Waste Regulation*
Construction of buildings outside a municipality	Building Permit	*Building Standards Act*
Work within 4 km of aerodrome property	Transport Canada Obstacle Clearance Form	*Canadian Aviation Regulation* *TP 312 Standards and Recommended Practice*

In general, final approvals as noted above cannot be provided until the YESAB Final Report is issued and the relevant Decision Bodies have accepted its recommendations. As noted in response to UCG-YEC-2-2, YEC is currently targeting for this to occur by the end of July 2007.

However, PPA approval by the YUB and certain other key milestones to be achieved by April 30, 2007, are required to enable the YEC Board to proceed, if it so decides, in May to order (with cancellation provisions) long-lead equipment such as power transformers. Ordering such long-lead equipment this May is expected to be required to ensure that the equipment will be available for installation on site within the next year during the expected construction schedule. If YEC fails to order long-lead equipment in May there are expected to be severe consequences as regards schedule, including:

- At minimum the loss of a month in project in-service is possible for each month of delay in so ordering; in addition
- YEC may well face an added loss of 3 to 6 months if delay means that YEC is unable to meet critical seasonal windows for installation in field of equipment being ordered (this point will be assessed in more detail as part of the preliminary engineering work to commence in March).

(b)

Please see YECL-YEC-1-1(a).

(c)

Section 3.1(a) of the PPA sets out the condition that on or before April 30, 2007 the YUB must have approved of the PPA including various provisions listed in 3.1(a)(i) through (vii). Section 3.1(a) is to the benefit of both Parties and may only be waived, altered or the time period extended by written agreement between the parties. Under the provisions of the PPA the Parties must exercise commercially reasonable efforts to ensure that the conditions for which they are responsible are fulfilled or waived on or before the date specified. On the April 30, 2007 date, if the Parties cannot agree to waive or extend the time period for the provision or to waive the provision then the PPA will be terminated.

YEC in any event will not proceed with ordering of long lead equipment prior to YUB approval of the PPA.

REFERENCE: **Application, Section 3.1 – Update from Other Filings, Including YESAB**

“On February 2, 2007, YEC issued a Request for Proposal (**RFP**) to five short listed and pre-qualified bidders for engineering services for the CS/MS Project.”

QUESTION:

a) Please explain how the short-listed bidders were pre-qualified. Provide all related correspondence and submissions related to the pre-qualification process.
b) Please provide an update on the RFP process and the anticipated timing of completion.

ANSWER:

(a)

Potential bidders were identified through an Expression of Interest (**EOI**) process. Advertisements were placed in Globe and Mail newspaper on September 5 & 8, 2006. As well, the three affected First Nations and a number of specific engineering companies that YEC was interested in were directly contacted and invited to participate. From these two avenues, ten responses were received. An internal committee of managers assessed the responses using a qualitative scale and five companies were deemed to be acceptable.

(b)

The five proponents who were short-listed from the EOI in fall of 2006 were invited to bid when the RFP was issued February 1, 2007. Three of these responded with proposals by the Proposal closing date of February 23, 2007. Evaluation of these proposals is currently proceeding. An award of contract is targeted for March 14, 2007.

REFERENCE: Application, Section 3.2 – Timing Requirements and Conditions

“Timing is critical to the viability of the Transmission Project, and in order to achieve an in service date by late 2008 project construction must commence by the fall of 2007. Consequently, pursuant to section 3.1 of the PPA, the following timelines must be achieved:

- February 15, 2007: Minto will have received written approval from Macquarie of Minto’s execution and delivery of this Agreement and the YEC Security and Minto will have provided a copy of such approval to YEC;
- February 15, 2007: YEC will have entered into an agreement with Macquarie and Minto governing the respective rights and obligations of each party;
- February 28, 2007: YEC will have completed its due diligence review of Minto and the Mine.”

QUESTION:

a) Please confirm that the February timeline actions have been completed. If not, then please provide an explanation of their status.
b) Please provide a copy of agreements, approvals and due diligence reviews conducted as per this timeline.

ANSWER:

(a) and **(b)**

Copies of the Direct Agreement have been provided to all parties. For an update on due diligence please see YUB-YEC-1-29.

REFERENCE: Application, Section 4.1 – PPA Rates, Page 6, Footnote 5

"The 2008 Firm Mine Rate outlined in Schedule C provides for $15 kVA per month (demand charge) and $0.076 per kW.h (energy charge); together these rates equal approximately 10 cents per KW.h for Minto Mine purchase of 32.5 GW.h per year of electricity at a peak annual load of 4.4 kMA. This average rate includes the Demand Charge and Energy Charge rates in the Schedule C Industrial Primary Rate, without consideration of ongoing Fixed Charge provisions relating to ongoing monthly payments by Minto for the Capital Contribution. Schedule C also includes provision for a Peak Shaving Credit if Minto elects to nominate a Winter Contract Load as provided for in the rate schedule."

REFERENCE: Application, Section 4.1.1 – Firm Mine Rate

The Application includes evidence to confirm that this rate is in full compliance with Order-in-Council 1995/90 and that the rate is sufficient to recover forecast 2008 costs of service to the Major Industrial Customer class (see Attachment A).

REFERENCE: Application, Appendix A, Section 1.0 – Introduction and Overview

"The Firm Mine Rate in the PPA was established based on the COS principles and methods in Schedule E of the PPA."

QUESTION:

a) Please provide details of YEC's forecast of its total 2008 revenue requirement.
b) Please provide a paper copy and a working electronic copy of the cost of service study used to determine that the proposed firm mine rate is sufficient to recover that portion of YEC's 2008 revenue requirement allocated to the industrial rate class.
c) Please compare the cost of service study methodology used to develop the proposed firm mine rate to the cost of service study methodology used in the 1996/97 General Rates Application involving both YEC and YECL.
d) Provide details of the functionalization, classification and allocation factors used in the cost of service study used to calculate the proposed mine rate.

e) Provide detail of all costs (directly assigned costs, allocated costs, etc.) that are proposed to be recovered through the proposed industrial rates.

f) Please compare the annual bill for the Minto mine under the proposed firm mine rate versus under existing industrial rates.

ANSWER:

(a) through **(e)**

The relevant information is provided in each instance, to the extent it is available, in Attachment A to the Application. YEC does not have an electronic copy of the COS materials to provide for external use (in the past YECL/YEC electronic copies of COS filings, although requested, have not been provided in YUB hearings).

Please also see responses to YUB-YEC-1-10 and 16, 18, 20, 21, 23, 24, 25, and 26.

(f)

The existing Rate 39 if applied to the Minto Mine load assumed in Schedule A-1 of the Application would result in an average annual rate of 8.32 cents per kW.h plus a Rider F charge of approximately 0.87 cents per kW.h[1] for a total average annual charge of approximately 9.19 cents per kW.h.

In contrast, the Firm Mine Rate in Schedule C of the PPA yields an average annual rate of 10.04 cents per kW.h.

[1] An adjustment to the current Rider F is estimated to reflect that it would then be recovered over the extra load provided by the Minto Mine.

REFERENCE: Section 6(1) of OIC 1995/090

"The Board must ensure that the rates charged to major industrial power customers, whether pursuant to contracts or otherwise, are sufficient to recover the costs of service to that customer class; those costs must be determined by treating the whole Yukon as a single rate zone and the rates charged by both utilities must be the same".

REFERENCE: Response to UCG-YEC-2-2, YEC 20-Year Resource Plan

The OIC requires that a single Cost- of-Service (COS) study be prepared for the entire Yukon (at least at the bulk power level) and that industrial customer rates be set so as to be no lower than 100% cost of service (i.e., 1.00 Revenue: Cost ratio) assessed for Yukon as a single rate zone and considering all relevant costs for both YEC and YECL.

As reviewed in detail at the 2005 Yukon Energy Required Revenues and Related Matters Application, no current cost of service study has been prepared for Yukon since the 1996/97 GRA, and no new industrial customers have connected to the system. For this reason, the firm industrial rate in Yukon remains interim and refundable (since Board Order 1998-5) and is expected to be finalized and confirmed for new industrial customers only after a full COS study is performed for the Yukon as a whole, and that a new rate based on this COS study is reviewed and approved by the Board.

QUESTION:

a) Please confirm that a full cost of service study has not been undertaken to determine electricity rates in the Yukon since the 1996/97 GRA.
b) Please confirm that the proposed firm mine rate will be classified as interim and refundable until a full cost of service study is performed for the Yukon as a whole and a new rate based on the full cost of service study is reviewed and approved by the YUB.

ANSWER:

(a)

Confirmed. See YUB-YEC-1-10.

