

**YUKON
ENERGY**



YUKON UTILITIES BOARD		
EXHIBIT		B-4
DAY	ENTERED BY	DATE
	YEC	May 11/07

**YUKON ENERGY
CORPORATION**
P.O. Box 5920
WHITEHORSE
YUKON Y1A 5L6
(867) 393-5300

May 11, 2007

Yukon Utilities Board
P.O. Box 31728
Whitehorse, YT Y1A 6L3

Attention: Ms. Wendy Shanks, Chair

Dear Ms. Shanks:

Re: Yukon Energy Corporation (Yukon Energy) Application for an Energy Project Certificate and an Energy Operation Certificate for the Proposed Carmacks-Stewart Transmission Project

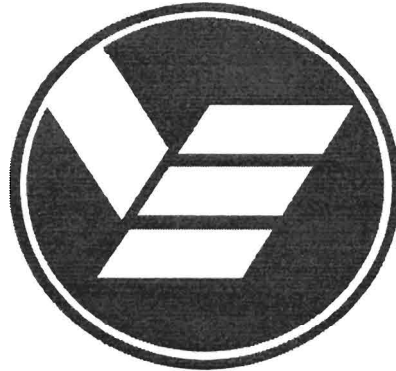
Enclosed please find seven copies of Yukon Energy's response to the information requests ("IR") submitted by the Utilities Consumer Group ("UCG"). These IRs can be inserted into the April 27th, 2007 IR binder.

Yukon Energy is providing an electronic version of the responses to all intervenors by email and will make available the responses as soon as possible on its website at www.yukonenergy.ca. In addition, Yukon Energy will make available paper copies for intervenors and interested parties at its offices upon request. Enquiries can be directed to Shelley Dixon, Corporate Secretary at (867) 393-5337.

Yours truly,

Dave Morrison
President & CEO

**YUKON
ENERGY**



YUKON ENERGY CORPORATION

**APPLICATION FOR AN
ENERGY PROJECT CERTIFICATE
AND AN
ENERGY OPERATION CERTIFICATE
FOR THE PROPOSED
CARMACKS-STEWART TRANSMISSION PROJECT

INTERROGATORY RESPONSES**

May 11, 2007

1 **REFERENCE: Board Order 2007-5, page 3**

2

3 The Board has denied the Power Purchase Agreement (PPA) as applied for by Yukon
4 Energy.

5

6 **QUESTION:**

7

- 8 a) Please identify the costs and liabilities incurred to date and are expected to be
9 incurred by YEC with respect to the proposed Carmacks-Stewart transmission
10 facilities (including the Mine Spur and the proposed PPA) through 2007.
11 b) Please identify the source of funding to cover specific costs identified in (a).
12 c) Please confirm that costs incurred by Minto related to the PPA are not being
13 funded by YEC.
14 d) Please explain how Yukon Energy will account for money spent on the proposed
15 facilities and the associated carrying costs prior to receiving all regulatory
16 approvals required.

17

18 **ANSWER:**

19

20 **(a)**

21

22 The costs incurred in relation to planning the CSTP to April 30 are approximately
23 \$1,688,000. Costs related to the PPA are described in UCG-YEC-1-27(i).

24

25 YUB approval of the PPA was a condition for proceeding with the project. YEC cannot
26 forecast what further costs may be incurred until YEC is able to overcome the issues
27 raised by the YUB in Board Order 2007-5, through YDC or otherwise, in a manner that is
28 satisfactory to Minto.

29

30 **(b)**

31

32 As previously reported, the YTG has provided \$450,000 to fund initial planning. YDC
33 has committed to funding up to \$1.1 million in planning expenditures as part of the
34 overall \$5 million in capital contributions.

1 **(c)**

2

3 Confirmed.

4

5 **(d)**

6

7 This question is not relevant to the Terms of Reference. However, in any event, the
8 planning costs in relation to CSTP will be dealt with in the same way as other planning
9 and/or capital project costs prior to receiving all regulatory and other approvals required
10 to proceed with construction. More specifically, planning costs that result in a capital
11 project are included in the cost of the project and depreciated at the appropriate rate.
12 Planning costs that do not result in a capital project are deferred and amortized over five
13 years.

