

**CITY OF WHITEHORSE
(CW)**

1 **REFERENCE: PPA referred to in the Application, page 1, Introduction to**
2 **Application**

3
4 **QUESTION:**

5
6 a) Please produce a copy of the approved and amended Purchase Power
7 Agreement for the record.
8

9 **ANSWER:**

10
11 **(a)**

12
13 The Power Purchase Agreement filed with the Board on February 8, 2007 is on the
14 Yukon Utilities Board website at:

15
16 [http://yukonutilitiesboard.yk.ca/pdf/186_PPA%20Minto%20and%20YEC%20Application.](http://yukonutilitiesboard.yk.ca/pdf/186_PPA%20Minto%20and%20YEC%20Application.pdf)
17 [pdf](http://yukonutilitiesboard.yk.ca/pdf/186_PPA%20Minto%20and%20YEC%20Application.pdf)
18

19 The above document, together with the amendments dated May 14th, 2007 and
20 approved by Order 2007-6, comprise the “approved and amended Power Purchase
21 Agreement.” The May 14th Amendment is provided as Attachment 1 to this response.
22

23 The PPA as amended May 14, 2007 provided [under Section 3.1(m)] that YEC would
24 enter into an agreement with Yukon Development Corporation (YDC) whereby YDC
25 would assume from YEC the financing risk of the Minto Capital Cost Contribution, and
26 YDC would guarantee to YEC all Capital Cost Contribution payments to be made by
27 Minto to YEC under the PPA. Subsequent amendments to the Power Purchase
28 Agreement with Minto specifically relate to identified risks being borne by the Yukon
29 Government, through the Yukon Development Corporation (YDC), and do not affect
30 risks or costs borne by YEC or ratepayers.
31

32 Although Yukon Energy has continued as a party to subsequent amendments to the
33 PPA Agreement, these amendments are for the benefit of YDC, not YEC (which
34 pursuant to the May 14, 2007 PPA Amendment and its agreement with YDC, is not
35 exposed to any financial risk of the Minto Capital Cost Contribution).

1 In Appendix A to Order 2008-13 (at page 2) the Board noted as follows regarding the
2 approval of the subsequent May 25, 2007 PPA amendment:

3

4 The Board notes that the amendments of May 25, 2007, as agreed to by
5 all parties to the PPA, were included to cover some of the risks that YDC
6 was exposed to. However, as Schedule A of OIC 2007/94 does not refer
7 to the May 25, 2007, amendment to the PPA and the amendment is not
8 needed for purposes of Rate Schedule 39, the Board does not need to
9 approve the May 25, 2007, amendments to the PPA.



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

May 14, 2007

Mr. Stephen Quin
Minto Explorations Ltd.
860 - 625 Howe Street
Vancouver, BC V6C 2T5

Dear Mr. Quin:

Re: Power Purchase Agreement Dated February 8, 2007 (the "**PPA**") between Yukon Energy Corporation ("**YEC**") and Minto Explorations Ltd. ("**Minto**")

Capitalized terms used and not defined in this letter have the meanings set out in the PPA.

The Parties entered into the PPA on February 8, 2007. Order 2007-5 (the "**Order**") of the YUB, dated April 30, 2007, denied the PPA. The Parties agree that notwithstanding the Order and Section 3.1 of the PPA, the PPA remains in full force and effect.

The Parties have reviewed the Order, and, following the principles of the PPA and the Order, hereby amend the PPA as follows:

1. Sections 1.1(z), (tt), (aaa), 3.5, and 3.6 and Schedules C and E are deleted. A new Schedule C is added to the PPA in the form attached to this letter.
2. Section 3.1 (a) of the PPA is deleted and replaced with the following:
 - “(a) on or before May 31, 2007, the YUB will have approved this Agreement, including the following provisions:
 - (i) on an interim basis, the Low Grade Ore Processing Secondary Energy Rate as set out in Schedule D, subject to the provision that the Low Grade Ore Processing Secondary Energy Rate will not be implemented by YEC until proposed audit and control measures and reporting requirements as agreed to by the Parties are filed with and approved by the YUB;

- (ii) the Capital Cost Contribution under Part 5 of this Agreement (as amended herein); and
 - (iii) the Decommissioning Costs under Part 11 of this Agreement;"
- 3. Section 3.1 (b) of the PPA is amended by deleting the words "February 15" and replacing them with "June 30".
- 4. Section 3.1 (d) of the PPA is amended by deleting the words "March 31" and replacing them with "June 30".
- 5. Section 3.1 (e) of the PPA is amended by deleting the words "February 28" and replacing them with "June 30".
- 6. In order that any financing risk of the Minto Capital Cost Contribution be on account of Yukon Development Corporation ("YDC") new Sections 3.1 (m) and (n) are added as follows:
 - "(m) YEC will have entered into an agreement with YDC on terms and conditions satisfactory to YEC, acting reasonably, on or before May 31, 2007 as follows:
 - (i) YDC will assume from YEC the financing risk of the Minto Capital Cost Contribution, and YDC will guarantee to YEC all Capital Cost Contribution payments to be made by Minto to YEC under this Agreement and will pay to YEC directly, on behalf of Minto, any amount of the Carmacks-Minto Landing Capital Cost Contribution principal amount in excess of \$7,200,000, such amount to be paid by YDC to YEC on Minto's behalf under Section 5.1 on or before the Commencement of Delivery;
 - (ii) YEC will enforce the YEC Security on behalf of YDC as may be required with regard to Minto's Capital Cost Contribution payments to YEC; and
 - (iii) YEC will agree that any payment by Minto to YEC under Section 6.2 that is not applied as a credit against the Creditable Amount payable by Minto under Section 6.1(a), as provided for in Section 6.4, will be paid to YDC by YEC; and

- (n) on or before May 31, 2007, the Yukon Territorial Government will undertake arrangements to ensure that Rate Schedule 39 that the YUB has stated it will accept on an interim basis, as attached to this Agreement as Schedule C, be fixed as final until December 31, 2012, subject to escalation of the demand and energy charges for this rate schedule once each calendar year, starting January 1, 2010, based each year on the latest percentage increase in the 12 month implicit chain price index for gross domestic product at market prices for Canada as reported by Statistics Canada.”

The following sentence be added at the end of Section 3.1:

“Condition 3.1 (m) is for the sole benefit of YEC and may be waived or the time period extended by YEC, in its sole discretion, by written notice by YEC to Minto at any time. Condition 3.1 (n) is for the benefit of both Parties and may only be waived, altered, or the time period extended by written agreement between the Parties.”

8. The following new Section 3.5 be added to the PPA:

“With regard to the Low Grade Ore Processing Secondary Energy Rate, within 60 days Minto will propose to YEC audit and control measures and reporting measures as required for the Low Grade Ore Processing Secondary Energy Rate. Upon receipt of Minto’s proposal, YEC and Minto will work in good faith to agree as soon as possible thereafter on specific measures and reporting requirements. Upon agreement by the Parties, YEC will forthwith submit the measures and reporting requirements to the YUB for approval by the YUB. The intent of the Parties is to secure YUB approval before the end of 2007 if possible, and in any event before the Commercial Delivery Date if possible.”

Section 1.1 (sss) and Sections 6.2, 6.3, and 6.4 are amended as follows to reduce Minto’s take or pay obligation from \$24,000,000 over eight years to \$12,000,000 over four years to match the term of the rate guarantee:

Section 1.1 (sss) is deleted and replaced with the following:

“(sss) **“Minimum Take Or Pay Amount”** means \$12,000,000, less any reduction provided for under Section 6.3;”

Section 6.2 is amended by deleting in the first sentence the word “eighth” and replacing it the word “fourth”, by deleting in the second sentence the word “seven” and replacing it with the word “three”, and by deleting the word “eighth” immediately prior to the words “Annual Payment Date” in the lead in to Sections 6.2 (c) and (d) and replacing it with the word “fourth”.

Section 6.3 is amended by the deleting the number “\$24,000,000” and inserting “\$12,000,000”.

Section 6.4 is amended by deleting the word “ninth” immediately before “Annual Payment Date” and replacing it with the word “fifth”.

10. With regard to indexing the capital contribution to the detailed high cost estimates for the Carmacks-Minto Landing Segment, the PPA is amended as follows:

Section 1.1 (l) of the PPA is deleted and replaced with the following:

“(l) **“Carmacks-Minto Landing Capital Cost Contribution”** means the sum of \$7,200,000, representing Minto’s contribution to the Capital Costs incurred by YEC for the Carmacks-Minto Landing Segment, plus an amount equal to the “Index Percentage” times \$7,200,000, where the “Index Percentage” is the percent, if any, by which the final tendered cost for the Carmacks-Minto Landing Segment at the time the construction contract is awarded exceeds the high cost estimate for the construction of the Carmacks-Minto Landing Segment, estimated in YEC’s February 8, 2007 application to the YUB for approval of this Agreement, estimated at \$190,000 per km (2005 dollars);”

Section 5.1 of the PPA is amended by adding the following sentence:

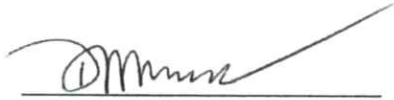
“Within 90 days of the Transmission Project Start Date, YEC will provide written notice to Minto of the final tendered cost for the Carmacks-Minto Landing Segment and advise Minto of the increase, if any, required to the Carmacks-Minto Landing Capital Cost Contribution in excess of \$7,200,000. YEC acknowledges, covenants, and agrees with Minto that any such increased amount will be paid to YEC by YDC on Minto’s behalf on or before the Commencement of Delivery, and, for greater certainty, such increased amount will not be included in Minto payments of interest or principal to YEC for the Carmacks-Minto Landing Capital Cost Contribution under Part 5 of this Agreement.”

Except as amended herein the PPA remains in full force and effect and unamended.

This letter may be executed in any number of counterparts which together will form one document. This letter will be duly executed and delivered if executed by the Parties and signature pages exchanged by facsimile or electronically.

YUKON ENERGY CORPORATION

Per:



Authorized Signatory

Agreed to May 14, 2007

MINTO EXPLORATIONS LTD.

Per:



Authorized Signatory
STEPHEN P. QUINN
PRESIDENT.

SCHEDULE C

FIRM MINE RATE RATE SCHEDULE 39 INDUSTRIAL PRIMARY

AVAILABLE:

Throughout the service areas of Yukon Energy Corporation ("YEC") and The Yukon Electrical Company Limited ("YECL") served by the Whitehorse-Aishihik-Faro and Mayo-Dawson systems.

APPLICABLE:

To all major industrial customers engaged in manufacturing, processing or mining with an electric service capacity in excess of 1,000 kW.

RATE:

Charges in any one billing month shall be the sum of the following:

- (a) Demand Charge of \$15.00/kV.A of Billing Demand
- (b) Energy Charge of 7.60¢/kW.h for all energy used.
- (c) Fixed Charge

For service to Minto mine site, the Fixed Charge each month shall equal the payments then required under the Power Purchase Agreement (the "PPA") dated February • between YEC and Minto Explorations Ltd. ("Minto") between YEC and Minto for monthly Capital Cost Contributions for transmission connection to the mine.

**PEAK
SHAVING
CREDIT:**

For customers with an established Winter Contract Load in good standing, a Peak Shaving Credit in each billing month

equal to 50% of the Demand Charge times the Peak Shaved Load.

**MINIMUM
MONTHLY**

BILL:

The minimum monthly bill will be the sum of the Demand Charge and the monthly Fixed Charge, less any applicable Peak Shaving Credit.

**PEAK
SHAVED
LOAD:**

Peak Shaved Load in any billing month is the amount by which then nominated Winter Contract Load is less than the Billing Demand for the month.

**BILLING
DEMAND:**

The Billing Demand shall be the greater of:

- (a) the highest metered kV.A demand recorded in the current billing month, or
- (b) the highest metered kV.A demand recorded in the previous 12-month period including the current billing month, excluding the months April through September, or
- (c) the contract minimum demand.

**WINTER
CONTRACT
LOAD:**

A customer may, by six month written notice to YEC, nominate a Winter Contract Load at not less than two-thirds of the customer's contract maximum demand subject to the following conditions:

- a) the customer will thereby contract with YEC not to exceed the nominated Winter Contract Load whenever the temperature at Whitehorse is below - 30 degrees Centigrade, based on YEC informing the customer by phone, fax or e-mail as to forecast and actual winter temperatures at Whitehorse as provided for in paragraph (b);

- b) YEC will inform the customer at least one hour in advance, and not more than one day in advance, of a forecast temperature at Whitehorse being below -30 degree Centigrade; thereafter, until YEC informs the customer otherwise, the customer will be responsible for ensuring that its metered kV.A demand does not exceed the Winter Contract Load during any hour when the actual temperature at Whitehorse is below -30 degrees Centigrade; YEC will inform the customer forthwith when the temperature at Whitehorse is no longer forecast to be below -30 degree Centigrade within the next 24 hours;
- c) the customer agrees that the contract for the nominated Winter Contract Load will continue until terminated by written notice of not less than 12 months by the customer to YEC;
- d) if during such contract period for the Winter Contract Load the customer's metered kV.A demand recorded, after YEC has provided notice as specified in paragraph (b), exceeds the Winter Contract Load when the temperature at Whitehorse is less than -30 degrees Centigrade, the Winter Contract Load contract will be terminated forthwith, the customer will forthwith be required to repay to YEC all Peak Shaving Credits determined within the previous 12 billing months, and the customer will also pay for that billing month to YEC as penalty an amount equal to four times the Demand Charge on the metered kV.A demand recorded in excess of the Winter Contract Demand; in addition, YEC reserves the right if so required to meet system loads when the temperature at Whitehorse is less than 30 degrees Centigrade during the then current month and the following 12 months to interrupt electricity supplied to the customer in excess of the previous Winter Contract Load.

**BASE
LOAD
ENERGY:**

A Base Load Energy amount per month may be established for a customer of 90% of forecast use when YEC expects to require diesel fuel generation to service use in excess of

such a Base Load Energy amount. At such time, Rate Schedule 39 will be submitted to the Yukon Utilities Board for amendment to adjust the Energy rate as required for a two part rate that yields the same overall energy charge at forecast energy use, with all energy consumed in excess of the Base Load being charged at a rate reflecting the incremental cost of service using diesel fuel generation and all other energy being charged at the reduced rate required to yield the same overall energy charge at forecast energy use.

**RATE
MODIFICATIONS
APPLICABLE:**

For fuel adjustment rider, see Rider F. Rider F applied to energy charges only, set to \$0.0 for fuel price forecast filed November 20, 2006., .

**ELECTRIC
SERVICE
REGULATIONS:**

The Electric Service Regulations approved by the Yukon Utilities Board form part of this rate schedule and apply to YEC and every customer supplied with electric service by YEC in the Yukon Territory. Copies of the Electric Service Regulations are available for inspection in the offices of YEC during normal working hours.

1 **REFERENCE:** **Application, Tables 2.3, p. 2-17**

2
3 **PREAMBLE:**

4
5 CW wishes to understand YEC's forecasting accuracy.

6
7 **QUESTION:**

8
9 a) Please provide an explanation for the 32% variance between the 2005 approved
10 Wholesale sales of 581 MWh and the actual 2005 Wholesale sales of 390 MWh.

11
12 b) Please provide an explanation for the 28% variance between the 2005 approved
13 Secondary Sales of 800 MWh and the actual Secondary Sales of 570 MWh.

14
15 **ANSWER:**

16
17 **(a)**

18
19 The 2005 Business Plan forecast 330 MWh of Wholesale sales to YECL for Stewart
20 Crossing. The actual 2005 sales were 140 MWh due to Stewart Crossing not connecting
21 to the Mayo Dawson line until November 2005.

22
23 **(b)**

24
25 The 2005 Business Plan forecast a new secondary sales customer connecting in
26 Dawson City in fall 2005 which was forecast to have sales of 250 MWh. The connection
27 did not happen.

1 **REFERENCE: Application, Tables 2.4, page 2-18**

2
3 **PREAMBLE:**

4
5 CW wishes to understand YEC's forecasting accuracy.

6
7 **QUESTION:**

8
9 a) Please provide an explanation for the 21.2% variance between the 2005
10 approved sales for the General Service class of 6,022 MWh and the actual 2005
11 sales of 7,299 MWh. Also please explain the 17% variance between the
12 approved and forecast "MWh sales per customer" for the General Service class.

13
14 b) Please provide an explanation for the variance of 3,067 MWh between 2005
15 approved Wholesale sales of 233,961 MWh and 2005 actual Wholesale sales of
16 237,028.

17
18 c) Please provide an explanation for the 7.3% variance between the 2005 approved
19 Secondary Sales of 19,813 MWh and 2005 actual Secondary Sales of 18,363
20 MWh.

21
22 **ANSWER:**

23
24 **(a)**

25
26 The 2005 Business Plan forecast 3.0 GWh of sales to Anvil Range Mine for dewatering
27 activities. The actual sales were 4.2 GWh due to the combined impact of significant
28 pumping activities in the Vandgorda Pit and an aggressive program to sell off and
29 remove various mill components during the summer of 2005.

30
31 The additional significant usage by one single customer increased the MWh sales per
32 customer for the whole General Service class.

1 **(b)**

2
3 In September 2004, as part of the 2005 business planning process, YECL provided YEC
4 with a monthly forecast of Wholesale sales supporting the 233,961 MWh on WAF. The
5 actual Wholesale sales for 2005 were 237,028 MWh. The difference between forecast
6 versus actual is 1.31%.

7
8 Further explanation would require customer level information from YECL (the retail
9 distributor). Yukon Energy does not have access to this information. It is consistent with
10 a relatively consistent positive variance between YECL wholesale forecasts and
11 corresponding actuals, as reviewed in the Resource Plan hearing Exhibit B-19, which
12 has led YEC to adopt wholesale forecasts (such as 2009) which are higher than the
13 forecasts developed by YECL.

14
15 **(c)**

16
17 Equipment breakdowns account for approximately 3,416 MWh less secondary sales in
18 2005 than forecast while new customers consumed approximately 2,003 MWh more
19 than forecast.