(b)

This is a firm mine rate and is not interim or refundable. Section 3.5 of the PPA acknowledges that the Firm Mine Rate may be amended from time to time by the PUB after 2008. See response to UCG-YEC-1-17(2).

REFERENCE: Application, Section 4.1.1 – Firm Mine Rate

"YUB approval of the Firm Mine Rate, as set out in Schedule C of the PPA, is sought for initial delivery of Mine Firm Electricity by YEC to Minto; approval is also sought for Section 3.5 of the PPA with respect to any future adjustment of the Firm Mine Rate after 2008."

QUESTION:

1. Please confirm that, if approved, the proposed Industrial Primary Rate and adjustment mechanism will apply to all industrial loads in the Yukon.

ANSWER:

Per Schedule C of the PPA, the Industrial Primary Rate is applicable to all major industrial customers served YEC engaged in manufacturing, processing or mining with an electric service capacity in excess of 1,000 kW.

The consequences issuing from the "adjustment mechanisms" set out section 3.5 of the PPA are specific to the PPA.

See also response to UCG-YEC-1-11 and YUB-YEC-1-16.

REFERENCE: Application, Section 4.1.1 – Firm Mine Rate

"Section 3.5 of the PPA confirms that the Firm Mine Rate may be amended by the YUB from time to time after 2008. Section 3.5 also provides that, after 2008, if the Firm Mine Rate is increased above the rate provided for in Schedule C by a decision of the YUB that is made on the basis of cost of service principles and methods which are inconsistent with the cost of service principles and methods in Schedule E of the PPA (or the YUB alters the terms and conditions of the PPA), and such increase or alteration materially adversely affects the cost savings to Minto under the PPA, then YEC and Minto will be required to amend the PPA to reduce the Minimum Take-or-Pay Amount to offset the loss of such cost saving to Minto and to amend the YEC Security so that it is no longer provided as continuing security for the Minimum Take-or-Pay Amount under Section 6.2 of the PPA."

QUESTION:

a) Please confirm YEC's understanding that it cannot charge any rate that has not been approved by the YUB and that the proposed power purchase agreement is deemed to include a clause under which the YUB has the jurisdiction, on application of one of the parties, to increase or reduce the rate to a rate that the YUB considers fair and reasonable.

b) Please confirm that the contemplated amendment to the YEC security in the above referenced passage is an amendment to the amount of the security to offset the lost cost savings, and not an elimination of the security obligation in the event the PPA is amended to reduce the Minimum Take-or-Pay Amount. If the amendment is intended to eliminate continuing security for the Minimum Take-or-Pay Amount under Section 6.2, please provide the rationale and how YEC's other ratepayers are protected from a failure by Minto to provide the Minimum Take-or- Pay Amount if the YEC security no longer applies to the Minimum Take-or-Pay Amount.

ANSWER:

(a)

Confirmed as it applies to the PPA. See Public Utilities Act section 31: "any contract for the supply of a service to a person by a public utility that sets a fixed or variable rate either for a present or future supply of the service is deemed to include a clause under which the board has the jurisdiction, on application of one of the parties, to increase or reduce the rate to a rate that the board considers fair and reasonable."

(b)

Please see YUB-YEC-1-16 for a review of Section 3.5 provisions and related impacts.

The section provides for both an adjustment of the Minimum Take-or-Pay Amount as noted, as well as removal of the continuing YEC Security as regards the Minimum Take-or-Pay Amount under Section 6.2 (but not as regards other Minto obligations covered by the YEC Security).

Further comments are provided below on the basis for Section 3.5 and related considerations.

In entering into this Agreement, Minto is relying upon the continuance of the relatively stable regulatory environment wherein decisions of the Board with regard to industrial rates flow from relatively standard COS principles and methods as set out in OIC 1995/90 and in prior Board decisions based on OIC 1995/90. This provision was required by Minto to provide some assurance that should the current environment with regard to rate setting and rate regulation dramatically change to the extent that the cost of Grid Electricity, due to such change, was less attractive than diesel generation, there was some measure of relief available to mitigate significant losses.

It should be noted that section 3.5 operates to reduce the Minimum Take-or-Pay and remove the YEC Security with regard to the Minimum Take-or-Pay in two circumstances:

1. if a decision of the YUB increases the Firm Mine Rate at any time after the YUB approves the Firm Mine Rate in the form of Schedule C of the PPA, and that decision is based on cost of service principles and methods inconsistent with the cost of service principles and methods set out in Schedule E of the PPA; or
2. the YUB, in exercising its statutory jurisdiction, alters the terms and conditions of the PPA and such increase or alteration <u>materially adversely affects</u> the cost savings to Minto which arise under the PPA due to converting from diesel generation to grid electricity supplied by YEC.

For any of the above two circumstances to result in the reduction of the Minimum Take-or-Pay amounts or the loss of YEC Security with regard to the Minimum Take-or-Pay amounts the actions of the Board must have a <u>material adverse affect</u> on Minto's cost savings. A decision of the Board that contravenes the cost of service principles and methods in schedules E or that alters the terms and conditions of the PPA on its own is not enough—there must be an effect that is both adverse and material as noted.

The cost of service principles and methods set out in Schedule E of the PPA are based upon OIC 1995/90, past orders of the Board based on OIC 1995/90 with regard to rates charged to the Faro mine and costs of service assessments regarding such rates and the Major Industrial Customer class, and specific requirements consistent with such past principles and methods. For Section 3.5(a) to be operative, YEC understands that the Board would have to dramatically alter how it determines cost of service and significantly deviate from its own past decisions.

With regard to Section 3.5(b), the Board must exercise its statutory jurisdiction in such a manner that the terms and conditions of the PPA are altered and a material adverse effect ensues.

REFERENCE: Application, Section 4.1.2 – Peak Shaving Rate Option

"The Peak Shaving Rate Option included in the Firm Mine Rate in Schedule C of the PPA provides a specified credit on the firm demand billing rate tied to limits on the mine's ability to affect peak winter loads on the WAF system."

QUESTION:

a) Please provide a paper copy and a working electronic copy of the cost of service study used to determine that the proposed peak shaving rate is sufficient to recover that portion of YEC's 2008 revenue requirement allocated to the industrial rate class for this service.
b) Please identify where a peak shaving rate option has been approved by regulators in other jurisdictions and under what circumstances.

ANSWER:

(a)

As noted in response to UCG-YEC-2-6(b), electronic copies are not available for external use. Appendix A attached provides a copy of the table used for Attachment A to the Application to assess the COS for the peak shaving rate option. Please see YUB-YEC-1-33 for detailed review of this example.

Please see YUB-YEC-1-10 for a discussion of the rationale behind the COS analysis conducted by YEC for purpose of seeking approval for the specific new firm industrial rates set out in the PPA.

(b)

Peak shaving rates of one form or other are common in other jurisdictions as part of DSM or fuel switching programs. For example, programs that have similar characteristics to the peak shaving aspect of the proposed Rate Schedule 39 in Yukon include the following:

- Manitoba Industrial Curtailable Service Program: provides large industrial customers with a credit towards their bill to the extent they subscribe all or a portion of their load to the rate offering. The rate requires that customers interrupt their service on a given amount of notice (varies depending on the option the customer elects – can range from 5 minutes to 48 hours) when required by the utility.

- Newfoundland Interruptible B: This former rate is similar to the Manitoba rate offering described above. It is no longer offered.
- Hydro Quebec Rate DT: provides residential customers with a rate offering that has a temperature differential and automatic interruption of certain loads (typically electric heat) below a specified temperature. This offering provides lower cost energy to the customer when the temperature is warmer than the defined cutoff point.