1 **REFERENCE: Board Order 2007-5, page 3**

2

3 The Board has denied the Power Purchase Agreement (PPA) as applied for by Yukon
4 Energy.

5

6 In its response to UCG-YEC-2-2 (PPA Review), YEC stated:

7

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

13

14 In its response to UCG-YEC-2-3 (PPA Review), YEC stated:

15

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

18

19 **QUESTION:**

20

21 a) Please confirm that there has been no decision to order long-lead equipment
22 related to the proposed Carmacks-Stewart transmission facilities.

23

24 **ANSWER:**

25

26 **(a)**

27

28 Confirmed.

1 **REFERENCE: Board Order 2007-5, page 3**

2

3 The Board has denied the Power Purchase Agreement (PPA) as applied for by Yukon
4 Energy.

5

6 In its response to UCG-YEC-2-30 (PPA Review), YEC stated:

7

8 There is no doubt that Minto can, in short, proceed if the PPA is not approved as
9 proposed.”

10

11 **QUESTION:**

12

13 a) Please confirm that it is still YEC’s understanding that the Minto mine can still
14 proceed towards operating given the Board’s decision.

15 b) Please confirm when the Minto mine commenced or will commence operations
16 using on-site electricity generation.

17

18 **ANSWER:**

19

20 **(a) and (b)**

21

22 The material quoted above refers to the fact that operations at Minto mine are not
23 dependent on the availability of grid electricity and can commence using the onsite
24 diesel units, and can continue using diesel generation throughout the mine’s life. Minto
25 has confirmed this in its news release of May 2, 2007¹ which states:

26

27 This decision has no impact on the development or operation of the high
28 grade Minto copper-gold mine, which has already installed on-site diesel
29 generation capacity sufficient for all operations, including production. The
30 feasibility study supporting the development of the Minto Mine,
31 announced August 28, 2006, assumed the use of diesel power for the
32 entire mine life, so no adjustment to the forecast costs set out in the
33 feasibility study is triggered by this decision. Sherwood is reviewing the
34 decisions of the YUB to determine whether or not a suitable arrangement
35 can be worked out for the provision of grid power.

¹ See, <http://www.sherwoodcopper.com/news/index.php?mod=cnt&act=cnt&id=118>.

- 1 According to Minto's May 2, 2007 news release, operations at the mine are expected to
- 2 commence in June 2007.

1 **REFERENCE: Board Order 2007-5, page 3**

2

3 The Board has denied the Power Purchase Agreement (PPA) as applied for by Yukon
4 Energy.

5

6 In its response to YUB-YEC-1-1 (PPA Review), YEC stated:

7

8 "Without the PPA, YEC is also not prepared to proceed with construction of the
9 Transmission Project."

10

11 **QUESTION:**

12

13 a) Please confirm that if YEC and Minto are unable to agree to a revised PPA, YEC
14 is not prepared to proceed with construction of the proposed transmission
15 facilities.

16

17 **ANSWER:**

18

19 **(a)**

20

21 Confirmed.

1 **REFERENCE: Board Order 2007-5, Reasons, pages 3 – 5**

2

3 In its decision on the proposed PPA, the Board only accepted the proposed Firm Mine
4 Rate (Rate 39) on an interim basis subject to a decision being rendered in the next
5 General Rate Application (GRA) review.

6

7 The Board also stated that it is not prepared to accept Section 3.5 of the proposed PPA
8 which deals with any future adjustment of the Firm Mine Rate after 2008.

9

10 In its decision, the Board quoted from YEC's argument that both YEC and Minto required
11 "certainty regarding the nature of, and basic levels for, the rates that would be in effect
12 for the Minto mine in 2008 when delivery of Grid Electricity is assumed to commence.
13 Without that certainty Minto was not willing to commit to being responsible for the
14 obligations it has undertaken under the PPA, and without those commitments YEC could
15 not proceed with development of Stage One of the CS project".

16

17 **QUESTION:**

18

19 a) Please explain how YEC will account for the revenues received and Minto's
20 energy use under the interim rates in order to allow for reconciliation when the
21 rates are finalized.

22 b) With the Board not accepting Section 3.5 of the proposed PPA, please explain
23 how the rates and charges applied to Minto will be adjusted going forward and
24 when these adjustments are expected to take place.