1 **REFERENCE: Overview, p. 10**

2
3 **PREAMBLE:**

4
5 YEC states, "**Secondary Sales:** With the increased utilization of surplus hydro
6 generation in coming years, the existing opportunity to sell secondary energy on an
7 interruptible basis will be basically eliminated. There may remain for a few years a small
8 amount of secondary energy available in summer months, during off-peak hours, but the
9 quantities will be limited. In the test years, Yukon Energy forecasts an ability to maintain
10 secondary sales through most hours of the year, but during cold winter periods there is
11 increased anticipated use of diesel generation for firm load peaking requirements, and
12 consequently much greater forecast interruptions of secondary sales than in recent
13 years (with consequent reductions in secondary sales revenues in the test years).
14

15 **QUESTION:**

- 16
17 a) Please explain how surplus hydro has benefited YEC and its customers to this
18 point and please specify which customers and/or classes of customer have
19 benefited from it and demonstrate how.
20
21 b) Please explain how Yukon Energy's forecast decrease in surplus hydro in the
22 test years and the ultimate elimination of surplus hydro in coming years will
23 negatively affect the customers and/or classes of customers cited in a) above.
24
25 c) Will YEC be negatively affected by the decrease of surplus hydro in the test
26 years and the ultimate elimination of surplus hydro in coming years? Please
27 explain.
28

29 **ANSWER:**

30
31 **(a)**

32
33 The sale of surplus hydro (generation that would otherwise be lost as spilled water over
34 the dam) for substantial revenues as secondary energy (at very little cost to the utility)
35 helps to maintain rates to all firm ratepayers at a level lower than they would otherwise
36 be, albeit not at as low a level as would be expected by displacing interruptible

1 secondary energy sales with firm sales that typically attract materially higher rate
2 (including rate rider revenue).

3
4 This is demonstrated in Tab 4, Table 4-1, which notes that the secondary revenues
5 (approximating \$1.4 million in each test year) serves as an offset to the firm rate revenue
6 requirement.

7
8 The intent of the secondary sales retail rate is to maximize the amount of revenue
9 available to offset ongoing fixed Yukon Energy costs while still leaving the secondary
10 sales customer with some energy cost savings compared with what the customer would
11 otherwise pay for heating fuel (typically heating oil). All revenue secured from secondary
12 sales directly reduces the amounts needed to be recovered from firm rates.

13
14 All firm retail customer classes benefit through paying lower rates than they would
15 otherwise need to due to the lower Yukon Energy Revenue Requirement. Secondary
16 Sales customers benefit through receiving some energy cost savings via service under
17 Rate Schedule 32.

18
19 **(b)**

20
21 Reduced revenues due to cessation of service under Rate Schedule 32 will coincide with
22 increased firm sales to the loads that drive increased firm load on the system.
23 Accordingly, with lower amounts of surplus energy available for sale under Rate
24 Schedule 32, the quantity of revenues available to offset the revenue requirement to be
25 made up by rates charged to firm customers will increase and all firm retail customer
26 classes will benefit.

27
28 **(c)**

29
30 No, Yukon Energy (and Yukon firm retail customer classes) will not be negatively
31 affected by the decrease in revenues from surplus hydro available for secondary sales,
32 as revenues no longer recovered via secondary sales will be provided by higher rates of
33 service to firm customers. This is a normal and appropriate outcome from serving firm
34 loads, which are required to be the top priority for a regulated franchised utility.
35 Secondary sales, by necessity, must be viewed as a lower quality of service.

1 **REFERENCE: Section 2.2.4, p. 2-9**

2
3 YEC states, "After the Faro mine closure in 1998, Yukon Energy took significant efforts
4 to market surplus hydro available from Yukon Energy's facilities, with net revenues
5 derived from sales going towards lowering rates compared to what would otherwise be
6 required for firm customers throughout the Yukon.

7
8 Yukon Energy total secondary sales (i.e., sales sold at special rates on condition that
9 these sales can be interrupted at any time that surplus hydro generation is not available)
10 increased substantially leading up to the 2005 Required Revenues and Related Matters
11 hearing, to a forecast level of 20,613 MW.h in 2005. As reviewed at that time, further
12 increases in secondary sales quantities were not being aggressively targeted as the
13 remaining surplus on the system was diminishing. Since the 2005 Required Revenues
14 and Related Matters hearing, only two new secondary customers have been added, and
15 total secondary sales increased at a slower pace, increasing to 22,185 MW.h in 2006
16 and to 24,225 MW.h in 2007."

17
18 **REFERENCE: Application, p.10**

19
20 **"Secondary Sales:** With the increased utilization of surplus hydro generation in coming
21 years, the existing opportunity to sell secondary energy on an interruptible basis will be
22 basically eliminated."

23
24 **QUESTION:**

- 25
26 a) Please confirm that YEC's "significant efforts to market surplus hydro" after the
27 Faro mine closure in 1998 involved "aggressively" targeting and convincing
28 customers to utilize electric heating on the premise that secondary sales would
29 be available for that purpose. If not confirmed, please explain.
30
31 b) In particular, please confirm that YEC made representations to the City of
32 Whitehorse that secondary sales would be available to serve the heating load in
33 the Canada Games Centre and that YEC encouraged the City to utilize electric
34 heating for that facility on the basis of such representations.

1 c) If a) or b) are confirmed, and in light of YEC's statement cited above that: "in
2 coming years, the existing opportunity to sell secondary energy on an
3 interruptible basis will be basically eliminated", please comment on the fairness
4 of the predicament these electric heating customers find themselves in, after
5 installing electric heating in response to the urging of YEC and the promise that
6 inexpensive surplus hydro would be available.
7

8 d) What will happen to these captive customers when surplus hydro is no longer
9 available? Please provide estimates of cost increases for a number of typical
10 Industrial and General Service secondary sales customer loads.
11

12 e) Please describe the types of customers that purchase secondary sales, the
13 purposes to which secondary sales are put and any economic impact upon the
14 Yukon that the "basic elimination" of secondary sales might have.
15

16 f) Is YEC planning to assist secondary sales customers to switch to alternative
17 sources of energy, financially or otherwise? Please explain.
18

19 **ANSWER:**

20
21 **(a)**
22

23 Yukon Energy's activities with respect to marketing secondary sales were set out in
24 AGB-YEC-3 from the 2005 Required Revenues and Related Matters proceeding, as
25 follows:
26

27 The Renewable Power Sales Incentive Program was initiated in May
28 2000 by Yukon Development Corporation. The program was administered
29 by Yukon Energy during the first year of the program. In 2001 it was
30 transferred to the Energy Solutions Centre. The program remained under
31 the Energy Solutions Centre until the termination of the program in 2003.
32 The program's original scheduled termination date was March 31, 2003.
33 The program was not extended past its original termination date.

1 The materials provided by ESC typically referenced the typical pattern of secondary
2 energy customers to experience a payback period of 2-5 years for their investment in
3 secondary energy service. Ongoing as well as seasonal interruption were noted as an
4 essential element of secondary sales customer risk, as well as the requirement that each
5 secondary sales customer have in place prior to service (and fully maintained during any
6 service) an actively available alternative heating source to rely upon in the event of any
7 such secondary sales interruptions.

8
9 **(b)**

10
11 YEC discussed the future availability and price of secondary sales in 2003 and 2004 with
12 The City of Whitehorse representatives as follows:

- 13
14 • Secondary power is fully interruptible in the event diesel generation is required.
15
16 • The future price could change based on the avoided cost of diesel fuel.
17
18 • Secondary power was available in 2004 and may be available in the future for
19 several years unless there was significant growth of firm power sales, such as
20 new industrial customers.

21
22 The City confirmed their understanding that there was no guarantee of supply, and that
23 this was particularly true if another mine came into operation. The City indicated that the
24 particular concern was that there be a reasonable level of expectation for continued
25 power supply for a period of 5 years.

26
27 YEC further discussed the future availability of secondary power as part of regulatory
28 filings since that time:

- 29
30 • The 2005 Required Revenues and Related Matters application noted, at YECL-
31 YEC-1-46(d): "The Company has been assessing an annual secondary sales
32 ceiling on the WAF system over the past year. Based on the analysis work done
33 in 2004, a ceiling of 30 GWh per year would result with a 90% annual availability
34 of secondary sales (70% availability during peak winter months) for the next 5
35 years. The analysis was based on a review of monthly hydro energy and monthly
36 load duration curves." No availability analysis beyond 5 years was cited.

- The 2005 Resource Plan (page 25 of the Overview document) explained that in a high load growth scenario secondary power could be unavailable as early as 2009, and that in a low growth scenario, available as long as 2025.

(c)

As noted above, there were no promises or guarantees of availability provided by YEC to secondary sales customers. Regardless, the key timeframe for analysis at the time of the City's discussions with YEC was a reasonable level of expectation of continued power supply for 5 years, i.e., to 2008-2009.

At the present time, Yukon Energy expects continued availability of secondary energy at a high percentage through 2009 and, subject to water conditions, for some period beyond 2009 until material load growth occurs. This could occur by 2011, as noted at Tab 2, page 2-7.

(d)

Secondary sales customers are not "captive" customers. Quite the reverse, each secondary sales customer is required to have in place prior to service (and fully maintained during any service) an actively available alternative heating source to rely upon in the event of any such secondary sales interruptions.

Yukon Energy expects that during any interruption period, the customers in question will make use of their primary form of heating (typically oil) as is required by the rate schedule. Based on the design of the secondary rate, set at 66.7% of the cost of the alternative heating fuel, customers would be expected to pay about 50% more for heating energy using oil than from using secondary energy.

(e)

The customers who purchase secondary energy are typically government customers. These customers have been experiencing significant savings compared to the cost of heating with oil since 2005 (electricity cost at 33.3% below the cost of oil) and larger percentages before that time. The costs to these entities will return to the default level (oil), during periods where secondary sales are interrupted.

1 **(f)**

2

3 No. As noted above, customers who purchase secondary energy are required to already
4 have the alternative source of energy installed and fully operational.

1 **REFERENCE: Section 4.2.1, p. 4-4**

2
3 **PREAMBLE:**

4
5 YEC states, "In order to address fuel price related variance in income, the Rider F
6 Deferred Fuel Price mechanism was used to normalize the secondary sales revenues
7 and act as a natural hedge to the Rider F account, reducing variability that would
8 otherwise be charged through the joint Yukon Energy/YECL rate rider.

9
10 **QUESTION:**

- 11
12 a) Please fully explain and demonstrate by using an example(s) what YEC means
13 by the comment that, "the Rider F Deferred Fuel Price mechanism was used to
14 normalize the secondary sales revenues and act as a natural hedge to the Rider
15 F account."

16
17 **ANSWER:**

18
19 **(a)**

20
21 Yukon Energy's 2005 revenue requirement and rates were based on a calculated
22 secondary sales rate of 5.2 cents/kW.h at the retail level (4.1 cents/kW.h at the
23 wholesale level).

24
25 Since 2005, actual prices paid by secondary customers were adjusted quarterly to track
26 the value of oil savings that the customers were experiencing, based on the ongoing
27 changes in the price of oil. When these quarterly adjusted values exceeded 5.2
28 cents/kW.h (i.e., when oil prices rose), all collections in excess of the 5.2 cent/kW.h level
29 were credited to the Deferred Fuel Price account (the "Rider F account").

30
31 As the Deferred Fuel Price account is typically used to track cost increases (or
32 decreases) arising from oil price increases (or decreases), crediting additional revenues
33 to the account at a time when oil prices rise serves as a natural offset or hedge to the
34 costs being charged to this account related to the same oil price rise.

1 **REFERENCE: Section 4.2.1, p. 4-5**

2
3 **PREAMBLE:**

4
5 YEC states, "In the 2005 proceeding, Yukon Energy received approval for a procedure
6 related to determining the timing of scheduled secondary sales interruptions based on
7 forecasting the quantity (hours) of diesel generation expected to be required over the
8 coming seven day period in winter (i.e., interruptions were to be initiated if YEC forecast
9 a requirement to dispatch diesel generation for more than 10% of the hours over the
10 coming seven day period). It has become apparent that a seven day forecast period is
11 not practical, given the Environment Canada long-range forecasts are focused on the
12 coming five days. Accordingly, Yukon Energy is seeking approval to adjust the rate
13 schedule provision to reflect interruptions being initiated for any forecast requirement to
14 use diesel for more than 10% of the hours over the subsequent five day period. No
15 material effect is expected on the amount of time secondary energy is expected to be
16 made available.

17
18 **QUESTION:**

- 19
20 a) Please describe what difficulties, if anything arose from the use of a seven day
21 forecast period that would be rectified with the use of a 5 day forecast?
22
23 b) On what evidence does YEC base its expectations that there will be no material
24 effect on the amount of time secondary energy is to be made available as a
25 result of changing to the 5 day forecast period?
26
27 c) If there is no material effect on the amount of time secondary energy is to be
28 made available, please explain the value added to making this change?
29

30 **ANSWER:**

31
32 **(a)**

33
34 There is no readily available 7 day forecast, which required Yukon Energy to extrapolate
35 from available 5 day forecasts. This is not the preferred approach to determining
36 secondary sales interruptions.

1 **(b)**

2
3 The addition of a 6th and 7th day for the purposes of forecasting secondary sales
4 interruptions rarely if ever drives the need to trigger a 24 hour interruption notice.

5
6 **(c)**

7
8 The change is solely added to relieve Yukon Energy of having to extrapolate from the
9 Environment Canada weather forecast to extend it to 7 days, when Environment Canada
10 is only prepared to forecast 5 days out.

1 **REFERENCE: Application page 1-6**

2
3 **PREAMBLE:**

4
5 YEC states: "Accordingly, given the latest Directive to the Board, Yukon Energy is not,
6 as part of the current GRA submissions, addressing COS and rate design work related
7 to any rate shift program or rate rebalancing as between customer classes. The
8 Application, however, addresses rate design issues within each retail customer class
9 related to OIC 1995/90 directives regarding runoff rates."

10
11 **QUESTION:**

- 12
13 a) Please discuss how rate design issues within each retail customer class, such as
14 recovery of costs at the margin by the second block rate and the appropriateness
15 of customer charges, can be addressed in the absence of a cost of service
16 study?
17
18 b) YEC has proposed no change to the customer charges applied to Residential
19 Services (Appendix 4.1, Rate Schedules). Please demonstrate that these fixed
20 charges recover an appropriate share of customer-related costs.
21
22 c) Please demonstrate that YEC has applied the amended OIC 1995/90 directives
23 regarding runoff rates equally and fairly to each rate class.
24
25 d) Has YEC performed a recent load study in support of its rate restructuring within
26 rate classes? If yes, please provide this study.
27

28 **ANSWER:**

29
30 **(a) and (b)**

31
32 Based on established practice in Yukon dating back to the 1992 Rate Design review, the
33 design of runoff rates is based on the incremental cost of fuel, and does not require
34 reference to the embedded costs to serve a class as would be developed out of a Cost
35 of Service Study.

1 The design of customer charges in Yukon has typically not been linked directly to a cost
2 of service study, as these charges are rarely if ever set at a level that fully collects “fixed”
3 or “customer” related costs on a system. As a result, the output of a cost of service study
4 is typically not a determining factor in setting these rates. For example, in the 1997 Cost
5 of Service study, the fully allocated “customer” related costs were \$395.00 per customer
6 per year (approximately \$33/customer per month), plus demand related costs which for
7 residential customers can also be recovered by the customer charge. The rate design in
8 that hearing set the customer charge at \$11.90 per month, bearing no relation to the
9 \$33/month calculated value.

10
11 **(c)**
12

13 Yukon Energy has equally and fairly applied the principles of the OIC 1995/90 directives
14 regarding runoff rates to all firm retail classes in respect of the rate reduction, which for
15 each class is targeted at only the first block rates, to avoid exacerbating the current
16 pricing issues with respect to the second block for all classes.

17
18 The initial steps to re-establish increased runoff rates at an efficient level as required by
19 the OIC have been applied, as noted at Tab 4, only to residential customers at this time.
20 This is because traditional residential class structures in Yukon and existing rate design
21 is amenable to addressing this OIC requirement without rate re-design being required.

22
23 As noted in the Application (pages 4-13, 4-14), the first steps at implementation of
24 second block rates at the efficient level for General Service customers cannot be
25 achieved without material rate re-design, which the Application notes requires further
26 analysis and more detailed participation by YECL.

27
28 **(d)**
29

30 It is not clear what is meant by a “load study”. Sales forecasts by rate block are provided
31 in Tables 4.9 and 4.10. Consistent with past GRAs jointly filed by YEC and YECL in the
32 1990s, no studies have been carried out to assess potential impacts of proposed rate
33 changes on any of these sales forecasts.

1 **REFERENCE: Application page 4-12, Table 4.9 and Table 4.10**

2
3 **PREAMBLE:**

4
5 YEC states: "Given the Yukon Hydro zone electrical systems are now approaching the
6 point where diesel generation will be required for more peaking occasions, and
7 ultimately for near-term baseload generation (absent the development of added new
8 renewable generation), current run out rates in all rate zones simply are not in keeping
9 with the conservation principles of OIC 1995/90 nor are such rates consistent with the
10 overriding principles outlined in the YTG's climate change policy."

11
12 **QUESTION:**

- 13
14 a) Please confirm that these changes will or will not be revenue neutral for the
15 residential rate class as a whole. Please demonstrate.
16
17 b) Please confirm that these changes will or will not be revenue neutral for each
18 separate Residential Service shown in Appendix 4.1, Rate Schedules. If not
19 revenue neutral, please explain YEC's rationale for allowing this to happen.
20
21 c) Please confirm that at times during the last 13 years, residential customers were
22 encouraged by YEC to use electric heating. If so, please describe the
23 circumstances of that occurrence(s).
24
25 d) YEC proposes to transfer the cost responsibility of collecting \$1.488M from
26 Residential block 1 customers to Residential block 2 customers for 2009 as per
27 Table 4.10. Please confirm that the purpose of the proposed increase in block 2
28 rates to Residential services is to create an incentive for electric heating
29 customers who consume over 1000 kW.h per month to use less electricity in
30 heating or to switch to a different method of heating altogether.
31
32 e) If d) is confirmed, please comment on the fairness or unfairness of these
33 proposed changes to these captured customers, whose houses have been built
34 to provide electric heating. How would YEC explain to these customers that this
35 proposed change to rates is appropriate, and that these customers are not being
36 specifically targeted?

1 **ANSWER:**

2
3 **(a)**

4
5 Confirmed that these changes will be revenue neutral. Please see Table 4.10.

6
7 **(b)**

8
9 These changes will not be revenue neutral for each separate Residential Service shown
10 in Appendix 4.1. As noted in the Application the requested rate changes are designed to
11 be revenue neutral at each rate class level (e.g., non-government residential and
12 government residential retail rate classes) – not the rate schedule level dealing with
13 different rate zones.

14
15 Under Yukon's 1996/97 GRA approved rate schedules, and in accordance with OIC
16 1995/90, the only rate difference at the rate schedule level within a retail residential
17 customer class is related to the runoff rate applicable to each rate zone.

18
19 **(c)**

20
21 Not confirmed. See **(d)** below.

22
23 **(d)**

24
25 As reviewed in response to YUB-YEC-1-21, in adjusting the runoff rates to better reflect
26 the requirements of OIC 1995/90, Yukon Energy did not develop new rate design
27 principles for runoff rates, it applied established Yukon rate design principles. Such
28 principles are required to comply with OIC 1995/90, and have been consistently applied
29 in Yukon GRAs and YUB Reports extending as far back as 1992, including extensive
30 previous reviews by the Board and previous Board Orders. These principles do not
31 discriminate against any specific users.