Appendix A to UCG-YEC-2-10 – COS with Peak Shaving Example

Yukon Industrial Costs of Service- - 2008 estimate ($000)

	Customers	Energy			Coincident Peak				Minto Non-c
LOADS		**Sales**	**Losses**	**Generation**	**Sales**	**Losses**	**Generation**		**Peak**
		MWh	%	MWh	kW	%	kW		kW
Industrial									
Minto Mine	1	32,500	12.70%	36,627.5	2,934.8	14.70%	3,366.2		4,400.0
other	0	-	0.00%	-	-	0.00%	-		
sub total	1	32,500	12.700%	36,627.5	2,934.8	14.70%	3,366.2		
Other	15,750	292,000	11.81%	326,485	61,947	13.00%	70,000		
Total	15,751	324,500	11.90%	363,113	64,882	13.08%	73,366	% of contract	
								winter peak shaving	66.7%
Industrial Share	0.006%			10.087%			4.588%		

cost escalation since 97	26.37%								
	Total	**Demand Costs**			**Energy Costs**			**Total**	
	Yukon	**Classify**	**Yukon**	**Industrial**	**Classify**	**Yukon**	**Industrial**	**Industrial**	**cents/**
		%	**Costs**	**Costs**	**%**	**Costs**	**Costs**	**Class Costs**	**kW.h**
PRODUCTION COSTS									
Fixed Costs:									
Diesel Plant	4,302.8	100%	4,302.8	197.4	0%	-	-	197.4	0.0061
Whitehorse #4	7,824.3	0%	-	-	100%	7,824.3	789.2	789.2	0.0243
Other Hydro	3,845.0	40%	1,538.0	70.6	60%	2,307.0	232.7	303.3	0.0093
Wind	199.4	0%	-	-	100%	199.4	20.1	20.1	0.0006
Sub Total	16,171.5	36%	5,840.8	268.0	64%	10,330.7	1,042.1	1,310.1	0.0403
FTN added cost	544.0				100%	544.0	54.9	54.9	0.0017
Sec Sales Credit	(1,101.0)	0%	-	-	100%	(1,101.0)	(111.1)	(111.1)	(0.0034)
Fuel Expenses	4,786.0	0%	-	-	100%	4,786.0	482.8	482.8	0.0149
Wind O&M	91.2	0%	-	-	100%	91.2	9.2	9.2	0.0003
Other Production O&M	5,045.8	50%	2,522.9	115.8	50%	2,522.9	254.5	370.2	0.0114
Risk Insurance	546.7	32%	177.3	8.1	68%	369.3	37.3	45.4	0.0014
Revenue Offsets	(210.8)	33.4%	(70.5)	(3.2)	66.6%	(140.3)	(14.2)	(17.4)	(0.0005)
Admin & General	3,824.1	33.4%	1,278.8	58.7	67%	2,545.2	256.7	315.4	0.0097
Total Production Costs	29,697.5	33%	9,749.4	447.3	67%	19,948.1	2,012.2	2,459.5	0.0757
								8.3%	
Minto Mine				447.3			2,012.2	2,459.5	0.0757
		WAF Line Costs							
		Faro mine assigned		0.00%					
TRANSMISSION COSTS		load share for balance		100.00%					
Specific Line (WAF)	690.9	0%	-	-	100%	690.9	69.7	69.7	0.0021
Mayo Dawson line	2,630.6				100%	2,630.6	265.4	265.4	0.0082
Carmacks-Stewart (Stage 1)	924.6				100%	924.6	93.3	93.3	0.0029
Other Lines	2,786.8	100%	2,786.8	127.9				127.9	0.0039
Total Transmission Costs	7,032.9		2,786.8	127.9		4,246.1	428.3	556.2	0.0171
								7.9%	
Minto Mine				127.9			428.3	556.2	0.0171
DISTRIBUTION COSTS									
Accounting & Marketing	2,279.8				37.6			37.6	0.0012
Other	9,956.0				-			-	-
Total Distribution Costs	12,235.8				37.6			37.6	0.0012
								0.3%	
Minto Mine					37.6			37.6	0.0012
other					0			0	-
TOTAL COSTS	**48,966.2**			**575.2**	**37.6**		**2,440.5**	**3,053.3**	
net of new items	46,693							6.2%	
Minto Mine				575.2	37.6	-	2,440.5	3,053.3	0.0939

REFERENCE: Application, Section 4.1.3 – Low Grade Ore Processing Secondary Energy Rate

"The Low Grade Ore Secondary Energy Rate is interruptible and available only from surplus hydroelectricity supplies. It is only available for use in processing low grade copper ore as defined in the rate schedule."

QUESTION:

a) Please provide a paper copy and a working electronic copy of the cost of service study used to determine that the proposed low grade ore processing secondary energy rate is sufficient to recover that portion of YEC's 2008 revenue requirement allocated to the industrial rate class for this service.
b) Please identify where a low grade ore processing secondary rate has been approved by regulatory in other jurisdictions and under what circumstances.

ANSWER:

(a)

There is no cost of service study used to determine the proposed Low Grade Ore Processing Secondary Energy rate. This rate does not make up part of the revenue requirement for the industrial rate class. See response to UCG-YEC-1-26(3).

(b)

See YUB-YEC-11(1). YEC designed this rate in response to PPA negotiations with Minto Mine and in the absence of any other current potential customer discussions.

YEC is not aware of any other jurisdictions that currently offer a Low Grade Ore processing secondary energy rate. YEC is aware, however, of other jurisdictions that have approved rates for secondary electricity sales based on criteria other than purely the embedded cost-of-service.

For example, since the closure of the Pine Point mine, the Northwest Territories Power Corporation ("**NTPC**") has had surplus hydroelectric generation available on the Taltson system. In 1996, NTPC applied to the Northwest Territories Public Utilities Board

("**NWTPUB**") for approval to sell excess hydroelectric generation for use in a hydrogen demonstration project and for a district heating system. In evaluating the rate proposals for the surplus electricity customers – the NWTPUB stated:

> The Board recognizes that the usual rate-setting principles associated with the determination of an interruptible rate are at odds with the unique circumstances associated with the excess power on the Taltson system. It is the view of the Board that where possible, normal rate-setting principles should be adhered to in determining rates. However, the Board also believes that the proposed rate should not be rejected out of hand as the surplus power has not been utilized for some nine years and may never be in the absence of the proposed district heating system.[1]

The NWTPUB also stated in the same decision:

> As a general principle, the Board concurs with the view that an interruptible rate should be set to recover all incremental costs of the service and provide the primary users on the system with tangible benefits in terms of spreading the fixed costs.[2]

[1] Page 12, NWTPUB Decision 3-97.
[2] Page 11, NWTPUB Decision 3-97.

REFERENCE: Application, Section 4.1.3 – Low Grade Ore Processing Secondary Energy Rate

"Service provided under this rate schedule will only be surplus energy remaining after supplying customers served by Rate Schedule 32 Secondary Energy service."

QUESTION:

1. Please identify when and under what circumstances the YUB has approved a prioritization of customers to be served within a class receiving the same type of service.

ANSWER:

There is no example of the YUB doing what is suggested, other than prioritization of a type as between Rate 32 customers on automatic SCADA controls by the utility versus those requiring manual disconnection, nor has this suggestion any relevance to the PPA proposed rates.

Rate 35 and Rate 32 are different rates for different customers and different loads. Even if the Mine was to elect to receive Rate 32 service as well as Rate 35 service, the service would be different in each instance as defined by the rate terms and the loads being served.

YEC has specifically designed Rate 35 in response to PPA negotiations with the Minto Mine, and the PPA demonstrates agreement as to the terms. This is a specific type of rate for a very specific type of customer, i.e., a mine site engaged in primarily copper production for processing ore with less than 1% copper content, with a fixed rate, priority behind Rate 32, various conditions affecting metering and reporting, etc. This rate specifically applies at this time only to the Minto Mine. Although the rate may potentially apply in future to other mine sites engaged primarily in copper production for processing ore with less than 1% copper content, YEC intends to review the terminology in the event that any other mine emerges that might potentially meet such a criterion in circumstances where the rate might also be available due to surplus hydro still being available.

See response to YUB-YEC-1-11.

REFERENCE: **Application, Section 4.1.3 – Low Grade Ore Processing Secondary Energy Rate**

"In contrast, the Mine Feasibility Study released in July of 2006 assumed that the stockpiled Low Grade Ore (mined in association with the high grade reserves) constituting reserves would all be processed after completion of the six years of high grade ore processing, thereby extending the Mine life by a further 4.6 years or some 3.4 years more than is currently committed."

QUESTION:

1. Please provide a copy of the referenced Mine Feasibility Study.

ANSWER:

The full Mine Feasibility Study is confidential and not available for release. The quote is based on information from the press release made public in July 2006 describing the results of the Feasibility Study (this release is still posted on Sherwood's web site on www.sherwoodcopper.com. Sherwood Copper regulatory filings, including technical reports, are publicly available on www.sedar.com.

REFERENCE: Application, Section 4.2.2 – Diesel Units at the Mine

"The PPA requires YUB approval of provisions respecting the YEC purchase of the four Diesel Units (each with a continuous rating of at least 1.6 MW) as set out under Part 10 of the PPA for $2.24 million13, with YEC to provide payments to Minto in this regard on the same basis as Minto's Mine Spur Capital Cost Contribution payments, i.e., in equal blended monthly payments of interest and principal over the first seven years of YEC service. The negotiated Diesel Units Purchase Price for the assignment to YEC of the Cat Leases for the Diesel Units reflects a proxy for the estimated market value in the event that Minto had proceeded to buy out the Cat Leases and then sell these units to other off-site users (as had been planned to occur after YEC commenced delivery of Grid Electricity to the Mine)."