25

26 **ANSWER:**

27

28 **(a) and (b)**

29

30 The PPA as applied for is terminated. Generally speaking, if interim rates are
31 established for any rate class, YEC will account for interim rate revenues in the same
32 way it has in the past, i.e., as revenue subject to adjustment at direction of the Board.

33

34 Section 3.5 of the PPA did not affect the YUB's ability or mandate to adjust rates. YEC
35 has no information as to how future rate adjustments will be made, or the timing for
36 future rate changes by the Board. As with any rate (including the Firm Mine Rate in the
37 PPA), the YUB has jurisdiction to adjust rates.

1 **REFERENCE: Board Order 2007-5, Reasons, page 5; Recommendations**
2 **Board Order 2007-5, Reasons, page 14; Review and Refine**
3

4 In its decision, the Board agreed with Intervenor concerns regarding the lack of a
5 complete cost of service study to justify proposed rates. The Board reiterated its
6 direction from its recommendations on YEC's 20-Year Resource Plan that YEC and
7 YECL must provide a complete cost of service study and rate design with their next
8 GRA.
9

10 In its January 15, 2007 Recommendations regarding YEC's 20-Year Resource Plan, the
11 Board stated on page 50: "Now is an appropriate time for YEC and YECL to have a
12 complete review of all GRA Phase I and Phase II matters. The Board recommends that
13 YEC and YECL file a full GRA application before October 31, 2007. The application
14 should include a full cost of service, rate design and an update of the Electric Service
15 Regulations. The Board also suggests that YEC and YECL consider a performance-
16 based regulation mechanism. As well, the Board recommends that evidence be
17 provided as to what other utilities provide Maximum Company investment and model
18 theirs accordingly."
19

20 The Board directs both YEC and YECL to review and refine their investment policies for
21 industrial customers and to include recommendations within their next GRA, which is
22 expected to be filed by October 31, 2007.
23

24 **QUESTION:**
25

- 26 a) Please provide details of the work that YEC has initiated / completed in order to
27 provide the Board and interested parties a complete GRA later this year.
28 b) Please confirm whether rate rebalancing requirements identified by the Board
29 over a decade ago will be addressed as part of the next GRA by YEC.
30 c) Please describe the public consultation that will be undertaken prior to filing of
31 the next GRA.
32

33 **ANSWER:**
34

35 **(a), (b) and (c)**
36

37 This is outside the scope of the Terms of Reference for this Part 3 Hearing process.

1 **REFERENCE: Board Order 2007-5, Reasons, page 5**

2

3 In its decision, the Board directed that the cost of service study to be filed in the next
4 GRA is to include updated studies on allocators including justification on the allocation of
5 transmission assets,

6

7 In its response to YUB-YEC-1-1 (PPA Review), YEC stated:

8

9 “YEC is not planning at this time to undertake classification factor studies to determine
10 appropriate classifications of transmission assets. Such studies have not been carried
11 out in the past in any detail in Yukon, and YEC would need to assess jointly with YECL
12 the scope, costs and potential benefits for any such future studies involving both YEC
13 and YECL transmission assets (as these are assigned to the transmission function in
14 Yukon for COS purposes).”

15

16 **QUESTION:**

17

18 a) Given the Board's decision and direction, please confirm YEC's understanding
19 that there is no longer a need to assess potential benefits for any such future
20 studies involving both YEC and YECL transmission assets.

21

22 **ANSWER:**

23

24 **(a)**

25

26 This is outside the scope of the Terms of Reference for this Part 3 Hearing Process.

1 **REFERENCE: Board Order 2007-5, Reasons, page 10**

2
3 In its decision, the Board denied YEC's request for an approval of the proposed Mine
4 Net Revenue Account (MNRA). The Board indicated that it was not supportive of YEC's
5 proposed option of using the MNRA for future investment projects. The Board does
6 support the view that revenues collected from rates should be applied to the cost of
7 service that derived those rates.

8
9 In its decision, the Board referenced YEC's response to YUB-YEC-1-6(2) which states:

10
11 "Without the Mine Net Revenue Account, positive incremental net revenues from the
12 Mine and the Stage One CS/MS Project could be used to lower rates initially for all rate
13 classes. Yukon ratepayers would thereby receive immediate direct benefits so long as
14 such positive incremental net revenues continued."