32
33 Residential customers on WAF and Mayo (Hydro Zone), including those with electric
34 heating, were charged based on these principles in the approved 1996/97 GRA rates. As
35 reviewed at Tab 4, page 4-11 (line 1 to 7), the net result was that electric heating costs
36 were more than double the cost of home heating oil. For example, with the 1996/97 GRA

1 runoff rates in place, the cost of operating electric heating in Whitehorse, at that time
2 was approximately 120% higher than the cost of heating with fuel oil.

3
4 In implementing the forecast rate reduction YEC was cognizant of the fact that any
5 reduction in the second block rate would not adhere to the government direction
6 provided by OIC 1995/90 and last implemented in the approved joint YEC/YECL
7 1996/97 GRA.

8
9 Current runoff rates at the time the Application was filed were only 14.39 cents/kWh in
10 the Hydro zone (Tab 4, Table 4.5), while the approach approved by the Board in the
11 1996/97 GRA for setting runoff rates would yield runoff rates approximating of 37.37
12 cents/kWh (Tab 4, page 4-12, footnote 11). A modest increase in the runoff rate by 5.61
13 cents/kWh (resultant Hydro runoff rate before GST of only 21.12 cents/kWh based on
14 rates and riders then in effect - see Table 4.7) was considered a practical first step
15 towards correcting this problem and better achieving the efficiency required by OIC
16 1995/90.

17
18 **(e)**

19
20 To be clear, an overall change to rate design in Yukon has not been included in this
21 Application. Yukon Energy in its Application has provided modest adjustments to runoff
22 block rates to ensure that these rates better reflect the requirements of OIC 1995/90 and
23 past Board directives by better reflecting the incremental costs of generation.

24
25 This modest adjustment to runoff rates is not being undertaken to target any particular
26 customer or type of customer usage. As noted in (d) above, the regulatory framework in
27 Yukon, established by Government OIC, requires that the runoff block for each non-
28 government retail customer class be fixed based on rate design principles that promote
29 economy and efficiency.

30
31 In 1992 after a cost of service and rate design review, the Board determined (at page
32 37) that it "considers efficient use of electricity to be the optimal use of electricity over
33 time, where consumers are making rational decisions regarding the future and current
34 use of electricity." The Board recommended (at page 40 of that report) that runoff rates
35 for all zones should be adjusted to reflect short-run incremental costs.

1 To implement Board recommendations related to the requirement to promote economy
2 and efficiency (required by OIC 1991/62 which was later revoked by OIC 1995/90),
3 adjustments to runoff blocks were designed to more closely reflect the differing
4 incremental costs of energy in each rate zone.

5
6 In Order 1993-8 approving the 1993/94 GRA the Board approved as appropriate the
7 principles and methods used to determine runoff rates. These same principles were
8 applied in the 1996/97 GRA filing. In an order approving the negotiated settlement
9 (Order 1996-7) the Board approved the rates applied for noting as follows (at page 8):

10
11 The run-out rates have been designed consistent with rate design
12 principles and specific directions established in 1995/90. The resultant
13 rate in each of the five zones (Hydro-Diesel, Watson System, Dawson
14 System, Small Diesel and Old Crow) reflect short-run variable costs
15 (Exhibit 1, Tables 3.2 and 3.3) which the Companies must meet.

16
17 This is past practice in Yukon, as approved by the Board in 1993/94 GRA and in the
18 1996/97 GRA.

1 **REFERENCE:** **Application page 4-12, Table 4.9 and Table 4.10**

2
3 **PREAMBLE:**

4
5 YEC states: "Given the Yukon Hydro zone electrical systems are now approaching the
6 point where diesel generation will be required for more peaking occasions, and
7 ultimately for near-term baseload generation (absent the development of added new
8 renewable generation), current run out rates in all rate zones simply are not in keeping
9 with the conservation principles of OIC 1995/90 nor are such rates consistent with the
10 overriding principles outlined in the YTG's climate change policy."

11
12 **QUESTION:**

- 13
14 a) As a means of accomplishing the conservation principles set out in OIC 1995/90,
15 did YEC investigate any conservation strategies other than its proposed increase
16 to run-off rates for residential customers? If yes, please provide the results of this
17 investigation. If no, please explain why not.
18
19 b) As a means of accomplishing the conservation principles set out in OIC 1995/90,
20 did YEC investigate adopting any types of conservation rate structures other than
21 "Increasing Block Rates?" If yes, please provide the results of this investigation.
22
23 c) The billing determinants for the second block of energy for the Residential rate
24 class in Table 4.9 (Sales at Existing Rates) are identical to those in Table 4.10
25 (Sales at Proposed Rates). Does this mean that YEC is forecasting no reduction
26 of demand in the second block and, therefore, no meaningful conservation to
27 take place?
28
29 d) Assuming YEC's strategy to reduce electric heating demand actually succeeds,
30 and meaningful conservation occurs, which results in significant reductions to
31 demand in the residential second block, please explain how YEC is preparing to
32 address the reduced revenue collected from residential customers? Is YEC
33 concerned that if the Board approves its rate proposal, it may not collect its
34 revenue requirements for the test period?

1 **ANSWER:**

2
3 **(a) and (b)**

4
5 The issue of efficient price signals, and the issue of conservation activities are separate
6 and distinct matters. Pursuant to OIC 1995/90 the Board must fix runoff rates for each
7 non-government retail class on the basis of rate design principles to promote economy
8 and efficiency, and rate design principles related to design of runoff rates have been
9 established and approved by the Board (Order 1996-7). While other conservation
10 measures or rate structures may be appropriate, there is no alternative to designing
11 runoff rates that meet the requirements of the OIC.

12
13 For a discussion of Yukon Energy's involvement in conservation and DSM, please see
14 LE-YEC-1-20 through LE-YEC-1-25.

15
16 **(c) and (d)**

17
18 Both Table 4.9 and 4.10 provide data for 2009, and consequently reflect the same load
19 forecast. This is the reason that they are the same.

20
21 The underlying rationale for increasing the runout block rate is not to reduce electric
22 heating demand specifically. The underlying rationale for the increase in runout block
23 rate is to ensure current Yukon rates continue to meet the requirements of OIC 1995/90
24 by fixing runoff rates for each non-government retail customer class on the basis of rate
25 design principles that promote economy and efficiency.

26
27 To the extent that conservation occurs due to consumer response to the second block
28 rate, it is expected that this will occur over time as noted in PWP/HML-YEC-1-6. Any
29 revenue reductions that occurred would form part of future Yukon Energy GRAs.

1 **REFERENCE:** **Tables 2.2 to 2.4**

2

3 **PREAMBLE:**

4

5 YEC indicates that it serves street lighting and space lighting customers. The rate
6 schedules for these customers are not included in Appendix 4.1.

7

8 **QUESTION:**

9

10 a) Please provide the rate schedules that these customers are served under.

11

12 **ANSWER:**

13

14 **(a)**

15

16 Please see Attachment 1 to this response.

RATE SCHEDULE 61/66

MUNICIPAL STREET LIGHTING

AVAILABLE:

Available in all communities serviced by the Company throughout the Yukon Territory for municipal street lighting service, including the installation, operation and maintenance of standard mercury vapour or high pressure sodium luminaries on wood poles and serviced by overhead wiring. Not applicable to private lighting service.

RATE:

Customer Charge

\$6.36 per Lamp

Demand Charge

4.03¢ per watt of billing demand

Surcharge for Highmast Fixtures

\$1.03 per Lamp

**RATE
MODIFICATIONS
APPLICABLE:**

For fuel adjustment Rider, see Rider F.

**ELECTRIC
SERVICE
REGULATIONS:**

The Company's Electric Service Regulations approved by the Yukon Utilities Board form part of this rate schedule and apply to the Company and every customer supplied with electric service by the Company in the Yukon and British Columbia. Copies of the Electric Service Regulations are available for inspection in the offices of the Company during normal working hours.

Effective: 1997 01 01
Supersedes: 1996 07 01

RATE SCHEDULE 67

STREET LIGHTING (ENERGY ONLY)

AVAILABLE:

Available in all communities serviced by the Company throughout the Yukon Territory for 400 and 250 Watts mercury vapour or high pressure sodium energy only street lighting service

RATE:

For Service rendered in any one billing month:

400 Watts Street Light	\$23.66 per month
250 Watts Street Light	\$15.47 per month

**RATE
MODIFICATIONS
APPLICABLE:**

For fuel adjustment Rider, see Rider F.

**ELECTRIC
SERVICE
REGULATIONS:**

The Company's Electric Service Regulations approved by the Yukon Utilities Board form part of this rate schedule and apply to the Company and every customer supplied with electric service by the Company in the Yukon and British Columbia. Copies of the Electric Service Regulations are available for inspection in the offices of the Company during normal working hours.

RATE SCHEDULE - 75/76

PRIVATE LIGHTING SERVICE

AVAILABLE: In all communities serviced by the Company.

APPLICABLE: To off-street private lighting at 120/240 volt service on a twelve month contract and under special conditions to Municipal Corporations for lighting in summer villages with a minimum six-month billing.

RATE: Exclusive of fuel cost adjustment. For service rendered in any one billing month, as follows:

	100 Watt HPS	A 175 Watt MV 7,000 Lumen	A 250 Watt MV 11,000 Lumen	A 400 Watt MV 20,000 Lumen	400 Watt MV Flood- Light Unit
(1) Normal 12-month unmetered service	\$11.64	\$14.18	\$17.34	\$23.03	\$25.44
(2) Energy and maintenance only (Customer pays installation cost)	\$6.46	\$9.87	\$13.16	\$18.61	\$17.75
(3) Twelve month service through customer meter	\$7.34	\$7.97	\$8.23	\$7.84	\$10.26

NOTE: (A) These are sentinel units having a 30-inch bracket. They are not regular street lighting units. Lamps are energized by a photoelectric controller and operate approximately 4,000 hours per annum.

... Continued on overleaf

Rate Schedule - 75/76 (Continued)

- (B) Normal installation includes one duplex span of approximately 150 feet, one 30 foot wood pole and fixture. All additional extension costs will be borne by the customers.
- (C) Privately-owned street lighting units will be supplied energy and re-lamped only for the charges shown in #2 above.

**RATE
MODIFICATIONS
APPLICABLE:**

For fuel adjustment Rider, see Rider F.

**ELECTRIC
SERVICE
REGULATIONS:**

The Company's Electric Service Regulations approved by the Yukon Utilities Board form part of this rate schedule and apply to the Company and every customer supplied with electric service by the Company in the Yukon and British Columbia. Copies of the Electric Service Regulations are available for inspection in the offices of the Company during normal working hours.

1 **REFERENCE: Application Section 2.3.1**

2
3 **PREAMBLE:**

4
5 YEC discusses the relationship between drought conditions, the levels in the Aishihik
6 Water Storage Facility and secondary sales.

7
8 **QUESTION:**

9
10 a) What were the water levels during 2008 in the Aishihik Water Storage Facility
11 relative to long-term average levels?

12
13 **ANSWER:**

14
15 **(a)**

16
17 Average monthly water levels in 2008 were above the mean Aishihik water levels by the
18 following amounts:

19
20 Jan: 0.40m
21 Feb: 0.40m
22 Mar: 0.38m
23 Apr: 0.36m
24 May: 0.38m
25 Jun: 0.39m
26 Jul: 0.49m
27 Aug: 0.49m
28 Sep: 0.51m
29 Oct: 0.46m
30 Nov: 0.38m
31 Dec: 0.43m

REFERENCE: Application page 3 – 5, lines 13 – 15

PREAMBLE:

YEC states: “For 2009, total forecast diesel generation is 1.262 GW.h, which is forecast to require 350,600 litres of diesel fuel. In addition, 100,700 litres of diesel fuel are forecast for mechanical maintenance purposes. Total forecast fuel consumption for 2009 is 451,300 litres, at an average price of \$1.170/litre.”

QUESTION:

- a) Please provide details of how the forecast fuel requirements are calculated based on the fuel efficiencies provided at page 3-5, lines 1-4.
- b) Please provide details of how the total cost of fuel is calculated based on the forecast cost of fuel set out at page 3-4, lines 16-18 and the forecast fuel requirements.

ANSWER:

(a)

Details of calculating the forecast fuel requirements for 2009 are provided below.

	Forecast diesel generation (MW.h)	Fuel efficiency	Fuel requirement (L)
	1	2	1 / 2
Peaking and Unplanned Outages			
Whitehorse	-	3.64	-
Faro	550,000	3.55	154,930
Dawson	396,000	3.71	106,739
Mayo	-	3.71	-
Planned Outages			
Line Maintenance	315,710	3.55	88,932
Mechanical Maintenance	n/a		100,700
Total	1,261,710		451,301

1 **(b)**

2

3 Details of calculating the total cost of fuel for 2009 are provided below.

4

	Fuel requirement (L)	Forecast fuel price (\$/L)	Cost of fuel (\$)
	1	2	1 X 2
Whitehorse	-	1.149	-
Faro	154,930	1.181	183,040
Dawson	106,739	1.164	124,291
Mayo	-	1.156	-
Line Maintenance	88,932	1.181	105,069
Mechanical Maintenance	100,700	1.149	115,749
5 Total	451,301		528,149

1 **REFERENCE:** Application page 3-16, line 22 – page 3-17, line 4

2
3 **PREAMBLE:**

4
5 YEC states: "As well, the Board directed a termination of any further appropriations to
6 Yukon Energy's Reserve for Future Removal and Site Restoration ('Salvage') which
7 Yukon Energy had forecast at \$0.533 million for 2005, until such time as the 'balance of
8 the site removal liability account reaches \$2.0 million. The account is not forecast to
9 reach this level in the test years."

10
11 **QUESTION:**

12
13 a) Please provide a continuity schedule of the Reserve for Future Removal and Site
14 Restoration account since 2005, including the test years, that clearly sets out all
15 additions, charges, opening and closing balances on a yearly basis.

16
17 b) Please extend the continuity schedule requested to the crossover point, i.e. until
18 the year additional appropriations may be required.

19
20 **ANSWER:**

21
22 **(a)**

23
24 Please see the table below which sets out the annual continuity for the Reserve for 2005
25 through 2007.

26
27 Actuals for 2008 cannot be provided. The 2008 financial statements are in the process of
28 being finalized but are not yet complete and therefore the requested information based
29 on final 2008 results is not available at this time. However, the Yukon Public Utilities Act
30 sets out a requirement at section 25(1) for each utility to file a statement showing various
31 financial information for the preceding year by March 31. Yukon Energy is currently
32 preparing (unaudited) financial statements for this purpose and expects to meet the
33 requirements of the Act. Once that material has been prepared, it will be possible to
34 update and confirm the 2008 unaudited results in the form of Tab 7 to the Application. As
35 was done in 2005, these schedules will be updated as soon thereafter as possible prior
36 to the May hearing. It is presently expected that these updates will be filed in late March
37 or early April.

1 Yukon Energy does not forecast charges to the Reserve, so no amounts are available
2 for 2009.

3
4 Specific charges and credits to the Reserve are numerous and cannot be provided
5 individually.

FRSR	2005	2006	2007
Opening Balance	(5,754,459)	(5,618,138)	(5,083,059)
Addition/Charges	136,321	535,079	(157,587) ¹
Closing Balance	(5,618,138)	(5,083,059)	(5,240,646)

6
7
8
9 **Notes:**

10
11 (1) The net charge to the reserve consists of \$96,632 in retirement-related charges,
12 offset by \$254,219 in recoveries. The recovery is for monies collected from the
13 Federal Government for costs incurred to remediate pre-existing contamination
14 at the Whitehorse Rapids Generating Station. The clean-up costs were originally
15 charged against the reserve when incurred; at that time, collection from the
16 Federal Government was uncertain. As the Corporation's efforts were successful,
17 it is appropriate to reimburse the reserve from the monies collected.

18
19 **(b)**

20
21 Yukon Energy has no long-term forecast for charges to the Reserve for Future Removal
22 and Site Restoration. The target level is not expected to be achieved in the test years or
23 for many years thereafter.

1 **REFERENCE:** **Application page 3-18, footnote 15**

2
3 **PREAMBLE:**

4
5 YEC states: "Yukon Energy's practice with respect to dividends and issuances of long-
6 term debt is to declare dividends out of equity and issue long-term debt annually, as
7 required in order to maintain a 60% debt: 40% equity capital structure at year end, while
8 retaining a minimum of cash in the utility outside of amounts required to finance the
9 ongoing capital programs."

10
11 **QUESTION:**

- 12
13 a) Has YEC set out its financial policies in written form with respect to issuance of
14 debt, dividends and capital structure? If yes, please provide.

15
16 **ANSWER:**

17
18 **(a)**

19
20 The attached financial policy was approved by Yukon Energy's Board at the December
21 18, 1992 meeting. Note that at the time this policy was written, it was the intent to adjust
22 the long-term interest rates periodically (at each GRA). However, YEC's Board later
23 updated this component at the July 12, 1993 meeting to ensure the rates were locked-in
24 over the long-term, in part to address a concern arising at the 1993/94 GRA.

25
26 Please see Attachment 1 to this response.

YUKON ENERGY CORPORATION

FINANCIAL POLICIES

General

The general intention of the Corporation's financial policies are to:

- a) maintain a capital structure that results in a debt/ equity ratio of approximately 60/ 40; and
- b) to set terms and conditions on long-term loans from Yukon Development Corporation at a level which reflects current market conditions for companies of similar size and business risk to the Corporation.

The policies are intended to be flexible to allow the Corporation to quickly respond to changes in circumstances and market conditions in a cost-effective manner.

Policies

1. Capital Structure

- (i) The Corporation shall maintain a capital structure resulting in a debt/ equity ratio, as this term is defined for the purposes of rate applications to the Yukon Utilities Board by the Corporation, of 60/ 40 at the end of each fiscal year.
- (ii) In any year when the debt/ equity ratio, as defined in (i) above, is expected to fall below 60/ 40 by December 31, the Corporation shall declare a dividend on or before December 31 of that year in an amount that would result in the Corporation's debt/ equity ratio approximating 60/ 40 at the end of that year after taking into consideration the impact of any new long-term debt provided for in (iii) below.
- (iii) In any year when the Corporation declares a dividend pursuant to this policy, the Corporation shall arrange with its shareholder (Yukon Development Corporation) to issue, on the same date, new long-term debt to the Corporation in an amount equal to the dividend and on terms and conditions then applicable to long-term debt issued to the Corporation by Yukon Development Corporation.