QUESTION:

a) Please provide documentation on how the negotiated purchase price reflects estimated market value.
b) Please indicate whether YEC considered using the value of Minto's diesel generators as a security deposit similar to that required of other Yukon ratepayers.
c) Please confirm that YEC will not acquire title to the diesel units before September 2009.

ANSWER:

(a)

YEC carried out internal review of both depreciated value (based on hours of assumed operation and purchase price of new units), review of costs for other used diesel options (as reviewed in Resource Plan regarding Mirrlees Life Extension options). Minto also did its own assessments of potential resale values to others. YEC concluded that the negotiated price was reasonable in light of the various options.

The negotiated diesel unit purchase price reflects a proxy for the estimated market value in the event that Minto had proceeded to buy out the Cat Leases and then sell those units to other off-site users as had been planned after YEC commenced delivery of Grid Electricity to the Mine. The PPA provides that the Diesel Unit Purchase Price payable by YEC provides for deductions from the $2.24 million with regard to depreciation and maintenance expenses related to actual use in excess of certain stipulated hours of operation. The specifications for the diesel units are provided in Appendix G of the PPA.

(b)

See answer to UCG-YEC-1-9 and UCG-YEC-1-23.

(c)

Section 10.1 of the PPA sets out that upon Commencement of Delivery, YEC will assume the Cat Leases from Minto. YEC will acquire title to the diesel units under section 10.3(b) when all lease and other payments payable under the Cat Leases have been paid by Minto and YEC is able to acquire title from Caterpillar free and clear of all liens, charges, and encumbrances <u>on or before</u> September 6, 2009. YEC will receive title once all lease payments and other payments required for YEC to receive title free and clear of encumbrances have been made.

REFERENCE: Application, Section 5.1 – No Adverse Impact on Ratepayers

"Bringing Pelly Crossing ratepayers onto the hydro grid will in effect reduce second block energy rates for ratepayers in this community supplied by Yukon Electrical. The "second block" refers to rates for power consumed in excess of 1,000 kW.h per month for residential customers and in excess of 2,000 kW.h per month for businesses. Currently, these second block rates are 12.36 cents/kW.h for Small Diesel communities (Pelly Crossing's current zone) and 10.45 cents/kW.h for Hydro zone, excluding all riders and taxes."

QUESTION:

a) Please provide details of any discussions / correspondence with YECL and the ratepayers in Pelly Crossing concerning the transfer of these customers to the hydro grid.
b) Please confirm that the rates currently charged in the Small Diesel and Hydro rate zones have not be subject to any cost of service study or rate design review for at least 10 years.

ANSWER:

(a)

No detailed discussions have occurred to date with YECL, although initial discussions as to the route and substation site at Pelly Crossing took place last fall.

(b)

The last general rate change (other than rate riders) and complete cost of service study for all Yukon ratepayers was in 1996/97 GRA filing by YEC and YECL.

REFERENCE: Application, Section 5.1 – No Adverse Impact on Ratepayers

"YEC will establish a deferral account (the "Mine Net Revenue Account") to ensure that incremental annual Mine Net Revenues (or net costs) do not affect YEC earnings or the determination of the revenue requirements affecting other ratepayers in Yukon."

"These provisions under Section 3.6 of the Agreement set aside positive net incremental earnings due to power sales to the Mine, retaining these net earnings as reserves to offset rate base costs and as protection against any potential future negative earnings related to the Mine activities."

QUESTION:

a) If any rate charged to an industrial customer such as Minto would have to recover 100% of the fully allocated cost of service for providing the mine with electricity, please explain how any amount would end up in this deferral account.
b) It is UCG's understanding that ratepayers as a whole become exposed to the cost, and therefore the adverse impact of the Project once phases of the Project are put into rate base, through increased return on rate base for YEC. What is YEC's proposal for adding the various phases of the Project to rate base? Assuming that the proposal is to add phases of the Project to rate base in the year they become operational as opposed to a proposal to keep the phase of the project out of rate base, is it YEC's proposal to put the return on rate base and depreciation amounts attributable to the Project into the Mine Net Revenue Account as a way to protect ratepayers from the costs of the project?

ANSWER:

(a)

See response to UCG-YEC-1-23.

(b)

See response to UCG-YEC-1-1 as regards rate base matters, YUB-YEC-1-15 as to operation of the Mine Net Revenue Account, and UCG-YEC-1-9(2) for incremental annual revenues and costs to this account (including CS Project expenses and returns).

REFERENCE: Application, Section 5.1 – No Adverse Impact on Ratepayers

"Upon commencement of delivery, YEC will acquire four 1.6 MW trailer mounted Diesel Units from Minto which will help to provide added security and also provide opportunities to minimize WAF system costs under certain circumstances."

QUESTION:

1. Please confirm that YEC will not acquire title to the diesel units until Minto pays to Caterpillar all lease and other amounts payable under the Cat Leases and pays the amount required to be paid on the termination or expiry of the Cat Leases on or before September 6, 2009.

ANSWER:

See response to UCG-YEC-2-14(c).

Upon Commencement of Delivery YEC will assume the Cat Leases from Minto and Sherwood provided the conditions to assignment under section 10.2 are satisfied or waived. Upon assignment, YEC will be responsible for the operation and maintenance of the diesel units and the diesel units will be at the risk of YEC. Minto's obligation to assign the Cat Leases to YEC is conditional upon Minto and Sherwood receiving a full release from Caterpillar of Minto and Sherwood's obligations under the Cat Leases.

Under 10.3(a) YEC agrees to pay Minto the Diesel Unit Purchase Price plus interest in equal blended payments at the beginning of each month from Commencement of Delivery until the seventh annual payment date. Under 10.3(b) Minto agrees to pay Caterpillar on behalf of YEC as and when required under the Cat Leases all lease and other payments payable under the Cat Leases and Minto will pay the amount required to be paid on the termination or expiry of the Cat leases for YEC to acquire title to the Diesel Units from Caterpillar, free and clear of all liens, charges, and encumbrances <u>on or before</u> September 6, 2009.

REFERENCE: Application, Section 5.1.1 – Capital Cost Contributions

"At the date of the Agreement the Capital Costs of the Mine Spur are estimated at $3.83 million; however, as provided in Section 5.1 of the PPA, within 30 days of the Transmission Project Start Date YEC will provide Minto with a revised estimated based upon received tenders."

QUESTION:

1. Given the uncertainty of the costs of the mine spur, please explain how the YUB can respond to YEC's request for approval of provisions respecting the Capital Cost Contributions.

ANSWER:

The point of the question is unclear, as under the PPA all actual costs of the Mine Spur are to be paid by Minto under the Capital Cost Contribution. The only specific risk to YEC in this regard is loss of interest during construction on the Mine Spur capital costs after January 1, 2009 if in-service is delayed after September 30, 2009.

The amount quoted in section 5.1 of the PPA is the best estimate at this time and provision has been made to adjust this amount after construction tenders are received. Minto is committed to pay the full costs of the Mine Spur with some provision for adjustment as to timing of payments if the costs exceed $4.8 million under s. 5.5 of the PPA (payments will be extended by 2 years provided additional reserves are confirmed and the payments will not go beyond the date which Minto confirms in writing to the satisfaction of YEC, that the ore reserves at the mine are planned to be processed at the Mine at the Daily Processing Level).

REFERENCE: **Application, Section 5.3 – How the PPA will Apply to Other Industrial Customers**

“Section 5.7 of the PPA provides that New YEC Industrial Customers, as defined in the PPA, will be required by YEC to pay a Capital Cost Contribution for their appropriate share of Capital Costs of the CS Project and any spur lines.”

QUESTION:

1. Please confirm that this provision applies to any industrial load and not just those that would be classified as YEC customers.

ANSWER:

Section 5.7 applies to New YEC Industrial Customers which are defined as “a YEC Major Industrial Customer, other than Minto, that receives Grid Electricity from the Transmission Project or the CS Project.” The provision specifically applies to YEC Major Industrial Customers that would receive Grid Electricity from either the Transmission Project or the CS Project and would not apply to other customers.

REFERENCE: Attachment A, page A-4

These COS filings determined cost of service estimates for each customer class based on consolidated forecasts using a three-step methodology to functionalize costs, classify costs, and then allocate costs to each customer class.

QUESTION:

1. Does YEC believe that there is a benefit to directly assigning the costs of assets to specific rate classes when those assets are only used by a particular rate class or can be applied to only a few rate classes?
2. With the development of the M-D transmission line and the proposed Stage 1 of the C-S line, does YEC see a benefit in reviewing and updating the classification factors for transmission assets?
3. Provide the studies and assumptions that the classification factors are currently based on. When were such studies last undertaken? If YEC is unable to provide such studies, does YEC believe it is fair for the YUB to approve a rate schedule that does not have such supporting studies?