15
16 And

17
18 "Under the PPA as concluded, and for which Board approval is being sought for the
19 Mine Net Revenue Account as set out in Section 3.6 of the PPA, Mine Net Revenue
20 funds cannot become part of the ongoing revenue requirement calculations as would be
21 applicable for setting rates for other ratepayers (except as otherwise provided for in
22 Section 3.6 after the Commercial Operation Cessation Date). The account does
23 provide, however, for its use to fund annual incremental YEC Costs that the Board
24 approves to include in revenue requirements of YEC for the CS Project and potentially
25 other future generation projects."

26
27 **QUESTION:**

- 28
29 a) Please confirm YEC's understanding that the funds that YEC had proposed to be
30 collected in the MNRA will now become part of the ongoing revenue requirement
31 calculations used to set rates for all Yukon ratepayers.
32 b) Please explain how these funds will find their way into the rates charged to all
33 Yukon ratepayers on an ongoing and immediate basis.
34 c) Please explain what will happen to the net revenue if annual rate reviews are not
35 conducted by the YUB to allow for annual rate adjustments.

1 **ANSWER:**

2

3 **(a)**

4

5 Confirmed.

6

7 **(b) and (c)**

8

9 Based on Order 2007-5, revenues from the Minto mine will be treated the same as all
10 other revenues received by YEC, i.e., no concept of "net revenue" will apply. These
11 revenues will be subject to review by the YUB from time to time when YEC brings
12 revenue requirement applications before the Board.

1 **REFERENCE: Board Order 2007-5, Reasons, page 10**

2

3 In its decision, the Board denied YEC's request for an approval of the proposed Mine
4 Net Revenue Account (MNRA). The Board does support the view that revenues
5 collected from rates should be applied to the cost of service that derived those rates.

6

7 In its response to YUB-YEC-1-15 (PPA Review), YEC stated:

8

9 "...the purpose of this deferral account is to ensure that incremental annual Mine Net
10 Revenue (or net costs) does not affect YEC earnings..."

11

12 **QUESTION:**

13

14 a) Please explain how the Board's decision regarding the MNRA will have any
15 impact on YEC's earnings.

16 b) Please confirm that YEC is not subject to financial penalties as a result of the
17 Board's decision on the proposed PPA.

18

19 **ANSWER:**

20

21 **(a)**

22

23 Please see UCG-YEC-2-8.

24

25 **(b)**

26

27 YEC does not understand the question, or what potential financial penalties are being
28 referenced from the PPA.

1 **REFERENCE: Board Order 2007-5, Reasons, pages 14 – 15**

2

3 In its decision, the Board states that it generally does not consider the utility financing of
4 customer contributions to be appropriate and that the costs for such agreements (for
5 example, legal, financial and management due diligence costs) bring about increased
6 costs that may be more appropriately handled by entities that are in the business of
7 financing, rather than being handled by a regulated utility.

8

9 The Board has determined that providing this type of funding as being beyond the scope
10 of regulated activities of a utility and imposing an additional level of risk on ratepayers
11 that the Board does not consider appropriate and is not prepared to accept. The Board
12 has directed that any losses YEC may suffer due to the financing of the contributions will
13 not be allowed into YEC's revenue requirement.

14

15 **QUESTION:**

16

17 a) Please explain the "losses" that could be incurred by YEC as a result of this
18 financing and the potential magnitude of these amounts.

19 b) Given the Board's decision, please outline the alternatives available for recovery
20 of these losses.

21 c) Please confirm that if YEC's shareholder (Yukon Development Corporation) pays
22 the costs associated with these losses, the funds used to pay the costs will be
23 from dividends paid to YDC by YEC and that these dividends are paid by YEC
24 using revenues recovered from Yukon electricity ratepayers.

25

26 **ANSWER:**

27

28 **(a), (b) and (c)**

29

30 The Board has directed that any losses from financing provided to Minto will be to the
31 account of YEC's shareholder (YDC). It is assumed that the Board referenced in this
32 regard any failure by Minto to make the full payments due under such financing
33 arrangements. How this is to be accomplished is a matter for YDC to address, and no
34 longer a matter for regulatory review.