... / 2

- 2 -

2. Terms and Conditions on Long-Term Loans Issued to the Corporation from Yukon Development Corporation

Long-term loans issued to the Corporation from Yukon Development Corporation shall provide for the following terms and conditions:

- (i) interest is payable on a monthly basis;
- (ii) interest rate shall be set as 120 basis points above the average of long-term Government of Canada Bonds as specified by the Canadian Bond Rating Service as at the last previous September 30 prior to issue of the loan; and
- (iii) in any year when the Corporation submits a general rate application to the Yukon Utilities Board, the interest rate on each long-term loan issued to the Corporation by Yukon Development Corporation shall be adjusted, effective from January 1 of the first year of such rate application, to equal an interest rate set in the same manner as (ii) above.

The Corporation will need to make arrangements with YDC to carry out the above.

Application

Management is expected to follow the above mentioned policies on an annual basis. If management believes circumstances warrant deviation from the general policies stated above, approval of the Corporation's Board of Directors is required prior to deviating from those policies.

For purposes of determining the debt/ equity ratio, long-term debt shall include the current and long-term portion of long-term debt as disclosed in the Corporation's annual financial statements. Equity shall include contributed capital and retained earnings as disclosed on the Corporation's annual financial statements.

"APPROVED BY YEC'S BOARD OF DIRECTORS ON DECEMBER 18, 1992".

FIN-PLCY.SUB/92/ 12/16

1 **REFERENCE: Application page 3-19, footnote 16**

2
3 **PREAMBLE:**

4
5 YEC states: "Debt issued between Yukon Development and Yukon Energy is priced
6 based on a "spread" over long Canada bonds of 120 basis points. The long Canada
7 bond yield during the preparation of this filing was 4.08%, supporting a rate for new long
8 term debt of 5.28%."

9
10 **QUESTION:**

- 11
- 12 a) Please provide the agreement between Yukon Development and Yukon Energy
13 that sets out this pricing arrangement.
 - 14
 - 15 b) Please advise as to the source of the funds that Yukon Development lends to
16 Yukon Energy.
 - 17
 - 18 c) Does Yukon Development guarantee the debt of Yukon Energy?
19
 - 20 d) Does Yukon Development "reflect down" its own debt in the same manner as
21 Canadian Utilities reflects down debt to ATCO Electric and, hence, Yukon
22 Electrical?
23
 - 24 e) What was the actual interest rate and amount of debt obtained from Yukon
25 Development in 2008 [e.g. YDC Loan #17 (5.28%) as shown in the Application
26 Section 7, Schedule 13]?
27
 - 28 f) Please confirm that BCUC Letter No. L-55-08 uses a 2009 forecast yield of
29 4.35% on long Canada bonds.
30
 - 31 g) Please provide the terms and conditions of the Yukon Development Flexible
32 Promissory Note (for Mayo-Dawson Project) and the 7% Flexible Term Note that
33 sets these debt interest rates.

1 **ANSWER:**

2
3 **(a)**

4
5 Please see response to CW-YEC-1-26 for the YEC Board policy. YDC has been
6 following the same policy.
7

8 **(b)**

9
10 YDC has earnings from interest, investments and dividends (typically interest and
11 dividends from YEC).
12

13 **(c)**

14
15 YEC's only external debt is the TD Note which is guaranteed by the Yukon Government
16 through YDC. The Minto Loans are secured by YDC (as provided for in the May 14,
17 2007 PPA Amendment); Minto provides certain security regarding these loans through
18 the PPA as amended.
19

20 **(d)**

21
22 No.
23

24 **(e)**

25
26 The 2008 financial statements are in the process of being finalized but are not yet
27 complete and therefore the requested information based on final 2008 results is not
28 available at this time. However, the Yukon Public Utilities Act sets out a requirement at
29 section 25(1) for each utility to file a statement showing various financial information for
30 the preceding year by March 31. Yukon Energy is currently preparing (unaudited)
31 financial statements for this purpose and expects to meet the requirements of the Act.
32 Once that material has been prepared, it will be possible to update and confirm the 2008
33 unaudited results in the form of Tab 7 to the Application. As was done in 2005, these
34 schedules will be updated as soon thereafter as possible prior to the May hearing. It is
35 presently expected that these updates will be filed in late March or early April.

1 **(f)**

2

3 Confirmed.

4

5 **(g)**

6

7 Please see Attachment 1 and Attachment 2 to this response.

FLEXIBLE TERM NOTE

1. FOR VALUE RECEIVED, YUKON POWER CORPORATION ("YPC") promises to pay to or to the order of HER MAJESTY THE QUEEN IN RIGHT OF CANADA as represented by the Minister of Indian Affairs and Northern Development (the "Minister"), at Ottawa, Ontario, the sum of FORTY MILLION DOLLARS (\$40,000,000) in lawful money of Canada as follows:

(a) subject to the payment deferral provisions of this Flexible Term Note, by payment of:

- (i) \$750,000 of principal on January 1, 1988, and
- (ii) equal annual instalments of principal of ONE MILLION DOLLARS (\$1,000,000) each on January 1 in each year, commencing January 1, 1989 and continuing until the whole of the said principal is paid hereunder;

(b) subject to the interest abatement provisions of this Flexible Term Note, with simple interest thereon or on so much thereof as shall from time to time remain unpaid at the rate of 7% per annum (without compounding) both before and after maturity, default and judgment, computed from the date hereof until December 31 of each year and payable on January 1 in the following year, commencing January 1, 1988 and continuing until the whole of the principal is paid hereunder.

2. Where, in any calendar year commencing with the entire 1987 calendar year, sales of power on WAFS based upon metered readings (or based upon reasonable estimates thereof consistently applied from year to year where it is unreasonable or impracticable to base such sales upon metered readings):

- (a) are equal to or less than 200 GWh, then interest accrued for the 365 day (or in the case of the January 1, 1988 payment, for the 275 day) period ending December 31 of that year under this Flexible Term Note shall abate forever and not be payable and the instalment of principal otherwise falling due on January 1 in the following year under this Flexible Term Note shall not then be due but shall be suspended and deferred until paid in accordance with the foregoing provisions of this Flexible Term Note;
- (b) are greater than 200 GWh, but less than 310 GWh, then the instalment of principal otherwise falling

- 2 -

due on January 1 in the following year under this Flexible Term Note shall be reduced to an amount arrived at by applying the following formula:

$$\begin{array}{l} \text{(principal instalment} \\ \text{otherwise due hereunder)} \end{array} \times \frac{\text{(Actual GWh Sales - 200)}}{(310 - 200)}$$

and the interest accrued for the 365 day (or in the case of the January 1, 1988 payment for the 275 day) period ending December 31 of that year under this Flexible Term Note shall be reduced to an amount arrived at by applying the above formula but substituting interest otherwise due for the principal instalment otherwise due hereunder.

The difference between the amount of interest otherwise due, were it not for the application of the above formula, and the amount payable according to the formula shall abate forever and not be payable, and the difference between the amount of principal otherwise due, were it not for the application of the above formula and the amount payable according to the formula, shall be suspended and deferred until paid in accordance with the foregoing provisions of this Flexible Term Note. The application of this paragraph shall not require YPC to make any principal payment in any year in excess of \$1,000,000.

3. In this Flexible Term Note, "WAFS" means the Whitehorse - Aishihik - Faro System for electrical power distribution owned by YPC shown outlined in blue on the attached schedule.

4. YPC covenants and agrees to provide the Minister on or before the 15th days of April, July, October and January in each year commencing July 15, 1987 and continuing until the next such date after the whole of the principal sum and interest hereunder is paid, with a statement certified by the chief financial officer of YPC as to the sales of power on WAFS for the immediately preceding 3 calendar month period. The payments required or not required to be made hereunder on January 1 in each year shall be subject to adjustment as hereafter provided.

5. YPC's auditors shall be required annually by no later than April 30 to provide a certificate to the Minister as to the sales of power on WAFS for the immediately preceding calendar year. If the Minister does not object to the certificate by June 30 of that year, the certificate shall be final and binding as to sales of power on WAFS for the immediately preceding calendar year. If the Minister does object to the certificate by June 30 of that year, the matter shall be referred to a single arbitrator in accordance with the Arbitrations Act (Ontario) whose decision shall be

- 3 -

final and binding. In either event, if the auditor's certificate or arbitrator's decision differs from the basis of calculation for the payment made on January 1, payment of the difference shall be made forthwith by either YPC or the Minister, as the case may be, together with simple interest at the rate of 7% per annum computed from January 1 to the date of payment.

6. YPC agrees to allow the Minister or his representatives access to the books, records and other documents of YPC at all reasonable times for the purposes of verifying the sales of power on WAFS.

7. If YPC sells, transfers or otherwise disposes of all or substantially all the hydro-electrical generating facility commonly known as Whitehorse 1, 2, 3 and 4 ("Whitehorse Facility") without the prior written approval of the Minister, which may be arbitrarily withheld, then the Minister may at any time thereafter demand payment of the entire balance due hereunder, whereupon the entire principal sum then remaining unpaid and all accrued and unpaid interest shall become due and payable notwithstanding any other provision of this Flexible Term Note.

8. In the event of damage to all or part of the Whitehorse Facility for which insurance proceeds are paid to YPC and not used to repair or replace such damage within a reasonable time with work commencing within 6 months of the damage having occurred, YPC shall be required to pay to the Minister the amount of such proceeds first, in reduction of any outstanding balance under the Term Note and then in reduction of any outstanding balance under this Flexible Term Note.

9. As security for the obligations of YPC under this Flexible Term Note, YPC agrees to grant to the Minister a first fixed and specific mortgage and charge containing all the terms of the encumbrance set forth in the schedule to the Security Agreement and such other terms as may be mutually agreed upon, on the Whitehorse Facility to be registered immediately following the registration of YPC's interest in the Whitehorse Facility.

10. The amount due hereunder may be paid in whole or in part at any time or times without notice, bonus or penalty.

11. YPC shall not be entitled to set off against any payments due by it hereunder any amounts owing or alleged to be owing to it by the Minister save and except only: (i) amounts which the Minister admits in writing to be owing by the Minister to YPC pursuant to the Purchase Agreement; (ii) amounts which a court or other competent tribunal or

- 4 -

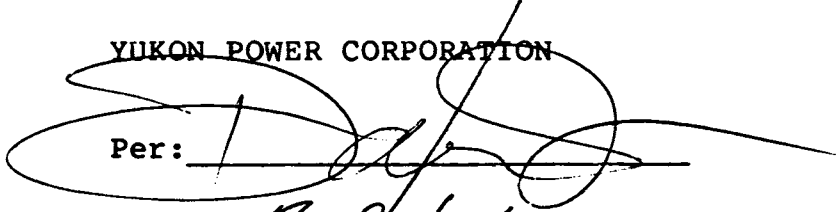
arbitrator determines to be owing by the Minister to YPC pursuant to the Purchase Agreement; and (iii) reasonable costs incurred by YPC in preparing documents or doing acts as provided for in 10.03 of the Purchase Agreement. This right of set-off shall only be available to YPC following payment in full of principal and interest under the Term Note.

12. YPC covenants to provide cheque(s) for payments required under paragraph 1 hereof to the Minister prior to the close of business on the business day immediately prior to January 1 of each year.

13. In this Flexible Term Note, "Purchase Agreement" means a Purchase and Sale Agreement dated March 31, 1987 among the Minister, YPC, The Government of Yukon, as represented by the Executive Council Member responsible for the Department of Economic Development, Mines and Small Business and by the Commissioner of the Yukon and Northern Canada Power Commission. Where the first letter of a word or term is capitalized in this Flexible Term Note, such word or term shall have the meaning assigned to it in the Purchase Agreement unless the context otherwise requires. The notice provisions of the Purchase Agreement shall apply in all respects with respect to any notice or other document which may be given by one party to the other under this Flexible Term Note.

DATED this 31st day of March, 1987.

YUKON POWER CORPORATION

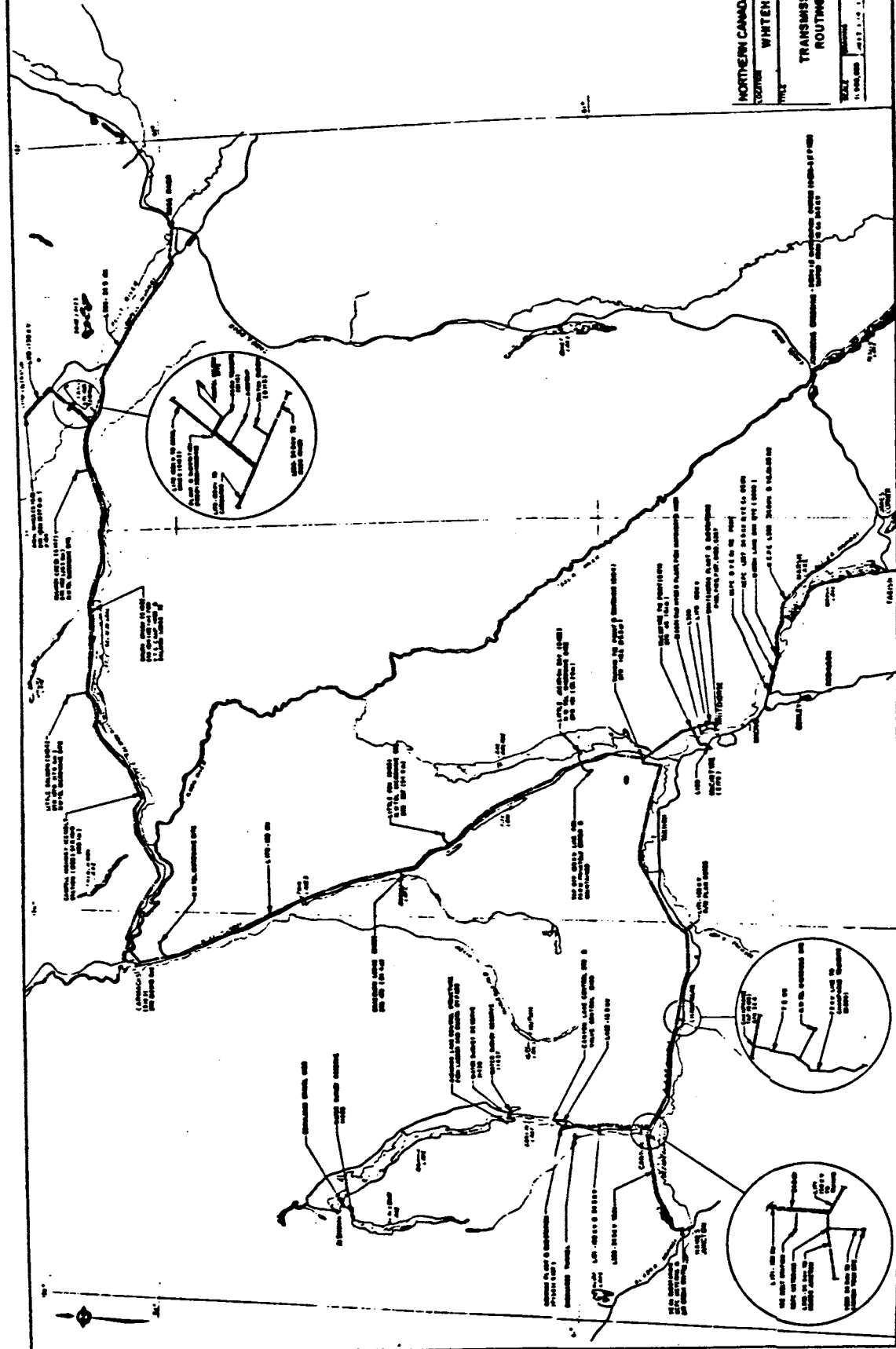
Per: 

Per: 

COPY

-5-

NORTHERN CANADA POWER COMMISSION		
REGION	WHITEHORSE	Y.T.
TRANSMISSION LINES ROUTING PLAN		
SCALE	1:100,000	1:170-3
DATE	2008-11-10	R



COPY

AGREEMENT

This Agreement dated February 13th, 2004 is between:

YUKON DEVELOPMENT CORPORATION, a Yukon
Territory corporation, having an office at 206A Lowe Street,
Whitehorse, Yukon Territory, Y1A 1W6

("YDC")

and:

YUKON ENERGY CORPORATION, a Yukon Territory
corporation, having an office at #2 Miles Canyon Road,
Whitehorse, Yukon Territory, Y1A 6S7

("Yukon Energy")

BACKGROUND

- A. YDC is a crown corporation, which has a mandate to assure a continuing and adequate supply of energy in the Yukon Territory consistent with sustainable development, and to develop and promote the development of the Yukon Territory resources on an economic and efficient basis;
- B. Yukon Energy is the primary generator and transmitter of electrical energy in the Yukon Territory;
- C. Yukon Energy has constructed the Project to support reliable, cost-effective, and clean supply of surplus hydro generated power to displace existing high-cost diesel generation, and to progress towards a territorial-wide electrical grid;
- D. The Project is the first major infrastructure development undertaken by Yukon Energy since the 1987 transfer of assets from the Northern Canada Power Commission;
- E. Under normal conditions, the Project would result in higher costs than diesel generation in the first number of years of operation, and lower costs than diesel generation for the rest of the life of the Project;
- F. In order to facilitate the development of the Project YDC has:

- (i) agreed to loan to Yukon Energy \$18,000,000 under the Note to ensure Yukon Territory electrical ratepayers are not paying more in any year than they would otherwise have paid if the Project had not been built and Dawson City had continued to be served by diesel generation, and
 - (ii) advanced the YDC Contribution to Yukon energy to assist Yukon Energy in completing the Project, to offset the costs that would otherwise be incurred by Yukon Energy in constructing the Project, and to ensure that the Yukon Territory rate payers do not pay for any costs incurred by Yukon Energy in completing the Project which are the result of Yukon Energy building capacity in executing major projects;
- G. YDC has advanced the Other Contribution to secure property that may at some time in the future be required for relocation of the Dawson diesel generators;
- H. Yukon Energy wishes to grant the Note to YDC as evidence of the \$18,000,000 loan which Note provides for the repayment of the \$18,000,000 loan and interest thereon consistent with the principles set out in Recital F; and
- I. Yukon Energy and YDC have entered into this Agreement to set out their agreements with respect to the YDC Contribution and the Other Contribution.

AGREEMENTS

The Parties agree as follows:

PART 1 DEFINITIONS AND INTERPRETATION

1.1 Definitions. In this Agreement the following terms have the following meanings:

- (a) **"Agreement"** means this Agreement;
- (b) **"Business Day"** means any day other than a Saturday, Sunday, or a statutory holiday in the Yukon Territory;
- (c) **"Note"** has the meaning set out in Section 1.2;
- (d) **"Other Contribution"** has the meaning set out in Section 2.2;
- (e) **"Project"** means the approximately 223 km, 69 kV electrical transmission line project owned by Yukon Energy from the Mayo Hydro Generating Substation to the Calliston Substation;
- (f) **"YDC Contribution"** means the sum of \$5,750,000 contributed by YDC to the capital of Yukon Energy; and

(g) "YUB" means the Yukon Utilities Board.