ANSWER:

(1)

In situations where an asset is used only by one customer or one rate class, specific assignment of such asset costs for COS purposes may be appropriate. In the Yukon context, it is also important to keep in mind OIC 1995/90, past YEC/YECL filings and earlier Board decisions regarding COS, i.e., all systems for both utilities are treated together in one Yukon consolidated COS study, and it is relevant to review the extent to which such direct assignment of asset costs has been adopted in Yukon.[1]

As reviewed in response to YUB-YEC-1-10(3), in the current situation relevant to the COS in Attachment A of the Application for the Major Industrial Customer class, the only such costs clearly eligible to be assigned only to industrial customers would appear to be the Mine Spur costs (which Minto is fully responsible to pay for in any event), i.e., all other asset costs appear to be shared with one or more other customer classes.

(2)

Attachment A recognizes that the development of the M-D transmission line and the proposed Stage One of the C-S line each reflect new developments since the last full COS review by the Board for the 1996/97 GRA, and YEC's filing in this regard proceeded to review and update the classification factors adopted for these transmission assets. Attachment A also adjusts the 1996/97 GRA COS classification for the Whitehorse to Faro segment of the WAF transmission line to reflect closure of the Faro mine since that time. Although Attachment A did not modify the classification used for other transmission assets reviewed in the 1996/97 GRA COS filings, YEC can see a benefit when the next full COS study is done for Yukon in reviewing and updating the classification factors for these other transmission assets.

[1] As reviewed in Attachment A to the Application, past COS filings and Board decisions assigned to the Faro mine (the Industrial class) 85% of the WAF transmission costs for the Whitehorse to Faro line. The Board noted in Order 1996-7 that this assignment was "based on usage and is not related to the status of old versus new customer…the vintage of the customer is not currently appropriate to the development of the cost of service studies for the Yukon." The initial NEB June 1985 decision on this matter stated the following general principle: "…in the absence of contractual arrangements, established Commission policy, or regulatory decisions requiring a particular customer or group of customers to bear the cost of a new facility, be it a generating facility, transmission line or part of a distribution facility, the annual costs of such facilities should be included in the pooled costs to be allocated to all customers in the rate zone." The NEB then nevertheless went on to recommend that 85% of the annual costs of this transmission line segment be specifically assigned to this customer, reflecting "the circumstances surrounding the construction of the Whitehorse to Faro transmission line" in 1969 (an agreement between the mien and Canada, with NCPC then designated to build the 288 km line etc.), the fact that this customer when operating was assigned in excess of 95% of the annual costs of this line (remaining costs assigned partly to the towns of Faro, Carmacks and Ross River), and the NEB recommendation that this mine customer also be assigned its share of the pooled costs (including the 15% of this line's costs to be rolled into pooled costs).

(3)

Yes, YEC believes it is fair for the YUB to approve a rate schedule as COS in Yukon does not materially hinge on detailed system studies regarding classification or allocation ratios. The classification of the functionalized costs in Schedule A-1 of Attachment A to the Application focuses on costs relevant only to COS for the Major Industrial Customer class, and is based on the COS principles and methods in Schedule E of the Application (see item A (4) re: "classify costs", as well as item B(5)). The assumptions and information reviewed for each of these classifications are (see also response to YUB-YEC-1-10(1) and (4)):

- **Generation [Production] costs**: classification based on the 1996/97 GRA COS filing as approved by the Board, except as noted:
  - **"Fixed costs"** classification in Schedule A-1 is identical to 1996/87 GRA COS filing as approved for each function component, and also as specified in Schedule E to the PPA.
  - **"FTN added cost"** classification 100% to energy reflects an element treated differently than in 1996/97 GRA (see item 7 at page A-13 for explanation - the net effect of this change, and including the assumed 100% classification to energy of such costs, increases costs allocated to the industrial class); this classification is not specified in Schedule E to the PPA.
  - **"Secondary sales credit"** classification 100% to energy also reflects an element where there is a change from the 1996/97 GRA, i.e., no secondary sales were feasible when the Faro mine was assumed to be operating (see item 8 at page A-13 for explanation - the net effect of this change, and including the assumed 100% classification to energy of such costs, increases costs allocated to the industrial class); this classification is not specified in Schedule E to the PPA.
  - **Other Production costs –** classification of each functional cost component based entirely on 1996/97 GRA COS filing as approved by the Board; this classification is not specified in Schedule E to the PPA.

- **Transmission costs**: classification based on the 1996/97 GRA COS filing as approved by the Board, except as noted:
  - **Specific Line (WAF), Mayo Dawson line and Carmacks-Stewart (Stage 1) line**: classification 100% to energy reflects change to 1996/97 GRA to reflect changes since (closure of Faro mine and development of new lines);

classification 100% to energy on basis that these facilities basically being used to displace diesel generation with hydro generation rather than to meet peak winter demands for the communities and industries being served (see items 9, 10 and 100 at pages A-13 and 14 for explanation - the net effect of the 100% classification to energy increases costs allocated to the industrial class); this classification is specified in Schedule E to the PPA.

- **Other lines**: classification 100% to demand based entirely on 1996/97 GRA COS filing as approved by the Board; this classification is specified in Schedule E to the PPA.

- **Distribution costs**: classification focused only on one function (Distribution & Marketing) relevant to Major Industrial Customer class, and based on the 1996/97 GRA COS filing as approved by the Board[2]; this classification is not specified in Schedule E to the PPA (see page A-14 for review).

[2] As per the 1996/97 GRA COS filing, Customer Accounting (assumed at 82.6% of these costs) is allocated 98% based on number of customers, and 2% based on energy sales; Marketing is allocated 15% based on number of customers and 85% based on energy sales. Schedule A-1 in the Application shows the end result only of these calculations, i.e., the number shown ($37.6 thousand) is not in reality only an energy classified result.

REFERENCE: Application, Section 5.3 – Forecast Costs by Function

"Carmacks-Stewart (Stage 1) – a new cost element not included in the 1997 GRA; estimate of depreciation and return on rate base (at 7.5%) per final mid-November 2006 filing with YUB in YEC Resource Plan hearing."

QUESTION:

a) Please confirm that the last rate of return on equity for YEC approved by the YUB was 9.05% per Board Order 2005-12.
b) Please provide details of the calculation of the referenced 7.5% rate of return on rate base for 2008.

ANSWER:

(a)

Confirmed.

(b)

The calculation assumes the following:

- 60/40 debt to equity
- Equity return at last approved ROE of 9.05%
- Long term debt cost assumed at approximately 6.47%. Based on YEC's and YDC's long established relationship between Long Canada Bond values and long-term debt of 120 basis points, this is consistent with benchmark long Canada bond yields of 5.27%, or about 1.2% higher than current trading levels. (By way of comparison to current market conditions, the benchmark long Canada bond yield reported on March 4, 2007 was 4.08%, or more than 1.1 percentage points lower than the debt cost assumptions underlying the PPA Cost of Capital fixed value.)

REFERENCE: Application, Section 4.2.2 – Diesel Units at the Mine; UCG 1-7

"After completion of the Transmission Project connecting the Mine to the WAF grid, YEC's purchase of the Diesel Units at the Mine Site will in effect add 6.4 MW of reasonably low cost and low risk diesel capacity to the WAF system."

"In the near term these units provide cost effective contingency protection until such time as other potential major mine loads (Carmacks Copper) as well as capacity supply options are better clarified."

QUESTION:

a) Please explain why these "contingency" units should be classified as "used and useful" and placed into YEC's regulated rate base. Please provide examples of when the YUB has previously allowed similarly contingent plant into rate base.
b) Please identify the source for YEC's determination that the YUB must approve the purchase of these diesel units.

ANSWER:

(a)

See YUB-YEC-1-8 for discussion of the Diesel Units and their role and benefits to the system. YEC approval of diesel capacity spending as required for capacity planning criteria address contingencies, as discussed in the Resource Plan hearing with regard to Mirrlees Life Extension Project costs recommended by the Board in its January 15, 2007 Report.

(b)

Under the Public Utilities Act the Board must set rates and determine the rate base for a public utility. Beyond these matters, the YUB does not have specific authority at this time to approve utility spending.