1 **REFERENCE: Board Order 2007-5, Reasons, page 20**

2

3 In its decision, the Board did not accept the proposed purchase of the Diesel Units as
4 part of the PPA and the Board could not provide any assurance to YEC that the units
5 would be approved as an addition to rate base.

6

7 In its response to UCG-YEC-1-25 (PPA Review), YEC stated:

8

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

14

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

19

20 **QUESTION:**

21

22 a) Please provide YEC’s opinion on whether the operating and maintenance costs
23 of diesel generating units that it does not own nor have any assurance of
24 allowance into rate base should be the responsibility of Yukon ratepayers.

25

26 **ANSWER:**

27

28 **(a)**

29

30 The YUB found the terms of the PPA in this regard acceptable, but did not accept this
31 purchase as part of the PPA stating that, “the Board is not convinced the units are
32 needed”, and “YEC has not demonstrated a need for the units nor provided an adequate
33 business case supporting this option.”¹

34

35 The YUB stated that YEC is free to purchase the units, but the Board could not provide
36 any assurance to YEC at this time that the units would be approved as an addition to

¹ Board Order 2007-5 at page 19.

- 1 rate base. YEC will assess its business case supporting the need for these units for
- 2 consideration in its next GRA. At that time the Board will assess any and all costs that
- 3 YEC includes in its application with regard to these units.

1 **REFERENCE: Board Order 2007-5, Reasons, page 20**

2

3 In its decision, the Board did not accept the proposed purchase of the Diesel Units as
4 part of the PPA and the Board could not provide an assurance to YEC that the units
5 would be approved as an addition to rate base.

6

7 In its response to UCG-YEC-1-25 (PPA Review), YEC stated:

8

9 "After the Mine is connected to the WAF grid, the Diesel Units will in effect add 6.4 MW
10 of reasonably low cost and low risk diesel capacity to the WAF system and also provide
11 added security to YEC and Minto with regard to reliable supply at the Mine."

12

13 **QUESTION:**

14

15 a) Please confirm that, even if YEC is not allowed to add these diesel units to its
16 rate base, these diesel units will provide additional diesel capacity to the WAF
17 grid.

18

19 **ANSWER:**

20

21 **(a)**

22

23 Cannot confirm. As previously stated, YEC's understanding is that if it does not
24 purchase these units, Minto will sell them to others and remove them from the Mine site.
25 Under these circumstances the units will not be available to provide additional diesel
26 capacity to the WAF grid.

1 **REFERENCE: Board Order 2007-5, Reasons, page 20**

2

3 In its decision, the Board did not accept the proposed purchase of the Diesel Units as
4 per part of the PPA and the Board could not provide any assurance to YEC that the units
5 would be approved as an addition to rate base.

6

7 In its response to UCG-YEC-2-23 (PPA Review), YEC stated:

8

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

12

13 **QUESTION:**

14

15 a) Please confirm YEC’s understanding that the Board has full jurisdiction to not
16 allow recovery of utility spending in rates charged to Yukon ratepayers.

17 b) If YEC proceeds to purchase these diesel fuelled generating units, please explain
18 the source of funding and how they will be accounted for within YEC’s accounting
19 records.

20

21 **ANSWER:**

22

23 **(a)**

24

25 This is confirmed, subject to normal utility ratemaking principles and the *Public Utilities*
26 *Act*.

27

28 **(b)**

29

30 If YEC purchases these units, funding and accounting treatment will be the same as for
31 any other asset purchased by YEC.

1 **REFERENCE: Board Order 2007-5, Reasons, page 20**

2

3 In its decision, the Board did not accept the proposed purchase of the Diesel Units as
4 part of the PPA and the Board could not provide any assurance to YEC that the units
5 would be approved as an addition to rate base.

6

7 **QUESTION:**

8

9 a) Please explain whether this decision will require YEC to reassess the timing of its
10 diesel refurbishment plans.

11

12 **ANSWER:**

13

14 **(a)**

15

16 As noted previously, YEC was not going to do any reassessment of the timing of its
17 diesel refurbishment plans until after the PPA was approved and the CSTP construction
18 had been committed.

PCL6 ERROR - Incomplete Session by time out

POSITION : 0x48c0e2 (4767970)

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VERSION : QPDL 1.01 12-19-2001