1.2 Capitalized Terms. Capitalized terms used and not defined in this Agreement have the meanings ascribed to them in the promissory note (the "Note") to be issued by Yukon Energy to YDC, a copy of which is attached to this Agreement as Schedule 1.

1.3 Headings. The headings are inserted for convenience of reference only and will not affect the construction or interpretation of this Agreement.

1.4 Governing Law. This Agreement will be governed by, and construed under the laws of the Yukon Territory.

1.5 Invalidity of Any Provision. If any covenant, obligation, or provision contained in this Agreement is invalid or unenforceable, the remainder of this Agreement will not be affected and each covenant, obligation, or provision of this Agreement will separately be valid and enforceable to the fullest extent permitted by law.

1.6 Amendments. This Agreement may only be amended from time to time in writing and any such amendment may be evidenced by a document signed by an authorized officer of each of the Parties.

1.7 Included Words. Whenever the singular or the masculine is used the same will be considered to include the plural or the feminine or the body corporate where the context or the Parties so require.

1.8 Schedules. The following Schedules are attached to and form part of the Agreement:

(a) Schedule 1 – Note.

PART 2 YDC FUNDING FOR THE PROJECT

2.1 YDC Contribution. Yukon Energy hereby acknowledges the advance to Yukon Energy by YDC of the YDC Contribution as a contribution to Yukon Energy's capital and not as a loan. Yukon Energy will have no obligation to repay the YDC contribution, it being the intent of the Parties that the YDC Contribution act to offset the costs Yukon Energy incurs in constructing the transmission line. For greater certainty, YDC has provided the YDC Contribution to Yukon Energy to fund in the first instance any capital costs incurred by Yukon Energy in developing the Project which are not allowed by the YUB as part of Yukon Energy's rate base, with any remainder used to fund a no-cost contribution towards Yukon Energy's rate base.

2.2 Other Contribution. Yukon Energy hereby acknowledges the advance to Yukon Energy by YDC of the sum of \$50,000 (the "Other Contribution"), which Yukon Energy shall pay to YDC without interest on the 10th Business Day after Yukon Energy installs diesel generators at the Calliston Substation.

2.3 \$18,000,000 Loan. Yukon Energy hereby acknowledges the advance to Yukon Energy by YDC of the sum of \$18,000,000 which loan Yukon Energy hereby evidences and agrees to repay by issuing to YDC the Note. Upon execution and delivery of this Agreement the Parties will execute and deliver the Note.

PART 3 GENERAL

3.1 Notices. In this Agreement:

(a) any notice or communication required or permitted to be given under the Agreement will be in writing and will be considered to have been given if delivered by hand, transmitted by facsimile transmission or mailed by prepaid registered post in Canada, to the address or facsimile transmission number of each Party set out below:

(i) if to YDC:

Yukon Development Corporation
206A Lowe Street
Whitehorse, YT Y1A 1W6

Attention: President

Fax No. (867) 393-7071

(ii) if to Yukon Energy:

Yukon Energy Corporation
#2 Miles Canyon Road
Whitehorse, YT Y1A 6S7

Attention: President

Fax No. (867) 393-5323

or to such other address or facsimile transmission number as a Party may designate in the manner set out above;

(b) notice or communication will be considered to have been received:

(i) if delivered by hand during business hours on a Business Day, upon receipt by a responsible representative of the receiver, and if not delivered during business hours, upon the commencement of business on the next Business Day;

- (ii) if sent by facsimile transmission during business hours on a Business Day, upon the sender receiving confirmation of the transmission, and if not transmitted during business hours, upon the commencement of business on the next Business Day; and
- (iii) if mailed by prepaid registered post in Canada, upon the fifth Business Day following posting; except that, in the case of a disruption or an impending or threatened disruption in postal services every notice or communication will be delivered by hand or sent by facsimile transmission.

3.2 Assignment by Yukon Energy. Yukon Energy may not to assign this Agreement, except with the prior written consent of YDC.

3.3 Assignment by YDC. YDC may assign this Agreement without the consent of Yukon Energy.

3.4 Enurement. This Agreement and all its provisions will enure to the benefit of and be binding upon the Parties, their successors and permitted assigns.

3.5 Set-off. Yukon Energy will not be entitled to set-off against any payments payable to YDC under this Agreement any amounts owing or alleged to be owing by YDC to Yukon Energy.

Each of the Parties has executed this Agreement at Whitehorse, Yukon Territory on February 13th, 2004.

YUKON DEVELOPMENT CORPORATION

By:

Per: 
Authorized Signatory

YUKON ENERGY CORPORATION

By:


Authorized Signatory

COPY

SCHEDULE 1

PROMISSORY NOTE

September 6, 2003

\$18,000,000

Due in installments

1. Promise to Pay.

1.1 Effective as of September 6, 2003, in consideration of the advance by way of loan of the sum of \$18,000,000 from Yukon Development Corporation ("YDC") to Yukon Energy Corporation ("Yukon Energy"), Yukon Energy promises to pay to YDC the principal amount of, and interest on, \$18,000,000 in lawful money of Canada as follows:

(a) annual installments of principal payable as follows:

- (i) \$143,000 on December 31, 2003;
- (ii) 39 equal annual installments of principal of \$450,000 each, payable on December 31 of each calendar year commencing on December 31, 2004 up to and including December 31, 2042; and
- (iii) \$307,000 on December 31, 2043.

(b) subject to Sections 1.2 and 1.3 below, interest calculated and payable as follows:

- (i) interest at the Interest Rate calculated annually, not in advance, on the principal amount from time to time remaining unpaid as of December 31 of each calendar year of this Note prior to the payment of principal in that calendar year, such interest to accrue from and including the effective date of this Note to December 31, 2003 and thereafter during each calendar year of this Note from and including January 1 to December 31;
- (ii) interest calculated as set out in Section 1.1(b)(i) above and including additional interest calculated under Section 1.3 below, will be payable on or before March 31 of each calendar year of this Note commencing on or before March 31, 2004, up to and including March 31, 2044.

1.2 **Limitation on Interest.** Notwithstanding Section 1.1(b), the amount of interest payable in each calendar year of this Note will not be more than the Maximum Interest Payable (as defined below), determined as of December 31 of each calendar year of this Note, calculated on or before March 31 of the following year, and if the amount of interest payable does exceed the Maximum Interest Payable then the terms set out in Section 3.1 below will apply. For greater certainty, if the Maximum Interest Payable under this Note is a negative number then YDC will pay to Yukon Energy (together with additional

interest payable under Section 1.3.) the positive dollar amount of that number on or before March 31 of the next calendar year.

- 1.3 **Additional Interest.** In addition to any interest payable under Sections 1.1 and 1.2, interest at the Interest Rate will be payable on the amount of interest, if any, payable accruing from December 31 of each year until the date that interest is paid.
- 1.4 **Sample Calculation.** A sample calculation of the Maximum Interest Payable is attached to this Note as Schedule 1.
- 1.5 **Application of Payments.** Payments received will be applied firstly in payment of unpaid interest and the balance, if any, in reduction of principal.

2. Definitions and Interpretation.

2.1 Definitions. In this Note the following terms have the following meanings:

- (a) **"Avoided Diesel Capital Cost"** means the depreciation and return on capital on the Diesel Plant estimated to be avoided by the Project each calendar year as set out in Schedule 2;
- (b) **"Avoided Diesel Costs"** means for each calendar year of this Note the sum of the:
- (i) Avoided Diesel Capital Cost for that calendar year,
 - (ii) Avoided Diesel Fuel Cost for that calendar year, and
 - (iii) Avoided Diesel Operating and Maintenance Cost for that calendar year;
- (c) **"Avoided Diesel Fuel Cost"** means for each calendar year of this Note the product of:
- (i) Total Firm Energy for that calendar year divided by 3.8 kW.h per litre,
 - (ii) multiplied by the Mean Diesel Fuel Price for that calendar year;
- (d) **"Avoided Diesel Operating and Maintenance Cost"** means for each calendar year of this Note the product of the Total Firm Energy for that calendar year multiplied by the Variable Diesel Operating and Maintenance Cost for that calendar year;
- (e) **"Business Day"** means any day other than a Saturday, Sunday, or a statutory holiday in the Yukon Territory;
- (f) **"Calliston Substation"** means Yukon Energy's electrical substation located at Dawson City, Yukon Territory;
- (g) **"Diesel Plant"** means Yukon Energy's diesel powered electrical generating plant located at Dawson City, Yukon Territory;

- (h) **"Fuel Price Adjustment"** means for each calendar year of this Note the product of:
 - (i) the Total Firm Energy for that calendar year divided by 3,8 kW.h per litre,
 - (ii) multiplied by the Fuel Price Variance for that calendar year;
- (i) **"Fuel Price Variance"** means for each calendar year of this Note:
 - (i) the Mean Diesel Fuel Price,
 - (ii) less 0.3278 dollars per litre;
- (j) **"GRA Years"** means the first two years of Yukon Energy's first General Rate Application to the YUB following 2003;
- (k) **"Greenhouse Gas Credit Revenue"** means for each calendar year of this Note all revenue and credits received for that calendar year by Yukon Energy related to reductions in greenhouse gas emissions from the Project, net of any incremental costs to generate such revenue and credits;
- (l) **"Incremental Retail Sales"** means in each calendar year of this Note all revenue received in that calendar year by Yukon Energy from non-secondary electricity sales to retail customers from the Project (excluding electricity sales to non-secondary retail customers served through the Calliston Substation) where these customers had not been previously serviced by Yukon Energy or Yukon Electrical Company Limited, net of any incremental costs to generate such sales;
- (m) **"Incremental Transmission Costs"** means in each calendar year of this Note the sum of the:
 - (i) Project Equity Return for that calendar year,
 - (ii) Project Depreciation for that calendar year,
 - (iii) Project Operating and Maintenance Expense for that calendar year, and
 - (iv) Other Project Interest;
- (n) **"Interest Rate"** means in each calendar year of this Note that annual rate of interest equal to 6.55%;
- (o) **"Maximum Interest Payable"** means for each calendar year of this Note the sum of:
 - (i) the Avoided Diesel Costs for that calendar year,
 - (ii) less the Incremental Transmission Costs for that calendar year,

- (iii) plus the Other Benefits for that calendar year,
 - (iv) less, for all calendar years prior to the GRA years, the Fuel Price Adjustment, and
 - (v) plus in each of the GRA years, one-half of the sum of the Fuel Price Adjustment for all calendar years from 2003 to the year prior to the GRA years;
- (p) "Maximum Interest Payable Statement" has the meaning set out in Section 3.2;
- (q) "Mayo Hydro Generating Station" means Yukon Energy's hydroelectric generating station located at Mayo, Yukon Territory;
- (r) "Mean Diesel Fuel Price" means for each calendar year of this Note the arithmetic mean of twelve monthly price quotes received by Yukon Energy each calendar month during that calendar year for the delivered cost per litre of P40 diesel fuel delivered to Yukon Energy in Dawson City;
- (s) "Mid Year Other Debt" means for each calendar year of this Note the sum, if any, of:
- (i) the Mid Year Rate Base for that calendar year,
 - (ii) less the Project Equity for that calendar year,
 - (iii) less the Mid Year Rate Base Debt for that calendar year;
- (t) "Mid Year Rate Base" means for each calendar year of this Note the mid-year rate base for the Project in that calendar year as included in Yukon Energy's annual filings to the YUB;
- (u) "Mid Year Rate Base Debt" means for each calendar year of this Note that amount of Yukon Energy's mid year capitalization for that calendar year attributable to this Note as included in Yukon Energy's filings to the YUB;
- (v) "Note" means this Promissory Note;
- (w) "Other Benefits" means for each calendar year of this Note the sum of the:
- (i) Green House Gas Credit Revenue for that calendar year,
 - (ii) Incremental Retail Sales for that calendar year,
 - (iii) Secondary Sales for that calendar year, and
 - (iv) Stewart Crossing Wholesale Revenue for that calendar year;

- (x) **"Other Project Interest"** means the product of the:
 - (i) Mid Year Other Debt, multiplied by,
 - (ii) Interest Rate;
- (y) **"Parties"** means Yukon Energy and YDC and **"Party"** means any one of them;
- (z) **"Project"** means the approximately 223 km, 69 kV electrical transmission line project owned by Yukon Energy from the Mayo Hydro Generating Substation to the Calliston Substation;
- (aa) **"Project Depreciation"** means the annual depreciation cost recorded by Yukon Energy on the Project (net of contributions), including the annual appropriation for removal and restoration, as included in Yukon Energy's annual filings to the YUB;
- (bb) **"Project Equity"** means for each calendar year of this Note the lesser of:
 - (i) 40% of the Mid Year Rate Base for that calendar year, and
 - (ii) the Mid Year Rate Base less the Mid Year Rate Base Debt for that calendar year;
- (cc) **"Project Equity Return"** means for each calendar year of this Note the product of:
 - (i) the Project Equity for that calendar year,
 - (ii) multiplied by Yukon Energy's rate of return on equity last approved by the YUB;
- (dd) **"Project Operating and Maintenance Expense"** means for each calendar year of this Note the sum of:
 - (i) the annual Project operating and maintenance costs for that calendar year, and
 - (ii) all other Project non-capitalized expenses for that calendar year;
- (ee) **"Secondary Sales"** means in each calendar year of this Note revenues in that calendar year from electricity sales from the Project that are charged at secondary rates approved by the YUB, net of any incremental cost to generate such sales;
- (ff) **"Stewart Crossing Wholesale Revenue"** means in each calendar year of this Note the total revenue received by Yukon Energy in that calendar year from electricity wholesale sales from the Project to Stewart Crossing, Yukon Territory, net of any incremental costs to generate such sales;

- (gg) **"Total Firm Energy"** means the kW.h of electricity delivered from the Calliston Substation for sales other than Secondary Sales based on metered readings (or based upon reasonable estimates thereof consistently applied from year to year where it is unreasonable or impractical to base such measurement upon metered readings);
- (hh) **"Variable Diesel Operating and Maintenance Cost"** means the rate per kW.h of electricity utilized by the Yukon Energy for variable diesel operating and maintenance costs other than fuel costs which is \$0.016 per kW.h of electricity until such time as the YUB approves a different variable diesel operating and maintenance cost for the purpose of setting retail electricity rates; and
- (ii) **"YUB"** means the Yukon Utilities Board.

2.2 Headings. The headings are inserted for convenience of reference only and will not affect the construction or interpretation of this Note.

2.3 Governing Law. This Note will be governed by, and construed under the laws of the Yukon Territory.

2.4 Invalidity of Any Provision. If any covenant, obligation, or provision contained in this Note is invalid or unenforceable, the remainder of this Note will not be affected and each covenant, obligation, or provision of this Note will separately be valid and enforceable to the fullest extent permitted by law.

2.5 Amendments. This Note may only be amended from time to time in writing and any such amendment may be evidenced by a document signed by an authorized officer of each of the Parties.

2.6 Included Words. Whenever the singular or the masculine is used the same will be considered to include the plural or the feminine or the body corporate where the context or the Parties so require.

2.7 Schedules. The following Schedules are attached to and form part of this Note:

- (a) Schedule 1 – Sample Calculation of Maximum Interest Payable; and
- (b) Schedule 2- Avoided Diesel Capital Cost.

3. Maximum Interest Payable.

3.1 Interest Abatement. The amount of interest, if any, which is payable under this Note as a result of the Interest Rate exceeding the Maximum Interest Payable will abate forever and will not be payable by Yukon Energy to YDC, it being the clear intention of the Parties that the amount of interest payable by Yukon Energy as a result of the Interest Rate payable by Yukon Energy to YDC will not exceed the Maximum Interest Payable.

3.2 Maximum Interest Payable Statement. Yukon Energy covenants and agrees to provide to YDC on or before March 31 in each year of the Note commencing March 31, 2004 and continuing until the whole of the principal and interest under the Note is paid, with a statement (the "Maximum Interest Payable Statement") certified by the Chief Financial Officer of Yukon Energy as to the Maximum Interest Payable for the preceding calendar year.

3.3 Dispute. If YDC does not object in writing to the Maximum Interest Payable Statement within 30 days of receipt of such statement from Yukon Energy the Maximum Interest Payable Statement will be final and binding on YDC. If YDC does object in writing to the Maximum Interest Rate Statement within such 30 days the Parties will negotiate in good faith a resolution to the dispute for a period of 15 days. If the dispute is not resolved by the Parties the matter will be referred to a single arbitrator under the *Arbitration Act (Yukon Territory)*, whose decision will be final and binding on the Parties. If the arbitrator's decision differs from the Maximum Interest Rate Statement, payment of the difference will be made forthwith by either YDC or Yukon Energy, as the case may be, together with simple interest at the Interest Rate computed from January 1 to the date of payment.

3.4 Access to Books and Records. Yukon Energy agrees to allow YDC and YDC's representatives access to the books, records, and other documents of Yukon Energy at all reasonable times for the purpose of verifying the Maximum Interest Payable.

4. General.

4.1 Disposition of Project. If Yukon Energy sells, transfers, or otherwise disposes of the Project without the prior written approval of YDC, which may be arbitrarily withheld, then YDC may, at any time thereafter, demand payment of the entire principal and interest owing under the Note, whereupon the entire principal and interest then remaining will become due and payable notwithstanding any other provision of this Note.

4.2 Insurance Proceeds. If there is damage to all or part of the Project for which insurance proceeds are paid to Yukon Energy and which are not used to repair or replace such damage within a reasonable time with work commencing within six months of the damage having occurred, Yukon Energy will be required to pay to YDC the amount of such proceeds first, in reduction of any outstanding interest under the Note and then in reduction of any outstanding principal under the Note.

4.3 Prepayment. The principal amount due under the Note may be paid by Yukon Energy in whole or in part at any time or times without notice, bonus, or penalty.

4.4 Default. Upon default in payment of any payment when due under this Note, the entire unpaid balance of the principal amount and accrued interest will become immediately due and payable without notice or demand and the undersigned covenants to pay interest on it and on subsequent overdue interest at the Interest Rate, both before and after judgment, until paid in full. The covenants to pay interest will not merge on the taking of a judgment or judgments with respect to any of the obligations stipulated for in this Note.

4.5 Interest Act of Canada. For the purposes of the *Interest Act (Canada)*, whenever any interest is calculated in respect of this Note on the basis of a period of time other than a calendar

year, the annual rate of interest to which each rate of interest determined pursuant to such calculation is equivalent is such rate as so determined multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by the number of days used in the basis for such determination.