REFERENCE: **Appendix E – Power Purchase Agreement, page 14, paragraph 3.1 (f)**

"On or before May 31, 2007, Minto will have executed and delivered to YEC the YEC Security and YEC will have registered the YEC Security in all registries required to perfect the YEC Security, such that the YEC Security ranks second only to the Macquarie Financing generally and third only to MRI and Macquarie on the Copper Concentrate or if MRI, as a result of any changes to the MRI Agreement, no longer has security over the Copper Concentrate the YEC Security will rank second on the Copper Concentrate behind the Macquarie Financing;"

QUESTION:

a) Please provide all information and documents that set out the following:
   i. the amount of the Macquarie Financing "generally" related security obligation that ranks ahead of the YEC Security,
   ii. the amount of the MRI security obligation that ranks ahead of the YEC Security with respect to the Copper Concentrate,
   iii. the amount of the YEC Security obligation,
   iv. the value of the assets to which the Macquarie Financing "generally" related security obligation and the YEC Security attach,
   v. the value of the Copper Concentrate assets to which the Macquarie Financing "generally" related security obligation, MRI security obligation, and the YEC Security.

b) Please provide the amounts referred to in a) on a projected annual basis to illustrate, if Minto were to cease operations and trigger the Macquarie, MRI and YEC security obligations at the end of any of Years 1, 2, 3, 4, 5, 6, 7, 8, 9, or 10, what the projected recovery of YEC of the obligations outstanding to it from Minto would be with respect to its security over Minto's assets after accounting for the value of the encumbered assets and the amounts recovered by Macquarie and MRI under their respective securities.

ANSWER:

(a)

In response generally to (a)(ii) - (v), due to confidentiality agreements, copies of the Macquarie Bank and MRI documents cannot be released. However, in an attempt to be helpful,

- the Macquarie Bank Project Finance Agreement and security contemplates a maximum indebtedness of $US57,788,051,
- the Macquarie Bank Subordinated Project Finance Agreement has been or will soon be paid out from the proceeds of the unsecured debenture offering by Sherwood,
- the repayment schedule for the Macquarie Bank Project Finance facility contemplates payments to commence in November of 2007 and the loan to be repaid by November 2009,
- MRI will have a prior security interest in the concentrate which it has paid for but which has not been delivered due to river conditions. The amount secured will not exceed $US 20 million. This facility will be repaid from time to time as the concentrate is delivered by Minto.

(b)

Please see response to YUB-YEC-1-32 as regards review of a default by Minto on its financial obligations to YEC. The type of detail requested in the question simply cannot be reasonably determined and accordingly further details cannot be provided by YEC.

REFERENCE: Appendix E – Power Purchase Agreement, page 16, s. 3.5

"3.5 YUB Decision on Firm Mine Rate

The Parties acknowledge that the Firm Mine Rate was established based on the cost of service principles and methods in Schedule E and that the Firm Mine Rate may be amended by the YUB from time to time after 2008. Notwithstanding Section 6.5:

a) if the Firm Mine Rate is increased at any time after approval by the YUB of the Firm Mine Rate in the form of Schedule C on the date of execution and delivery of this Agreement by a decision of the YUB made on the basis of cost of service principles and methods which are inconsistent with the cost of service principles and methods in Schedule E; or
b) if the YUB, in exercising its statutory jurisdiction, alters the terms and conditions of this Agreement; and
c) such increase or alteration materially adversely affects the cost savings to Minto under this Agreement arising due to the conversion from reliance on electricity from diesel generation at the Mine Site to Grid Electricity;

the Parties will amend and restate:

d) this Agreement to reduce the Minimum Take or Pay Amount to offset the loss of such cost savings to Minto; and
e) the YEC Security so that the YEC Security is no longer provided as continuing security for the Minimum Take or Pay Amount under Section 6.2."

QUESTION:

1. It appears from the wording of section 3.5 of the PPA that the parties specifically contemplate that the YUB may change the Firm Mine Rate after 2008, but do not specifically contemplate that the YUB may approve a Firm Mine Rate in this proceeding other then the one proposed in Schedule C to the application. In the event the YUB approves a new Firm Mine Rate in this proceeding different then the one requested in Schedule C, is it intended that s. 3.5 (b), (c), (d), and (e) of the PPA would be triggered in the event the different rate materially adversely affects the cost savings to Minto, or would the approval of a different Firm Mine

Rate then the one proposed in Schedule C be treated in some other way under the PPA, and if so in what way?

ANSWER:

Section 3.5 only operates after the 2008 Firm Mine Rate set out in Schedule C has been approved by the Board, and the Board proceeds to change this rate after 2008.

Section 3.1(a)(i) requires that on or before April 30, 2007 the Firm Mine Rate for initial delivery of Firm Mine Electricity by YEC to Minto and section 3.5 of the PPA respecting future adjustment of the Firm Mine Rate must be approved. Since the condition is to the benefit of both Parties, it may only be waived, altered or the time period extended by agreement between both parties; therefore, if YEC proposed a new Firm Mine Rate different from the rate proposed in Schedule C of the PPA, the Parties would have to come to an arrangement with regard to 3.1(a)(i) before section 3.5 became a consideration. If Minto and YEC cannot together agree on altering the provision, waiving the provision or an extension of time with regard to the provision, the PPA would terminate and consideration of 3.5 would be moot.

See response to YUB-YEC-1-16.

REFERENCE: Application, Page 4, Schedule 1

QUESTION:

a) The note to Schedule 1 at the top of page 4 states that the Schedule "Excludes consideration of any additional Yukon Government funding required to prevent adverse ratepayer impacts". Is it YEC's position that Yukon Government funding would only be required under the "High Costs" Scenario, and that the funding would be in the amount of approximately $2.81 million in accordance with the Schedule?

b) The note to Schedule 1 at the top of page 4 says the schedule excludes consideration of Carmacks Copper Mine; please provide a full update with respect to the state of the proposed Carmacks Copper Mine and its potential impact on the Project.

c) Does YEC intend to seek Yukon Government funds to prevent adverse ratepayer impacts in the event that YEC does not recover some or all of the Minto Capital Contributions or the Minto Mine net Revenues, either from Minto directly or from enforcement of the YEC Security provided for under the PPA?

d) Please provide the net benefits of connecting the Minto Mine directly, without undertaking the Project, for comparison to the "Overall Project Net Benefits (Costs)" provided in Schedule 1 of $7.59 million for the low costs, $2.39 for the mid point costs, and ($2.81) for the high cost estimates. By UCG's rough calculation, assuming Minto would be solely responsible for the costs of connecting themselves to the grid, the net benefit to other ratepayers would be approximately $13.6 million from the Minto Mine net revenues assuming the Firm Mine Rate as proposed was appropriate.

ANSWER:

(a) and **(c)**

On Yukon Government funding, see response to UCG-YEC-2-20(c) – no further Yukon Government funding is currently contemplated for Stage One of the CS Project.

(b)

No YEC discussions are ongoing at this time with Carmacks Copper – YEC understands that the Carmacks Copper Mine is currently proceeding through YESAB review with the project defined to rely solely on use of on-site diesel generation.

(d)

UCG's assessments appear to assume full Stage One and Stage Two development, rather than only the Stage One development relevant at this time (Stage One benefits vary from $4.69 million to $10.59 million NPV in 2005$).

As noted in YUB-YEC-1-34, there is no option available that would have Minto pay the full cost to interconnect as an alternative to the Project. Such an approach would not only forego the obvious long-term infrastructure benefits of the Project as proposed, but would also forego other clear opportunities at this time, if it could even be developed:

- Both the Yukon Government $0.45 million contribution and the proposed YDC contribution of $5.0 million towards this project are contingent on developing suitable long-term infrastructure, not simply a radial, short-duration and single-purpose line serving Minto.
- Absent the 138 kV development, the service would fail to enable the potential for further future development of transmission north of Minto Landing, which is an essential component of the project with respect to securing First Nations agreement.[1]

In addition, the industrial rate as calculated includes a component to address the costs of the Carmacks-Stewart project (comprising about 3% of the Minto rate or about 0.3 cents/kW.h) so the benefits cited above would be reduced be an equal share.

Please see response to YUB-YEC-1-7 and 34 as regards assessment of options where YEC does not pursue the CS Project long-term infrastructure development and focuses only on serving the Minto mine.

[1] The MOU with NTFN also clearly assumes that support for Stage One development assumes extension of WAF grid service to Pelly Crossing as well as the Minto Mine. In this regard, a 35 kV extension from Minto Landing to Pelly Crossing might be considered – but this would need as to long-term economics of such single community extension that (due to the line voltage) cannot in any useful way contribute towards further extension to connect the WAF and MD grids. Absent approval and commitment to maintain such a line to Pelly Crossing, any 35 kV connection to serve only the Minto Mine would need to include Minto's agreement to pay all costs to decommission the full line at the end of the Mine's life.

REFERENCE: Appendix E - Power Purchase Agreement, Background

"C. It is the Parties' intention that other ratepayers in the Yukon Territory will not be adversely impacted by the costs of the Transmission Project required to provide Grid Electricity to the Mine".