4.6 Notices. In this Note:

- (a) any notice or communication required or permitted to be given under this Note will be in writing and will be considered to have been given if delivered by hand, transmitted by facsimile transmission or mailed by prepaid registered post in Canada, to the address or facsimile transmission number of each Party set out below:

- (i) if to YDC:

206A Lowe Street
Whitehorse, YT Y1A 1W6

Attention: President
Fax No.: (867) 393-7071

- (ii) if to Yukon Energy:

#2 Miles Canyon Road
Whitehorse, YT Y1A 6S7

Attention: President
Fax No.: (867) 393-5323

or to such other address or facsimile transmission number as any Party may designate in the manner set out above; and

- (b) notice or communication will be considered to have been received:

- (i) if delivered by hand during business hours on a Business Day, upon receipt by a responsible representative of the receiver, and if not delivered during business hours, upon the commencement of business on the next Business Day;
- (ii) if sent by facsimile transmission during business hours on a Business Day, upon the sender receiving confirmation of the transmission, and if not transmitted during business hours, upon the commencement of business on the next Business Day; and
- (iii) if mailed by prepaid registered post in Canada, upon the fifth Business Day following posting; except that, in the case of a disruption or an impending or threatened disruption in postal services every notice or

communication will be delivered by hand or sent by facsimile transmission.

4.7 Assignment by Yukon Energy. Yukon Energy may not to assign this Note, except with the prior written consent of YDC.

4.8 Assignment by YDC. YDC may assign this Note without the consent of Yukon Energy.

4.9 Enurement. This Note and all its provisions will enure to the benefit of and be binding upon the Parties, their successors and permitted assigns.

4.10 Yukon Energy Waiver. Yukon Energy waives demand and presentment for payment, notice of non-payment, protest, notice of protest, notice of dishonour, bringing of suit, and diligence in taking any action.

4.11 Set-off. Yukon Energy will not be entitled to set-off against any payments payable to YDC under this Note any amounts owing or alleged to be owing by YDC to Yukon Energy.

Executed at Whitehorse, Yukon Territory, on February 13th, 2004.

YUKON ENERGY CORPORATION

Per: _____

Authorized Signatory

Per: _____

Authorized Signatory

YUKON DEVELOPMENT CORPORATION

Per: _____

Authorized Signatory

Per: _____

Authorized Signatory

Schedule 1

Sample Calculation of Maximum Interest Rate

Sample calculations of the maximum interest rate for four representative years. This calculation ignores the partial year 2003.

	variable name	YEAR 1	YEAR 2	YEAR 3	YEAR 4
Assumptions for the purposes of the sample calculation					
GRA year?		no	yes	yes	no
Prior to a GRA year?		yes	no	no	no
Avoided Diesel Capital Cost	a	\$314,000	\$321,000	\$312,000	\$302,000
Greenhouse Gas Credit Revenue	b	\$5,000	\$5,000	\$5,000	\$5,000
Incremental Retail Sales	c	\$6,000	\$6,100	\$6,200	\$6,300
Interest Rate	d	6.55%	6.55%	6.55%	6.55%
Mean Diesel Fuel Price	e	\$0.45/litre	\$0.50/litre	\$0.52/litre	\$0.53/litre
Mild Year Rate Base	f	\$30,000,000	\$29,010,000	\$28,020,000	\$27,030,000
January 1 debt under this note	g	\$17,857,000	\$17,407,000	\$16,957,000	\$16,507,000
December 31 debt under this note	h	\$17,407,000	\$16,957,000	\$16,507,000	\$16,057,000
Project Depreciation	i	\$990,000	\$990,000	\$990,000	\$990,000
Project Operating and Maintenance Expense	j	\$130,000	\$135,000	\$140,000	\$145,000
Secondary Sales	k	\$20,000	\$22,000	\$24,000	\$25,000
Stewart Crossing Wholesale Revenue	l	\$200,000	\$202,000	\$204,000	\$207,000
Total Firm Energy (kWh)	m	14,000,000	14,150,000	14,300,000	14,500,000
Variable Diesel Operating and Maintenance Cost	n	\$0.016/kWh	\$0.020/kWh	\$0.020/kWh	\$0.020/kWh
Yukon Energy's Rate of Return on Equity last approved by the YUB	o	9%	10%	10%	10%

- 2 -

	variable name	formula	YEAR 1	YEAR 2	YEAR 3	YEAR 4
Calculations						
Mid Year Rate Base Debt ¹	p	$(g + h) / 2$	\$17,632,000	\$17,182,000	\$16,732,000	\$16,282,000
Avoided Diesel Fuel Cost	q	$m / 3.8 * e$	\$1,657,895	\$1,861,842	\$1,956,842	\$2,022,368
Avoided Diesel Operating and Maintenance Costs	r	$m * n$	\$224,000	\$283,000	\$286,000	\$290,000
Avoided Diesel Costs	s	$a + q + r$	\$2,195,895	\$2,465,842	\$2,554,842	\$2,614,368
Fuel Price Variance	t	$e - 0.3278$	\$0.1222	\$0.1722	\$0.1922	\$0.2022
Fuel Price Adjustment	u	$m / 3.8 * t$ (0 if not prior to the GRA years)	\$450,211	\$0	\$0	\$0
Sum of all prior year fuel price adjustments	v	sum of t for all prior years (0 if not GRA year)	\$0	\$450,211	\$450,211	\$0
Project Equity	w	the lesser of $(f * 40\%)$ and $(f - p)$	\$12,000,000	\$11,604,000	\$11,208,000	\$10,748,000
Project Equity Return	x	$w * o$	\$1,080,000	\$1,160,400	\$1,120,800	\$1,074,800
Mid Year Other Debt	y	the greater of $(f - w - p)$ and 0	\$368,000	\$224,000	\$80,000	\$0
Other Project Interest	z	$y * d$	\$24,104	\$14,672	\$5,240	\$0
Incremental Transmission Costs	aa	$x + i + j + z$	\$2,224,104	\$2,300,072	\$2,256,040	\$2,209,800
Other Benefits	bb	$b + c + k + l$	\$231,000	\$235,100	\$239,200	\$243,300
Maximum Interest Payable	cc	$s - aa + bb - u + v/2$	-\$247,420	\$625,975	\$763,107	\$647,868
Interest Otherwise Due	dd	$g * d$	\$1,169,634	\$1,140,159	\$1,110,684	\$1,081,209
Interest Payable ²		lesser of cc and dd	-\$247,420	\$625,975	\$763,107	\$647,868

¹ Mid Year Rate Base Debt calculation is illustrative for the sample years - actual Mid Year Rate Base Debt in Section 2.1(u) is the value reported in Yukon Energy's annual filings to the YUB.

² In Year 1 of the above example, Yukon Development would pay to Yukon Energy \$247,420. In year 2 Yukon Energy would pay to Yukon Development \$625,975 in interest. In year 3, Yukon Energy would pay to Yukon Development \$763,107 in interest. In year 4, Yukon Energy would pay to Yukon Development \$647,868 in interest.

Schedule 2

Avoided Diesel Capital Cost

Year	Avoided Diesel Capital Cost
2003	\$82,000
2004	\$314,000
2005	\$321,000
2006	\$312,000
2007	\$302,000
2008	\$293,000
2009	\$284,000
2010	\$275,000
2011	\$265,000
2012	\$429,000
2013	\$528,000
2014	\$527,000
2015 and all years thereafter	\$651,000

1 **REFERENCE: Application Section 7.0, Schedule 13**

2
3 **PREAMBLE:**

4
5 CW wishes to better understand YEC's calculation of mid-year cost of debt.

6
7 **QUESTION:**

8
9 a) For all the issues listed in Schedule 13, please provide detailed calculations as to
10 how the mid-year cost of debt is calculated.

11
12 b) Is YEC's method of calculating mid-year cost of debt consistent with the method
13 employed by YECL in its general rate application? If not, please provide YEC's
14 reason(s) for any inconsistencies.

15
16 c) Why hasn't YEC calculated any mid-year interest in 2009 for YDC Loan #18
17 (5.28%)? By the mid-year convention, shouldn't YEC include half the annual
18 interest charges?

19
20 d) Why hasn't YEC paid any principal in most years for the following issues: YDC
21 Loan #12 (5.88%), YDC Loan #13 (6.03%), YDC Loan #14 (5.40%), YDC Mayo-
22 Dawson Note (6.55%), YDC Loan #15 (5.34%), YDC Loan #16 (5.28%) and YDC
23 Loan #17 (5.28%)?

24
25 **ANSWER:**

26
27 **(a)**

28
29 Mid-year Cost of Debt is calculated as the ratio of Total Cost of Interest (line no.26 in
30 Schedule 13) to Mid-Year Long-Term Debt Balance (line no.14). Total Cost of Interest is
31 the sum of annual interest expenses for respective loans (lines no.15-25). Mid-Year
32 Long-Term Debt Balance is the average of the current and previous year-end debt
33 balances (lines no. 12-13). Current year-end balance is calculated as the sum of current
34 year-end balances of respective loans (lines no. 1-11).

35
36 For actual calculations please see CW-YEC-1-32 Attachment 1.

1 **(b)**

2
3 YEC's method of calculating mid-year cost of debt is different from the method employed
4 by YECL in its general rate application for the reason explained below.

5
6 YECL's calculation of cost of debt is not based on interest expenses to be actually
7 incurred in the test years but is based instead on a calculation that takes the average
8 cost rate as at January 1 plus the average cost rate at December 31 divided by 2. This
9 calculation reaches back in time (by using the January 1 average cost rate, which is
10 effectively the cost for the previous year) as opposed to looking at interest costs
11 associated with long term debt during the actual year in question. Yukon Energy
12 believes its approach is more accurate.

13
14 **(c)**

15
16 YDC Loan #18 becomes effective on December 31, 2009 and has no interest payable in
17 2009. It is a part of the year-end debt balance.

18
19 Any other approach would erroneously indicate that interest is payable on this note in
20 2009, which is not correct.

21
22 **(d)**

23
24 The Mayo-Dawson note (6.55%) does have a principal repayment each year, equal to
25 \$0.45 million.

26
27 YDC Loan 12 (5.88%) is a long-term issuance that provided for principal payments
28 starting 2007.

29
30 All other YDC loans have terms that do not include ongoing principal repayment (i.e.
31 they provide for "bullet" payments at the date the loan is terminated).

1 **REFERENCE: Application Section 5.2.1**

2
3 **PREAMBLE:**

4
5 CW wishes to better understand YEC's proposed capital projects.

6
7 **QUESTION:**

8
9 a) For each of the major projects over \$1 million listed in Section 5.2.1, please
10 provide comprehensive business cases to the level of detail provided in YECL
11 business cases during the YECL 2008/09 GRA.

12
13 **ANSWER:**

14
15 **(a)**

16
17 The requested comprehensive information is provided in Section 5.2.1 separately for
18 each of these five projects, with reference in some cases to earlier reports to the Board.

19
20 As noted in Section 5.2.1, the business cases for four of these projects has been
21 previously reviewed and recommended by the YUB in the Resource Plan Hearing (e.g,
22 CSTP, Mirrlees Diesel rebuilds at Whitehorse and Faro, and Aishihik 3rd Turbine) and
23 the Part 3 hearing regarding the CSTP project (CSTP Stage 1 and also Aishihik 3rd
24 Turbine update). These earlier reviews addressed rationale, options, initial cost
25 estimates and benefits, and potential impacts on ratepayers. No similar Board review
26 had occurred for any of the capital projects proposed in the YECL GRA. Updated
27 information provided in Section 5.2.1 has not fundamentally changed the earlier rationale
28 and business case for each of these projects.

29
30 Section 5.2.1.2 addresses the comprehensive business case for the Minto Diesels,
31 which the Board had not previously recommended. Please see also discussion of Minto
32 Diesels in YUB-YEC-1-36.

1 **REFERENCE:** YEC Technical presentation January 6, 2009, Slide 29;
2 **Application, page 5-20**
3

4 **PREAMBLE:**
5

6 In the referenced slide YEC states: "No other industrial loads forecast for test years;
7 further mine loads expected after test years" and at page 5-20 of the Application YEC
8 states: "Mayo B has been identified as a potential priority near term hydro generation
9 expansion opportunity to displace about 38 GW.h/yr. of baseload diesel generation that
10 would otherwise be required when additional industrial loads such as the Keno Hill
11 and/or Carmacks Copper mines connect to the grids."
12

13 **QUESTION:**
14

- 15 a) When is this additional industrial load currently forecast to be connected to the
16 YEC system?
17
- 18 b) Please provide the latest forecast information on which specific industrial loads
19 are anticipated, when each is expected to be connected to the grids and quantify
20 the anticipated load or power requirements for each.
21
- 22 c) What will be the effect of this additional industrial load on YEC's energy surplus
23 and operating reserves? Aside from the information cited above from page 5-20
24 of the Application, what steps is YEC taking to address any requirement for
25 additional base load and peaking generating facilities?
26
- 27 d) What types of generation is forecast to be installed? If more than one type of
28 generation is contemplated, what would be the capital cost and construction lead
29 time for each type of generation?

1 **ANSWER:**

2
3 **(a) and (b)**

4
5 Please see Tab 2, pages 2-5 to 2-7 which notes as follows with regard to service to
6 Western Copper and Keno Hill:

- 7
- 8 • **Western Copper** - As noted in the GRA filing, Western Copper has provided
9 forecast information to YEC which currently projects an in service date of 2011,
10 and an expected annual requirement averaging approximately 4 GW.h per month
11 (48 GW.h per year) with a mine life of at least six years. This information from
12 Western Copper as stated in Tab 2 of the Application has not been modified to
13 date; current economic conditions might well lead to some delay in this project's
14 financing and construction.
15
 - 16 • **Alexco** – The GRA filing notes that Alexco Resource Corp. indicated to YEC
17 plans to commence mining and milling operations at the Keno Hill property in
18 early 2010, with a resultant electricity load in the 21-25 GW.h/yr range and a
19 mine life of at least five years. Since the Application was filed, this load
20 information for Alexco has been updated. Alexco still expects to commence grid
21 service in 2010; however, it is now expected that grid service will commence at
22 11.7 GW.h for the first 2 years of service and increase to 16.5 GW.h for the next
23 three years of service.
24

25 Tab 2 also notes that other WAF near-term mine developments are also under
26 consideration for potential commercial operation beginning within the next 4 to 7 years at
27 locations close to the WAF and MD grids, including the Dublin Gulch project near the
28 MD grid and the Casino mine project near the WAF grid.
29

30 **(c) and (d)**

31
32 The information proved in the Application (at Tab 1 page 1-8 and at Tab 5 pages 5-19
33 and 5-20) remains generally current. Where relevant, the information is updated below.
34

35 As noted in the Application after CSTP Stage One development and the Minto Mine
36 connection (and before allowing any secondary sales), WAF hydro generation surpluses
37 at long term average flows will likely be fully utilized by firm sales on WAF sometime

1 between 2011 and 2014. Faro mine reclamation loads that may start as soon as 2012
2 would, in combination with Minto loads, result in such WAF surpluses being fully utilized
3 by 2012, i.e., absent new renewable generation, baseload diesel generation would be
4 required of about 10 GWh.

5
6 The connection of additional new industrial loads (i.e., Alexco and Western Copper)
7 could fully utilize existing hydro generation surplus energy on the WAF and MD grids
8 sooner, to the point where, absent new renewable sources of generation, material near
9 term baseload diesel generation (e.g., 70 to 87 GW.h/yr) could be required during the
10 2012- to 2015 period even after allowing for CSTP Stage Two and Aishihik Third Turbine
11 developments.

12
13 The above estimates reflect simple assessments using long term average hydro
14 generation capability. Yukon Energy is refining these assessments to utilize full-scale
15 water flow modeling that reflects seasonal and annual variations on each grid and for the
16 two grids combined.

17
18 As noted during the January 6, 2009 GRA Workshop, Yukon Energy has completed the
19 first stage of an "Orderly Process" to address key regulatory issues facing both utilities in
20 the Yukon. With the 20-Year Resource Plan (filed in 2006), Yukon Energy addressed in
21 Chapter 4 of that filing concerns surrounding the need for new capacity planning criteria
22 and resultant concerns surrounding required near term capacity. Measures to address
23 near term capacity concerns were reviewed at that hearing (and in the case of the CSTP
24 were reviewed in depth as part of other regulatory processes) and Yukon Energy has
25 taken steps to ensure 25.4 MW of near term capacity is now available to meet system
26 needs.

27
28 Page 12 of the Application notes as follows with regard to WAF capacity planning:

29
30 Under the present planning sequence, Yukon Energy has secured cost
31 effective options for up to 25.4 MW of WAF capacity in a staged and
32 flexible manner, comprised of recommissioning a 5 MW Mirrlees unit at
33 Faro, acquisition of 6.4 MW of diesel units at Minto, plus staged
34 refurbishment of up to three Mirrlees units at Whitehorse (totaling 14 MW)
35 over the period to 2012. While present plans are to proceed with the full
36 25.4 MW, in the event this full complement of capacity is not determined
37 to be required, or required in the same time frame as presently assumed,

1 options exist to adapt the sequence and timing so as to ensure only the
2 required level of capacity is made available.
3

4 Yukon Energy does not anticipate major changes in its diesel plant planning due to the
5 new industrial loads currently under discussion.
6

7 During the January 6, 2009 Workshop it was noted that with near term capacity
8 requirements now addressed, Yukon Energy has embarked upon a new stage of
9 planning and regulatory review processes focused on meeting energy-focused issues
10 raised in Chapter 5 of the 20-Year Resource Plan (as opposed to capacity concerns now
11 addressed). In this vein, it was noted that areas of focus at this time are (1) the need to
12 plan for new energy supplies to offset future diesel requirements; and (2) the need to
13 ensure adequate rate design and efficiency signals are provided (including updating
14 price signals on 2nd block rates for residential and general service customers).
15

16 Developing either enhancements to existing hydro projects, or new renewable
17 generation, is very costly and requires long planning times. However, the anticipated
18 load increases, together with cost and environmental considerations, provide strong
19 incentives for Yukon Energy to expand the available complement of renewable
20 generation, as well as transmission interconnections in order to address long term bulk
21 power needs.
22

23 Tab 5, pages 5-19 to 5-21 provide a description of current planning and study activities
24 being undertaken in this regard. Mayo B (as noted page 5-20) has been identified as a
25 potential priority near term hydro generation expansion opportunity that could displace
26 up to 38 GWh/year of baseload diesel generation. Given current schedules, including
27 planning, engineering, YESAA and permitting activities, and potential tendering
28 activities, the earliest feasible in-service date is fall 2011 or fall 2012. These budgets and
29 schedules are subject to ongoing review and assessment.
30

31 Other projects in feasibility or prefeasibility planning during the test years (to protect
32 earliest feasibility near term in-service dates) include the Gladstone Diversion project (up
33 to 18 GW.h/year), small scale Atlin winter storage project (up to 18 GW.h/year), Marsh
34 lake fall/winter storage project (up to 7.7 GW.h/year), as well as longer term/ larger scale
35 options such as geothermal generation options and larger scale Hydro (such as Hoole,
36 at 100-300 GW.h/year). Each of the smaller scale developments consists of relatively
37 short construction periods (typically on the order of one year) but it is not possible at this

1 time to forecast the potential licencing periods required. Larger scale greenfield hydro
2 generation cannot likely be developed in less than 5-6 years even on an expedited
3 schedule. In addition, Yukon Energy continues to consider various supply-side
4 enhancements (SSEs) related to such matters as re-runnering existing units. Budgets
5 and schedules for projects in feasibility or pre-feasibility stages of development are
6 subject to ongoing review after completion of field studies and initial desk studies, as
7 well as ongoing review of project mine loads and timing of new renewable generation
8 requirements.