QUESTION:

a) Please confirm that the term "ratepayers" refers to customers of both YEC and Yukon Electrical Company Limited.
b) Please provide YEC's understanding of any difference between Yukon electricity ratepayers and Yukon taxpayers. UCG is especially interested in understanding how contributions from government sources of taxpayer funds doesn't impact electricity ratepayers.
c) Please describe the public consultations conducted on the proposed new industrial rates and any comments received pursuant to this consultation.

ANSWER:

(a)

Confirmed.

(b)

Ratepayers are utility customers who pay a Board determined rate for services provided by a public utility. A taxpayer is a person who pays tax or is liable to pay tax or subject to taxation. The difference is well understood for policy purposes, even if in many cases the same people are involved. Risk and impacts of an expenditure also can change materially depending on the funding source.

(c)

On December 21, 2006 the Term Sheet was provided to the public which provided background information on the PPA and set out the key terms and conditions that were agreed upon as between the Parties. Although no formal YEC consultations were held, the public had a chance to respond and interested parties provided responses as well to the YUB. YEC discussed these responses and the concerns raised in a response letter to the YUB dated January 8, 2007. Concerns raised included concerns about process and timing, confusion between the Term Sheet document and the final PPA to be later reviewed by the YUB, concerns regarding the proposed rates and the proposed YEC Security and payment schedules.

REFERENCE: Appendix E - Power Purchase Agreement, Definitions

"g. "Affiliate" for a Party means…"

QUESTION:

a) Please provide the names of members of the Boards of Directors of Yukon Energy Corporation and Minto Explorations Ltd.
b) Please provide the names of all affiliates to YEC and Minto and the names of members of their respective Boards of Directors.

ANSWER:

(a) and **(b)**

The members of the Board of Directors of YEC and YDC are publicly available and are listed on the YEC website.

The Board of Directors of Yukon Energy Corporation and are as follows:

- Pat Irvin
- Paul Hunter
- Paul Birckel
- Patrick James
- Greg Hakonson
- Martin Allen
- Barb Joe

YEC does not have a complete list of Board members of Minto or its affiliates. The Minto Explorations Ltd. Board of Directors and Advisory board may be found at http://www.sherwoodcopper.com.

REFERENCE: **Appendix E - Power Purchase Agreement, Definitions**

"(hhhh). "Route" means the route for the Transmission Project as authorized by Government Approvals which, as at the date of this Agreement…"

QUESTION:

1. Please confirm that as of February 8, 2007, there have been no Government Approvals provided for the proposed route of the Transmission Project.

ANSWER:

No such approvals may be provided until the YESAB Executive Committee review has been completed. The PPA definition as referenced in effect states that the attached schedules reflect the route as currently planned and submitted to YESAB for screening.

REFERENCE: Appendix E - Power Purchase Agreement, Section 3.5

"The Parties acknowledge that the Firm Mine Rate was established based on the cost of service principles and methods in Schedule E and that the Firm Mine Rate may be amended by the YUB from time to time after 2008."

QUESTION:

a) Please confirm that the YUB has the jurisdiction to approve an initial Firm Mine Rate different from those proposed in this Agreement and that this approval could be given in 2007 or 2008.
b) Please explain why staying with on-site generation would not be a viable alternative to being served by the grid if grid-based rates became unattractive to Minto.
c) Please explain how Yukon electricity ratepayers and taxpayers are not put at risk if the Minimum Take-or-Pay Amount is reduced to offset cost savings to Minto.

ANSWER:

(a)

The YUB has the discretion to set just and reasonable rates for service in the Yukon, and has the jurisdiction to set a rate other than the Firm Mine Rate set out in Schedule C; however, a Firm Mine Rate other than that set out in Schedule C of the PPA would result in a termination of the PPA if the Parties could not agree to vary or waive condition 3.1(a)(i).

(b)

It is apparent that Minto has the available option to continue with on-site diesel generation. The Mine has been planned and financing secured solely on this basis. There is no doubt that Minto can, in short, proceed if the PPA is not approved as proposed. The implications are also apparent as to diesel emissions plus the los of the YEC opportunities set out in the Application.

In this PPA Minto is committing to Capital Cost payments for both the Mine Spur and for the Carmacks-Minto Landing line infrastructure under section 5.2 of the PPA as well as

Decommissioning Costs for the Mine Spur. Minto is also committing to a $24 million take-or-pay arrangement under section 6.2 of the PPA as well as agreeing to purchase minimum amounts of grid electricity under section 4.1 of the PPA. Under section 10.1 of the PPA it is anticipated that Minto will be assigning the Cat Leases to YEC and two years after such assignment YEC may elect to sell off two of the units or remove such units from the mine site.

In summary, in entering into this PPA Minto is taking on a range of material costs (and risk) in terms of capital payments and the take-or-pay amounts with the understanding that YEC's regulatory environment will remain relatively stable and electricity rates will not increase dramatically beyond a range that is normal or predictable in the Yukon such that the cost savings in converting from diesel generation to grid electricity would be lost. Switching to on-site generation after proceeding with the PPA would not mitigate the capital cost or the take-or-pay arrangements owing.

(c)

Please see YUB-YEC-1-16 as well as UCG-YEC-2-9(b) and 25.

Minto is still obligated by all other terms and conditions of the PPA. The impact on other ratepayers in such an event will depend on the value of the take-or-pay commitments that are reduced and the security no longer provided with regard to all take-or-pay commitments.

REFERENCE: **Appendix E - Power Purchase Agreement, Section 3.6**

QUESTION:

1. Please provide details of the reporting that YEC will undertake with respect to the proposed Mine Net Revenue Account.

ANSWER:

YEC will include the Mine Net Revenue Account in its ongoing annual reporting, including the Minto Power Bill components and the Incremental YEC Costs components as described in the PPA, along with accrued interest earned in accordance with section 3.6 of the PPA.

REFERENCE: Appendix E - Power Purchase Agreement, Section 4.1

"Minto anticipates that the Mine's heat requirements will be supplied through the use of propane."

QUESTION:

a) Please provide details on the amount of propane expected to be needed by the Mine and the anticipated supplier of that propane.
b) Assuming that the propane supplier will be a Yukon business, please comment on the impact on that supplier and the Yukon economy should the Mine elect to use secondary energy instead.

ANSWER:

(a) and **(b)**

YEC is not aware of the amount of propane expected to be needed by the Mine, or the anticipated supplier of that propane, and has no information on the impacts requested.

REFERENCE: Appendix E - Power Purchase Agreement, Sections 4.2 and 4.3

"Minto will provide to YEC annual written forecasts of the Grid Electricity requirements of the Mine at the Point of Delivery for the succeeding five calendar years so as to allow YEC to forecast the future loads on its facilities."

"Six months in advance of each calendar year end, starting in July 2008, YEC will provide to Minto annual written forecasts of the expected availability of surplus hydroelectric generation for purchase by Minto as Secondary Mine Processing Energy Electricity during the next five calendar years, with estimates by month for the first of these five years."

QUESTION:

a) Please describe the reporting, if any, to the YUB that will be undertaken with respect to these forecasts.
b) Please confirm that YEC does not go through the same forecasts exchange with existing secondary energy customers.
c) Please outline how the additional costs associated with this forecasting exchange will be directly recovered from Minto and not other ratepayers.
d) Please outline the process that will be undertaken to estimate the secondary energy requirements with existing customers prior to forwarding the expected availability of surplus hydroelectric generation to Minto.

ANSWER:

(a)

No reporting to the YUB is to be undertaken with respect to these forecasts.

(b)

Confirmed.

(c) and **(d)**

YEC does not anticipate any material additional costs and will not seek to recover such costs from Minto. To estimate the secondary energy requirements for existing customers, YEC will review available records and readily available information with YECL as to the status of these accounts.

REFERENCE: Appendix E - Power Purchase Agreement, Section 4.6

"Minto will regulate its electrical load so that the Power Factor for the Minto Mine is maintained within a reasonable operating range."

QUESTION:

a) Please provide details of a "reasonable operating range" for a customer like the Minto mine.
b) Please confirm that the Minto mine will be metered in both kW and kVA.
c) Please indicate the cost of the required metering and confirm that the cost of the metering will be recovered from the Mine and not other ratepayers.

ANSWER:

(a)

The range for acceptable industrial power factors varies depending on the system. In most southern jurisdictions, there is a desire to ensure industrial customers have a very high power factor as part of the terms of their contract or rate schedule. For Minto, however, being connected to a relatively lightly loaded line, YEC would not target the same high level of power factor. At this time, a Minto power factor in the range of 85% to 95% would be expected to be both achievable and acceptable to YEC.

(b)

The meters used for large loads like Minto measure both kW and kVA.