9
10 For capital costs related to each project, see Appendix B of the 20 Year Resource Plan.

1 **REFERENCE:** **Application Section 7.0**

2

3 **PREAMBLE:**

4

5 CW wishes to better understand YEC's revenue requirement schedules.

6

7 **QUESTION:**

8

9 a) Please provide the financial schedules of Section 7.0 in Excel format.

10

11 **ANSWER:**

12

13 **(a)**

14

15 Please see Attachment 1 to this response.

1 **REFERENCE:** **Application Section 7.0, Schedule 2**

2
3 **PREAMBLE:**

4
5 CW wishes to better understand YEC's revenue requirement schedules.

6
7 **QUESTION:**

8
9 a) Please provide complete details of YEC's calculation of the components of
10 necessary working capital (lines 1-7 of Schedule 2) for both test years. If any of
11 the components of necessary working capital have been determined by means of
12 a lead/lag study, balance sheet method or the 1/8 rule, please provide, including
13 the year in which the lead/lag study was performed.

14
15 **ANSWER:**

16
17 **(a)**

18
19 Please see YECL-YEC-1-10.

1 **REFERENCE:** Application page 8-4, lines 3-7

2
3 **PREAMBLE:**

4
5 YEC states: "Yukon Energy proposes to file amendments to this Application as required
6 after BCUC releases its determination for 2009, incorporating the adjusted ROE for 2009
7 in the requested approvals for 2009 at that time. This will allow the updated values to be
8 available in advance of required Board determinations on this application."
9

10 **QUESTION:**

- 11
12 a) Please confirm that BCUC Letter No. L-55-08 regarding 2009 return on equity for
13 a low-risk utility was issued November 20, 2008.
14
15 b) When does YEC propose filing the amended Application?
16

17 **ANSWER:**

18
19 **(a)**

20
21 Confirmed. Please see response to YUB-YEC-1-15(d) for the actual BCUC
22 determination and its impact on YEC's proposed 2009 ROE.
23

24 **(b)**

25
26 For the relevant updated values, information, please see response to UCG-YEC-1-55 (b)
27 and (c).

1 **REFERENCE:** **Application Tab 9, p. 9-9, Change in Accounting Policies**

2
3 **PREAMBLE:**

4
5 CW desires to understand the effects of the change in accounting policy discussed.

6
7 **QUESTION:**

8
9 a) Please explain how YEC's financial statements for the year ending December 31,
10 2007 are different from what they would have been had this change to
11 accounting policy not occurred.

12
13 b) Please confirm there is no financial impact on the Company or its customers as a
14 result of this change to accounting policy. If not confirmed, please provide a full
15 explanation as to the financial impact and how it will affect the Company and/or
16 its customers.

17
18 c) Please discuss any other changes to accounting and regulatory practices that
19 have occurred since the last GRA.

20
21 **ANSWER:**

22
23 **(a)**

24
25 The adoption of these sections expanded the disclosure on the Statement of Income and
26 Retained Earnings to include reference to Other Comprehensive Income.

27
28 **(b)**

29
30 Confirmed.

31
32 **(c)**

33
34 At the direction of auditors, Yukon Energy amended its inventory accounting policy
35 effective the end of the fiscal year 2005. Previously, transmission and distribution
36 inventory items had their carrying value increased by a prescribed percentage
37 representing warehousing and freight costs. This treatment had been in place for a

1 number of years. The auditors advised that in their opinion this accounting treatment
2 was not in accordance with generally accepted accounting principles and therefore
3 advised management to remove the effect of this loading from on-hand inventory as at
4 December 31, 2005. The effect of this adjustment was to reduce the value of inventory
5 by \$0.278 million. No other adjustments were required.

1 **REFERENCE: Application, Tab 9**

2
3 **PREAMBLE:**

4
5 YEC provides Audited financial statements for the year ending December 31, 2007.

6
7 **QUESTION:**

8
9 a) Please provide Audited Financial Statements for the years ending December 31,
10 2005 and 2006.

11
12 b) Please provide Pro-Forma Financial Statements for the years 2008 and 2009,
13 including a statement of Earnings and Retained Earnings, Balance Sheet and
14 Cash Flows.

15
16 **ANSWER:**

17
18 **(a)**

19
20 Please see Attachment 1 and Attachment 2 to this response.

21
22 **(b)**

23
24 Please see Tab 7, Schedule 6, Schedule 7, Schedule 8 and Schedule 9.



AUDITOR'S REPORT

To the Board of Directors of Yukon Energy Corporation

I have audited the balance sheet of Yukon Energy Corporation as at December 31, 2005 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, proper books of account have been kept by the Corporation and the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Public Utilities Act* and regulations, the *Business Corporations Act* and regulations, and the articles and the bylaws of the Corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
March 24, 2006

YUKON
ENERGY



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the financial statements and all other financial information relating to the Corporation contained in this annual report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the financial statements.

Management has established internal accounting control systems to meet its responsibilities for reliable and accurate reporting. These systems include policies and procedures, the careful selection and training of qualified personnel and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditor to discuss auditing and financial matters to assure that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Audit Committee and management.

David Morrison
President & CEO

Wendy Fendrick
Acting Chief Financial Officer

Whitehorse, Yukon
March 24, 2006

Yukon Energy Corporation

Balance Sheet

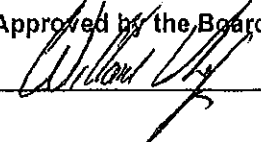
(in thousands of dollars)

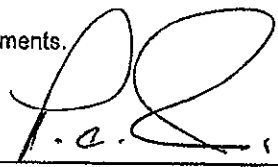
As at December 31,	2005	2004
Assets		
Current		
Cash and cash equivalents	\$ 4,068	\$ 1,719
Accounts receivable (Notes 4 and 16)	4,018	4,490
Materials and supplies	2,099	2,651
Prepaid expenses	217	838
	10,402	9,698
Diesel contingency fund (Notes 3 and 5)	791	772
Property, plant and equipment (Note 6)	158,016	158,800
Deferred water licensing costs (Note 7)	5,871	5,453
Reserve for uninsured losses (Note 11)	-	797
Deferred charges (Note 8)	2,328	1,384
	\$ 177,408	\$ 176,904
Liabilities		
Current		
Accounts payable (Note 16)	3,256	4,072
Current portion of long-term debt (Notes 13 and 16)	1,454	1,340
Regulatory liabilities (Note 9)	1,775	2,811
	6,485	8,223
Deferred revenue (Note 10)	8,186	8,457
Reserve for uninsured losses (Note 11)	33	-
Contributions in aid of construction (Note 12)	11,799	11,540
Regulatory provision for future removal and site restoration costs	5,618	5,757
Diesel contingency fund (Notes 3 and 5)	791	772
Long-term debt (Notes 13 and 16)	86,114	84,757
	119,026	119,506
Shareholder's Equity		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	39,000	39,000
Retained earnings	19,382	18,398
	58,382	57,398
	\$ 177,408	\$ 176,904

Contingencies and Commitments (Notes 18 and 19)

The accompanying notes are an integral part of the financial statements.

Approved by the Board

 Chair

 Director

Yukon Energy Corporation

Statement of Income and Retained Earnings (in thousands of dollars)

For the year ended December 31,	2005	2004
Revenue (Note 16)		
Sales of power	\$ 26,298	\$ 24,904
Other	591	878
	26,889	25,782
Operating expenses		
Administration (Note 14)	7,856	6,780
Operations and maintenance (Note 15)	5,433	4,641
Amortization of property, plant and equipment	4,709	6,115
Amortization of deferred charges and water licensing costs	889	531
	18,887	18,067
Income from operations	8,002	7,715
Other income		
Allowance for funds used during construction	102	115
Amortization of capital assistance	215	299
Interest income	104	43
	421	457
Other expenses		
Interest on long-term debt (Note 16)	4,500	2,926
Provision for uninsured losses (Note 11)	100	50
	4,600	2,976
Net income	3,823	5,196
Retained earnings, beginning of year	18,398	16,851
Dividend	(2,839)	(3,649)
Retained earnings, end of year	\$ 19,382	\$ 18,398

The accompanying notes are an integral part of the financial statements.

Yukon Energy Corporation
Statement of Cash Flows
(in thousands of dollars)

For the year ended December 31,	2005	2004
Cash provided from Operations		
Cash receipts from customers	\$ 27,361	\$ 25,516
Cash paid to employees and suppliers	(15,467)	(11,773)
Interest paid	(4,500)	(2,926)
Interest received	104	43
	7,498	10,860
Cash (used for) provided from Financing		
Repayment of long-term debt	(1,368)	(1,326)
Contributions in aid of construction	776	850
Dividend paid to parent	-	(3,444)
	(592)	(3,920)
Cash used for Investment		
Additions to property, plant and equipment	(4,609)	(6,225)
Proceeds on disposal of property, plant & equipment	52	36
	(4,557)	(6,189)
Net increase in cash and cash equivalents	2,349	751
Cash and cash equivalents, beginning of year	1,719	968
Cash and cash equivalents, end of year	\$ 4,068	\$ 1,719
Cash and cash equivalents consist of:		
Bank balances	4,068	1,719
	4,068	1,719

The accompanying notes are an integral part of the financial statements.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

1. NATURE OF OPERATIONS

Yukon Energy Corporation (the "Utility") was incorporated under the *Yukon Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation, a corporation owned by the Government of Yukon. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon. The Utility is not subject to income taxes.

The Utility is subject to overall regulation by the Yukon Utilities Board ("YUB") and specific regulation by the Yukon Territory Water Board. Both boards are independent from the Utility.

Rate Regulation

All operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act*. There is no minimum requirement for the Utility to appear before the YUB to review rates. However, the Utility is not permitted to charge any rate for the supply of power that is not approved by an Order of the YUB. The Utility is subject to a cost of service regulatory mechanism under which the YUB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment on rate base. Whereas actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The regulatory hearing process used to establish or change rates typically begins when the Utility makes an application for its proposed electricity rate changes over the next one or two forecast years. The YUB must ensure that its decision, which fixes electricity rates, complies with all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-in-Council that specify how the interests of the customer and Utility are to be balanced.

The YUB typically follows a two-stage decision process. In the first stage, the total costs that the Utility will incur to provide electricity to its customers over the immediate future are approved. The approval of these costs determines the total revenues the Utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the Utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment; and
- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

As well, in the first stage, the YUB reviews the addition of costs to rate base and assesses these costs to ensure they are prudent.

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by requirements of Yukon Government Order-in-Council 1995/90 and can include a cost-of-service study which allocates the overall utility's cost of service to the various customer classes on the basis of appropriate costing principles.

Normally, the Utility applies for rates in advance of the applicable years. The last rate application was for the 2005 year. Interim hearings may be used between rate applications to deal with unforeseen circumstances which could result in the use of interim rates or riders until the next rate application when rates are reviewed and set as final.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

Water Regulation

The Yukon Territory Water Board pursuant to the *Yukon Waters Act* decides if and for how long the Utility will have a water license for the purposes of operating hydro generation stations in the Yukon. The licenses will also indicate terms and conditions for the operation of these facilities.

Capital Structure

The Utility's policy is to maintain a relatively constant capital structure of 60% debt and 40% equity. Annual dividends are paid to the parent and typically loaned back in order to maintain this ratio.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

Effective December 31, 2005, the Utility retroactively adopted the Canadian Institute of Chartered Accountant's guideline 19 pertaining to the disclosure and presentation of information by entities subject to rate regulation. This change in presentation had no effect on the Utility's current or prior year net income or retained earnings. Impacts of accounting for rate regulated operations are further described in Note 3.

The financial statements of the Utility have been prepared by management. They conform to Canadian generally accepted accounting principles ("GAAP") and take into account generally accepted methods and practices of regulatory bodies. The regulatory accounting policies adopted by the Utility may differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that of a non-regulated enterprise (see Note 3). Consequently, the significant accounting policies have been classified accordingly in the notes below:

Rate regulated accounting policies

Property, plant and equipment

The Utility capitalizes an allowance for funds used during construction ("AFUDC") at the weighted average cost of capital. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Regulatory liabilities

Regulatory liabilities represent amounts ordered by the YUB to be held by the Utility on behalf of ratepayers. Typically these amounts are either refunded to the customers or applied to ratepayer deficits through the rate setting process.

Reserve for uninsured losses

As a means of self-insurance, the Utility maintains a reserve for uninsured losses. The reserve is maintained through an annual provision approved by the YUB and collected through customer rates. Variances between the approved annual provision and actual costs incurred are deferred until the following general rate application or until a specific application is made to the YUB requesting recovery from or refund to customers.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

Cost of feasibility studies and infrastructure planning are amortized on a straight-line basis over five and ten years respectively.

Regulatory hearing costs are amortized on a straight-line basis over three years.

Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

Regulatory provision for future removal and site restoration costs

The Utility maintains a reserve for the future removal of property, plant and equipment and the costs of site restoration related to those assets. The costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset and site restoration, net of actual recoveries, are deducted from this account when they do not relate to an asset retirement obligation.

Deferred revenue

Deferred revenue represents a gain on fire insurance proceeds received related to a fire at the Whitehorse Rapids Generating Station in 1997. The gain is being amortized to income at the same rate as the replacement assets.

Diesel contingency fund

The Utility maintains a trust asset and an offsetting trust liability on behalf of ratepayers. The trust is used to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. The Utility is required to file an annual report with the YUB on the fund's activity.

Generally Accepted Accounting Principles

Cash equivalents

Cash equivalents represent short-term highly liquid investments and are carried at cost.

Revenue recognition

All revenues are recognized in the period earned. Revenue from the sale of power is recognized based on cyclical meter readings. Sales of power includes an accrual for electricity deliveries not yet billed.

Materials and supplies

Diesel fuel, materials and supplies are recorded at average cost. Obsolete materials and supplies are recorded at salvage value in the period when obsolescence is determined.

Property, plant and equipment

Property, plant and equipment is stated at cost which includes materials, direct labour, a proportionate share of directly attributable administration overhead, and finance charges capitalized during construction, less accumulated amortization.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	30 to 65 years
Diesel plants	25 to 45 years
Wind Turbines	30 years
Transmission	40 to 60 years
Distribution	25 to 40 years
Buildings	20 to 40 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

Asset retirement obligations

On an annual basis, the Utility identifies legal obligations associated with the retirement of tangible long-lived assets. Where a reasonable estimate of the fair value of these obligations can be determined, the total retirement costs are to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment.

The Utility has determined that it has tangible long-lived assets with associated future legal obligations for retirement. As the Utility anticipates using the assets for an indefinite period, the date of removal of these assets cannot be reasonably determined, and therefore an asset retirement obligation has not been recorded. When the timing and amount of the retirement can be reasonably estimated, an asset retirement obligation and the corresponding increase in property, plant and equipment asset will be recognized.

Contributions in aid of construction

Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or capital assistance from the Utility's parent. These contributions are amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers is netted on the statement of income against amortization expense while amortization of capital assistance from the parent is disclosed separately under Other income.

Deferred water licensing costs

Costs related to obtaining water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the license. The Utility operates its hydro generation facilities under three separate water licenses, with terms ranging from 17 to 25 years.

Employee pension plan

The Utility has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. The cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, actuarial gains and losses, and changes in assumptions are amortized over the expected average remaining service period of active employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and actuarial gains and losses. Amortization is on a straight-line basis over the expected average remaining service period of active employees, which is currently 14 years. The transitional asset that arose when this policy was first applied is amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan as of January 1, 2000.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, property, plant and equipment, asset retirement obligations, and employee pension obligations. Actual results could differ by a significant amount from these estimates.

Management's estimates and assumptions, especially those affecting the reported amounts of assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the Yukon Utilities Board as described in Note 3.

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

Certain items in these financial statements are accounted for differently than they would be in the absence of rate regulation.

Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues in the statement of income as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in earnings in the period that the YUB renders a subsequent decision.

Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2005	2004	Expected remaining recovery/ settlement (years)	For 2005: In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets:				
Deferred charges (Note 8), net book value				
Feasibility studies	\$ 1,498	\$ 866	4 to 10	\$ (632)
Downsizing costs	119	167	2	48
Hearing costs	622	326	2	(297)
Dam safety review	89	26	2 to 4	(63)
Diesel contingency fund (Note 5)	791	772	Indeterminate	(19)
	3,119	2,156		(963)
Regulatory liabilities:				
Anvil Range Mine dewater revenue (Note 9)	1,775	2,067	Indeterminate	(292)
Insurance proceeds held on behalf of ratepayers (Note 9)	-	744	-	-
Deferred gain on fire insurance proceeds (Note 10)	8,166	8,436	30	(270)
Reserve for uninsured losses (Note 11)	33	(797)	Indeterminate	86
Regulatory provision for future removal and site restoration costs	5,618	5,757	Indeterminate	(139)
Diesel contingency fund (Note 5)	791	772	Indeterminate	19
	16,383	16,979		\$ (596)
Net impact	\$ (13,264)	\$ (14,823)		\$ (1,559)

(a) Deferred charges

Deferred charges represent costs which have been deferred and are being amortized over various periods. In the absence of rate regulation, GAAP would require such costs to be recognized in the year incurred.

Feasibility studies

The costs of determining the feasibility of future capital projects that did not result in a capital project are deferred and amortized over five years as approved in the Utility's 1991/92 General Rate Application and re-confirmed in YUB Order 2005-12. Infrastructure planning costs are amortized over ten years as approved by YUB order 2005-12. In the absence of rate regulation, expenses in 2005 would have been \$632,000 higher.

Downsizing costs

Costs incurred to assist in downsizing the Utility's workforce are capitalized and amortized to expense over seven years as approved in the Utility's 1993/94 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2005 would have been \$48,000 lower.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

Hearing costs

The Utility incurred \$1,133,000 in costs associated with the YUB regulatory proceedings held in 2005. These costs consist primarily of legal and consulting costs incurred by the Utility of \$851,000 and reimbursement of YUB and intervenor costs of \$282,000. YUB Order 2005-16 directed the Utility to reimburse the YUB and intervenors for costs they incurred in the amount of \$282,000. YUB Order 2005-17 disallowed \$200,000 of the \$851,000 of costs incurred by the Utility. The disallowed amount has been recorded as Administration expenses in the current year. YUB Order 2005-12 directed the Utility to defer and amortize the approved hearing costs of \$933,000 over 3 years commencing January 1, 2005. In the absence of rate regulation, expenses in 2005 would have been \$297,000 higher.