(c)

The cost of the required metering for Minto is part of the "Mine Spur" pursuant to the PPA, and is included in the estimated costs of $3.830 million per section 5.1 of the PPA. As part of the Mine Spur costs, Minto will pay 100% of the costs of the required meters.

REFERENCE: Appendix E - Power Purchase Agreement, Section 4.8

"Minto may by providing written notice to YEC, require that the Diesel Units be used to supply the Mine with Electricity with the sole cost to Minto being costs for fuel and operator assistance."

QUESTION:

1. Please explain why other Yukon electricity ratepayers should pay the capital-related costs of onsite diesel generators used solely to supply electricity to Minto.

ANSWER:

The PPA provides for two circumstances where Minto can require use of the Diesel Units (see Sections 4.8 and 10.4(b)) and is required to pay the costs for fuel and operator assistance.

In the above-circumstances referenced in section 4.8 of the PPA, where Minto is required to pay the specified costs for use of the Diesel Units, these units would be used to supply Minto in circumstances where Minto considers its equipment at the Mine to be at risk of damage from the supply of Grid Electricity and YEC is also unable to use the Diesel Units to supply Electricity to the WAF grid. Under Section 10.4(b), Minto can request such use of the units when YEC is unable to supply Grid Electricity to the Mine and is also otherwise unable to use the units to supply Electricity to the WAF grid. In each of Sections 4.8 and 10.4(b), Minto in effect only has access to use of the Diesel Units at times when YEC has no need or ability to use the units to supply electricity to its customers. Accordingly, based on these use rights, it is appropriate that Minto not be charged for capital-related costs of the units.

YEC anticipates that Minto use of the Diesel Units under Section 4.8 and 10.4(b) will be very limited and brief when it occurs. In general, the Diesel Units will not be used solely by the Mine and will provide system benefits to YEC ratepayers including the following:

- The diesel units will add 6.4 MW of reasonably low cost and low risk diesel capacity to the WAF system and will benefit Yukon ratepayers generally through:

- The diesel units will provide a low cost addition to WAF peak winter capacity at a time when YEC is actively examining options to enhance WAF firm winter peak capacity.
- The diesel units will provide added security to YEC and Minto as regard reliably supply at the mine and in the case of YEC, the purchase arrangements for the asset enhance YEC's security with regard to the Minto obligations to pay the Mine Spur Capital Cost Contributions.
- When WAF diesel generation is required, YEC operation of at least two of the Diesel Units at the Mine Site is expected to be cost effective due to the minimization of line losses and related additional diesel generation requirements.
- The diesel units will, over the near term, provide cost effective contingency protection until such time as other potential major mine loads as well as capacity supply options are better clarified.

Please see response to YUB-YEC-1-8(1) and (2).

REFERENCE: Appendix E - Power Purchase Agreement, Section 5.4

"If the Capital Costs for the Mine Spur exceed $4,800,000, the payments payable by Minto to YEC under Section 5.2(b)(i) will be extended by two years."

QUESTION:

1. Please explain how the estimated capital costs of the Mine Spur could increase by 25% to require this time extension.

ANSWER:

This provision is included in the PPA to provide for the contingency of an unexpected increase in Capital Costs for the Mine Spur. YEC has no specific basis for expecting this to occur – however, as in the Resource Plan hearing, cost escalation well above engineering estimates has been known to occur recently for major projects in Western Canada due to tight market conditions.

REFERENCE: Appendix E - Power Purchase Agreement, Section 5.6

"…payment of any amounts under Sections 5.2(a)(i) and 5.2(b)(i) will be postponed by 30 days for each period of 30 consecutive days and any multiple thereof that such condition continues."

QUESTION:

1. Please confirm that any carrying costs associated with this postponement of payments will be recovered from Minto and not other Yukon electricity ratepayers or taxpayers.

ANSWER:

Confirmed. Section 5.6 provides only for postponement of payments on the Capital Cost Contribution for the Mine Spur portion of this contribution.

REFERENCE: Appendix E - Power Purchase Agreement, Section 6.1

"Minto will pay YEC the amount set out in each Minto Power Bill within 15 Business Days of the date of delivery of the Minto Power Bill to Minto."

QUESTION:

1. Please explain how this provision differs from the ESR provision for payment "by the date indicated on the bill". Please indicate how much time other customers are given to pay their bill.

ANSWER:

Retail customers have approximately 21 days from the billing date to pay their bills, depending on statutory holidays.

REFERENCE: Appendix E - Power Purchase Agreement, Section 17.1

"Neither Party may assign this Agreement without the prior written consent of the other Party, such consent not to be unreasonably withheld."

QUESTION:

1. Please confirm that the YUB must approve of any assignment of this Agreement.

ANSWER:

The section cited relates to assignment of the PPA. The current review allows for full YUB review of all terms of the PPA. No further YUB review or approvals are contemplated by the PPA in the event of an assignment under section 17.1.

REFERENCE: Appendix E - Power Purchase Agreement, Schedule C

QUESTION:

1. Please identify the differences between the existing and proposed Rate Schedule 39 and provide the reasons for these changes.

ANSWER:

The demand charge per month is $15.00/kV.A in the proposed Firm Mine Rate instead of $18.60/kV.A. as set out in the Primary Industrial Rate in Rate Schedule 39. The current demand charge has remained unchanged for a period prior to the 1996/97 GRA. The Firm Mine Rate charge is slightly higher than the demand costs of $14.62 per kVA indicted by the COS for the Industrial class (see Schedule A-1 to the Application).

The energy charge for the proposed Firm Mine Rate is 7.6 cents/kW.h for all energy used instead of 5.301 cents/kW.h for all energy used for customers without a specific Base Load Energy Amount and for all other customers 4.728 cents/kW.h for energy that does not exceed the Base Load, plus 10.45 cents//kW.h for all energy consumed in excess of the Base Load. The current energy charge was set in the 1996/97 GRA to ensure that the rate equaled the Industrial COS at that time; Rider F is applied to address fuel price changes since that time. The energy charge for the Firm Mine Rate is slightly lower than the energy costs of 7.509 cents per kW.h indicted by the COS for the Industrial class (see Schedule A-1 to the Application); these costs include expected fuel prices based on the last Rider F forecasts for 2007. The Firm Mine Rate retains provision for re-establishing a two part energy rate using a specific Base Load Energy Amount for Minto when YEC expects (as was the case with the faro mien in the 1996/97 GRA) to require diesel fuel generation to service use in excess of such Base Load Energy amount.

The proposed Firm Mine Rate includes a fixed charge which is to equal Capital Cost Contribution payments required under the PPA. The current Industrial Rate in Schedule 39 sets out that the fixed monthly charge is “as determined for each customer, based on fixed customer-specific costs of service.” The earlier charge for the Faro mine related to the assigned cost for the Whitehorse to Faro WAF transmission line. There is no basis to consider any further Fixed Charge for Minto.

Section 4.1 of the PPA sets out the Electricity requirements that YEC is obligated to deliver to Minto. The specific, new Industrial Primary Rate set out in Schedule C of the PPA provides for projected 2008 annualized cost of service for the Major Industrial Customer class based on the general and specific cost of service principles and methods in Schedule E of the PPA, and yields an estimated average annual charge to the Mine at the projected energy purchase requirement of 32.5 GW.h/year of approximately 10.02 cents per kW.h. This average rate includes the demand Charge and Energy Charge rates in the Schedule C Industrial Primary Rate, without consideration of ongoing Fixed Charge provisions relating to ongoing monthly payments by Minto for the Capital Contribution. In contrast, the existing Rate 39 if applied to the Minto Mine load assumed in Schedule A-1 of the Application would result in an average annual rate of 8.32 cents per kW.h plus a Rider F charge of approximately 0.87 cents per kW.h[1] for a total average annual charge of approximately 9.19 cents per kW.h (see response to UCG-YEC-2-6(f)).

The proposed Firm Mine Rate also includes a Peak Shaving Credit which was not included in the current Rate 39. This option was included because it lowers the need to plan for and run peaking diesels and providing benefits to Minto, YEC and all ratepayers. The credit in each billing month equals 50% of the Demand Charge times the Peak Shaved Load (which equals the amount by which then nominated Winter Contract Demand is less than the Billing Demand for each month.

Reference to Rider F is not included in the proposed Firm Mine Rate in Schedule C of the PPA. This reflects the fact that project fuel costs are included in the Firm Mine Rate, diesel fuel generation is generally expected to be required for this load in 2008 (unlike the 1996/97 GRA when material diesel generation was expected to be needed to supply the Faro mine load), and the current Rider F as applied is still working off the 1996/97 GRA as the base which would not be appropriate for the Firm Mine Rate.

[1] An adjustment to the current Rider F is estimated to reflect that it would then be recovered over the extra load provided by the Minto Mine.