Dam safety review

The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2005 would have been \$63,000 higher.

(b) Diesel contingency fund

The Diesel contingency fund ("DCF") was established by YUB Order 1996-6 through the Negotiated Settlement process. The DCF is administered by the Utility on behalf of the YUB, and as such is recorded as a trust asset and a trust liability. The DCF attracts interest based upon short-term bond rates in which the Utility invests the funds held in trust. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. Pursuant to YUB order 1996-6, the Utility from time to time is required to transfer amounts to or from the trust it maintains on behalf of ratepayers to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. As directed by Board Order 2002-3, the current balance of the DCF consists of the fire insurance gain of \$744,000, realized as part of the settlement of the insurance claim arising from the fire at the Whitehorse Rapids Generating Station, plus interest earned on the funds held in trust. In the absence of regulation, GAAP would have required the amounts transferred to and from the DCF, and any interest earned or incurred to be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's net income in 2005 would have been higher by \$19,000 from interest earned on the DCF.

(c) Regulatory liabilities

Anvil Range Mine dewater revenue

As directed by YUB Order 1998-5, all revenues, less any incremental costs to provide the service, collected from Anvil Range Mine under Rate Schedule 34 (Faro Mine Firm Shutdown Power) prior to December 31, 2004, were deferred for the benefit of ratepayers pending direction from the YUB. YUB Order 2005-12 confirmed that effective January 1, 2005 the Anvil Range minesite would be charged the General Service-Government rate so there will be no further increases to dewatering revenue. This order also enables the Utility to draw down on the Anvil Range dewater revenue to fund its approved 2005 revenue shortfall. YUB Order 2005-17 set the approved 2005 revenue shortfall at \$292,000. In the absence of rate regulation, GAAP would have required only the recognition of actual sales earned during the year. As a result, the Utility's sales of power in 2005 would have been \$292,000 lower. The period over which the remaining liability will be recognized as revenue for the benefit of ratepayers is dependent on future YUB Board orders and, therefore, cannot be estimated.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

Insurance proceeds held for ratepayers

Insurance proceeds held on behalf of ratepayers represents the residual balance of insurance proceeds after allocation against all reconstruction and operation and maintenance costs related to a fire at the Whitehorse Rapids Generating Station in 1997, pursuant to Board Order 2002-3. As directed by YUB Order 2005-12, the insurance proceeds of \$744,000 were applied to the reserve for uninsured losses deficit during the year. In the absence of rate regulation, the insurance proceeds would have been included in income in the year received. The impact on current year net income would be \$0.

(d) Deferred revenue

The deferred gain on fire insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to Board Order 2000-3, is being amortized to income at the same rate as the replacement assets. In the absence of rate regulation, GAAP would have required the gain to have been completely recognized as income in the year received. As a result, the Utility's current year net income would have been lower by the amount of the amortization of \$270,000.

(e) Reserve for uninsured losses

The YUB has approved the use of a reserve for uninsured damages and injuries as a means of self-insurance. The reserve is maintained through an annual provision approved by the YUB. In order to eliminate the deficit rate payers held as a result of uninsured losses, the Utility was directed by YUB Order 2005-12 to transfer the insurance proceeds being held on behalf of rate payers of \$744,000 to the reserve for uninsured loss, and increase the annual provision from \$50,000 to \$100,000 for the years 2005 to 2007. The annual provision will revert back to \$50,000 unless the YUB subsequently orders otherwise. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2005 would have been lower by \$86,000. The period over which the reserve will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

(f) Regulatory provision for future removal and site restoration costs

Pursuant to depreciation rates approved by the YUB in the Utility's previous general rate applications, under section 23(1)(b) of the Public Utilities Act, the Utility has maintained a reserve for future removal and site restoration costs. As a result of the YUB Order 2005-12, effective January 1 2005, the Utility is required to maintain this reserve as a regulatory provision in addition to any asset retirement obligations. The provision is not to exceed the cumulative value of the provision at December 31, 2004 of \$5,757,000. In the absence of rate regulation, GAAP would have required the Utility to reverse the reserve to retained earnings in 2004. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches \$2,000,000. Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2005 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of \$139,000. The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is, therefore, indeterminate.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

Other items affected by rate regulation

The Utility is required under the *Public Utilities Act* to obtain prior approval from the YUB before making changes to depreciation, amortization, and depletion rates and methods. The YUB permits an allowance for funds used during construction ("AFUDC"), based on the Utility's weighted average cost of capital, to be included in the rate base. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only an interest component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation.

It is the Utility's policy to charge to income, in the year of disposal, any gain or loss upon retirement or disposal of land or vehicles. As approved by the YUB, the gain or loss on all other property, plant and equipment is charged to accumulated depreciation and deferred and amortized over the expected life of the remaining pool of similar assets. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement.

YUB Order 2005-12 disallowed capital costs related to the Mayo-Dawson transmission line in excess of \$28,996,000. As a result of the YUB order, the Utility wrote down the value of property, plant and equipment related to the Mayo-Dawson transmission line by \$1,224,000 in 2005. \$554,000 related to costs incurred to correct deficiencies and have been recorded as Operations and maintenance costs (line and substation costs). \$671,000 related to legal costs incurred to pursue claims and counter claims against the general contractor and have been recorded as Administration (General office and governance costs). In the absence of rate regulation, net income would not change as GAAP would also require the Utility to record the write-down. Additionally, YUB Order 2005-12 disallows the Utility from earning a return on any additional costs incurred with respect to the Mayo Dawson line as a result of pursuing any claims or counter claims against the general contractor and directs the Utility to record any recoveries from the general contractor in an interest bearing deferred account for future review and disposition by the YUB.

The Utility's policy of maintaining a constant capital structure of 60% debt and 40% equity is reviewed by the YUB as part of the rate setting process and in the determination of the return on rate base. In the absence of rate regulation, the Utility would determine the appropriate capital structure solely based on decisions by the Board of Directors of the Utility, which may differ from the current policy.

All amounts maintained as regulatory assets and liabilities are expected to be recovered or settled over the periods noted above. However, there are risks and uncertainties associated with the recovery or settlement related to potential future decisions of the regulator.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

Rate decision

On October 18, 2005, the YUB issued YUB Order 2005-12 related to the Utility's revenue requirements application dated December 13, 2004 which includes the Utility's 2005 fiscal year. The Utility's application requested changes to certain regulated accounts: the rate charged for Rate Schedule 32 (Secondary Energy); and the elimination of Rate Schedule 34 (Faro Mine Firm Shutdown Power). As a result of YUB Order 2005-12 and related follow-up decisions, effective January 1, 2005, the Utility is entitled to a rate of return on common equity of 9.05%. The major items contained in these decisions are:

- (a) to set rates for residential and commercial customers as permanent effective January 1, 2005;
- (b) to apply amounts currently recorded as regulatory liabilities in the Anvil Range Mine dewater revenue deferral account, to offset 2005 revenue shortfalls totaling \$292,000. Additional amounts up to \$292,000 per year can be ordered by the YUB for 2006 and 2007;
- (c) to apply the \$744,000 balance of the regulatory liability recorded as insurance proceeds held for ratepayers against the reserve for uninsured losses deficit;
- (d) to increase the annual appropriation to the reserve for uninsured losses to \$100,000 for each of the 2005, 2006 and 2007 years;
- (e) implementation of new depreciation rates with the cumulative prior years impact of the rate change amortized to income over the average remaining life of the assets;
- (f) discontinue the annual provision for future removal and site restoration, and notify interveners and interested parties when the balance reaches \$2,000,000;
- (g) limit the inclusion of Mayo Dawson transmission line costs in the Utility's rate base to \$28,996,000;
- (h) to disallow any further costs incurred on the Mayo Dawson line related to claims and counter claims between the general contractor and the Utility;
- (i) to record recoveries received with respect to claims and counterclaims between the utility and the general contractor in an interest bearing deferral account with the future disposition of the balance in the account to be determined by the YUB;
- (j) to defer \$650,000 of the \$851,000 direct costs incurred by the Utility related to the hearing costs account (as forecast in the November 17, 2005 compliance filing submitted to the YUB) and amortize equally over 3 years commencing January 1, 2005;
- (k) to pay \$282,000 to the YUB and interveners for their costs incurred to participate in the hearing, and to include this amount in the deferred hearing costs account to be amortized equally over three years commencing January 1, 2005;
- (l) elimination of rate schedule 34 (Faro Mine Shutdown Firm Power);
- (m) approval of an automatic quarterly rate setting mechanism for rate schedule 32 (Secondary Energy), whereby the Utility sets the rate on a quarterly basis at 66.7% of the avoided price of fuel oil and is required to provide the YUB with notification of the quarterly rate change; and
- (n) to refund to secondary energy customers the difference of \$45,000 between the interim and permanent rates, plus interest of \$1,000.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

4. ACCOUNTS RECEIVABLE

	2005	2004
Wholesale energy sales	\$ 2,666	\$ 2,480
Retail energy sales	1,008	590
Other	344	1,420
	\$ 4,018	\$ 4,490

Wholesale energy sales are made to Yukon Electrical Company Limited, an unrelated company also regulated by the Yukon Utilities Board. Wholesale power energy in 2005 were approximately \$16,977,000 (2004 - \$16,493,000).

5. DIESEL CONTINGENCY FUND

	2005	2004
Opening balance	\$ 772	\$ 755
Interest	19	17
Closing balance	\$ 791	\$ 772

6. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2005 Net book Value	2004 Net book Value
Generation	\$ 135,571	\$ 43,521	\$ 92,050	\$ 93,754
Transmission	53,645	10,194	43,451	43,785
Buildings and other equipment	14,288	5,087	9,201	9,080
Distribution	13,575	4,825	8,750	8,261
Transportation	1,594	473	1,121	904
Land and land rights	1,074	-	1,074	1,076
Construction-in-progress	2,369	-	2,369	1,940
	\$ 222,116	\$ 64,100	\$ 158,016	\$ 158,800

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

7. DEFERRED WATER LICENSING COSTS

	Cost	Accumulated Amortization	2005 Net book Value	2004 Net book Value
Deferred water licensing costs	\$ 8,014	\$ 2,143	\$ 5,871	\$ 5,453

Amortization booked in 2005 was \$359,000 (2004 - \$336,000)

8. DEFERRED CHARGES

	Cost	Accumulated Amortization	2005 Net book Value	2004 Net book Value
Feasibility studies and infrastructure planning	\$ 4,813	\$ 3,315	\$ 1,498	\$ 866
Hearing costs	933	311	622	325
Downsizing costs	334	215	119	167
Dam safety review	231	142	89	26
	\$ 6,311	\$ 3,983	\$ 2,328	\$ 1,384

9. REGULATORY LIABILITIES

	2005	2004
Insurance proceeds held on behalf of ratepayers		
Opening balance	\$ 744	\$ 744
Applied to Reserve for uninsured losses (Notes 3 and 11)	(744)	-
Closing balance	-	744
Anvil Range Mine dewater revenue		
Opening balance	2,067	2,067
Applied to revenue shortfall YUB Order 2005-17 (Note 3)	(292)	-
Closing balance	1,775	2,067
	\$ 1,775	\$ 2,811

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

10. DEFERRED REVENUE

	2005	2004
Deferred gain on fire insurance proceeds - capital assets (net of amortization and adjustments of \$3,438,000 (2004 - \$3,168,000))	\$ 8,166	\$ 8,436
Other	20	21
	\$ 8,186	\$ 8,457

11. RESERVE FOR UNINSURED LOSSES

	2005	2004
Opening balance	\$ (797)	\$ (679)
Provision	100	50
Transfer from Regulatory liabilities (Notes 3 and 9)	744	\$ -
Losses incurred		
Asset replacements	(14)	(168)
Closing balance	\$ 33	\$ (797)

12. CONTRIBUTIONS IN AID OF CONSTRUCTION

			2005	2004
	Gross	Accumulated Amortization	Net	Net
Capital assistance from parent since 1998	\$ 8,855	\$ 1,061	\$ 7,794	\$ 8,010
Contributions from customers since 1998	3,354	231	3,123	2,604
Pre-1998 contributions	1,739	857	882	926
	\$ 13,948	\$ 2,149	\$ 11,799	\$ 11,540

The sources of contributions received prior to 1998 were not recorded separately.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

13. LONG-TERM DEBT

The Utility's long-term debt is summarized as follows:

	2005	2004
Government of Canada		
\$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of up to \$1,000,000 principal, plus accrued interest and secured by mortgage over specific assets	\$ -	\$ 28,278
Yukon Development Corporation		
\$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of up to \$1,000,000 principal, plus accrued interest and secured by mortgage over specific assets	27,867	-
\$27,313,661 term note bearing interest at 5.88%, payable monthly, and semi-annual principal payments commencing June 30, 2007 and ending December 31, 2023. The note is unsecured.	27,314	27,314
\$18,000,000 flexible term note related to the Mayo to Dawson Transmission Line project bearing interest at 6.55% repayable in annual installments of \$450,000 principal, plus accrued interest with the balance of \$307,000 due December 31, 2043. The note is unsecured.	16,957	17,407
Unsecured advance bearing interest at 6.03%, due one year after demand	3,649	3,649
Unsecured advance bearing interest at 5.403%, due one year after demand	2,839	-
TD Canada Trust		
\$12,400,000 term note bearing interest at 7.81% payable in monthly installments of \$102,000 interest and principal, with the balance due September 30, 2011. The note is guaranteed by the Yukon Government.	8,942	9,449
	87,568	86,097
Less current portion	1,454	1,340
	\$ 86,114	\$ 84,757

\$40,000,000 Flexible term note

The Government of Canada flexible term note was purchased by Yukon Development Corporation (the Utility's parent) on March 30, 2005 with all existing terms and conditions remaining the same. The terms of the flexible term note provide for payments of principal and interest to be deferred and abated, respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts. After adjusting for abated interest, the effective interest rate on this instrument for 2005 is 2.90% (2004 - 2.86%).

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

Mayo - Dawson Transmission Line Financing

The Utility obtained financing from its parent in the amount of \$18 million for a transmission line from the Mayo hydro generating station to Dawson City. The financing was obtained effective September 6, 2003, the date the transmission line came into service. The financing was made under terms that ensure that ratepayers are not paying more in any year than they would otherwise have paid if the transmission line had not been built and Dawson City had continued to be served by diesel generation. The maximum interest payable on the note in any year is determined by a formula which compares the costs and benefits of operating the line. For example, the costs include depreciation, return on equity, and operating and maintenance expense. The benefits include diesel fuel costs not incurred. As per the agreement, total costs, including interest, cannot exceed the benefits.

If the costs of operating the line exceed the benefits in any year, Yukon Development Corporation will pay Yukon Energy Corporation the difference on or before March 31 of the next calendar year.

In 2005, benefits exceeded costs, which resulted in \$1,140,000 in interest paid to Yukon Development Corporation. (In 2004, costs exceeded benefits by \$241,000 and YDC was required to pay this amount to the Utility.)

Long-term debt repayment

Scheduled repayments for all long-term debt are as follows:

2006	\$ 1,454
2007	3,127
2008	3,190
2009	3,270
2010	3,349
Thereafter	73,178

\$ 87,568

Fair value

Fair value at December 31, 2005 of \$101 million (2004 - \$98.2 million) for all long-term debt was estimated using discounted cash flows based on an estimate of the Utility's current borrowing rate for similar borrowing arrangements.

14. ADMINISTRATION EXPENSES

	2005	2004
Wages, benefits and staff recruiting	\$ 3,207	\$ 2,961
Consulting and legal services	1,155	265
General office and governance costs (Note 3)	1,075	724
Insurance	909	984
Data and bill processing	554	500
Reimbursed and miscellaneous costs	496	1,007
Communications and corporate contributions	232	176
Environmental and safety management	228	163
	\$ 7,856	\$ 6,780

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

15. OPERATIONS AND MAINTENANCE EXPENSES

	2005	2004
Wages and benefits	2,829	2,662
Maintenance		
- lines and substations (Note 3)	1,058	539
- hydro, diesel and wind	651	578
- building and vehicle	565	470
Water level measurement	193	182
Fuel	137	210
	\$ 5,433	\$ 4,641

16. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere, the following table summarizes the Utility's related party transactions for the year:

	2005	2004
Revenue		
Sales of service to:		
- direct parent company	\$ 244	\$ 469
- wholly-owned subsidiary of parent company	147	136
	\$ 391	\$ 605
Rate Stabilization Fund revenue from:		
- direct parent company	\$ 358	\$ 338
Expense		
Payment of interest on long-term & short term debt to:		
- direct parent company	\$ 3,780	\$ 1,365
Payment for Financial information system usage to:		
- direct parent company	177	177
Other receipts		
Rural Electrification Support Program funding:		
- direct parent company	\$ -	\$ 60
Other payments		
Payment on contribution agreements to:		
- direct parent company	\$ 34	\$ 36
- wholly-owned subsidiary of parent company	50	60

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Revenue from related parties is reported as Other revenue on the statement of income. The corresponding cost of providing these services is reported as part of administration expense on the statement of income.

Rate stabilization fund revenues are received from the parent in accordance with terms established by the Government of Yukon, which established the fund to protect certain ratepayers by minimizing the impact of rate increases. These revenues are reported on the statement of income as a component of sales of power.

Interest on long-term debt is included on the income statement under Other expenses.

Rural Electrification Support Program funds are received from the parent and are recorded as an offset to the capitalized cost of the respective project.

At the end of the year, the amounts receivable from and due to related entities are as follows:

	2005	2004
Direct parent company		
Accounts receivable	\$ 136	\$ 574
Accounts payable	\$ 5	\$ 6
Current portion of long-term debt	\$ 904	\$ 450
Long-term debt	\$ 77,722	\$ 47,920
Wholly-owned subsidiary of parent company		
Accounts receivable	\$ 40	\$ 63
Accounts payable	\$ 8	\$ -

These balances are non-interest bearing and payable on demand except for long-term debt (Note 13).

17. PENSION COSTS AND OBLIGATIONS

The Utility sponsors a defined benefit pension plan which provides benefits based on length of service and final average earnings as follows:

- years of pensionable service;
- the average annual earnings during any 5 consecutive years of pensionable service where earnings are the highest; and
- the average of the years maximum pensionable earnings (Canada Pension Plan) for the same 5-year period

Annual cost of living increases to a maximum of 3.00% are provided to pensioners. The Utility contributes amounts as recommended by an independent actuary.

Employees make contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings
- 5.0% of earnings in excess of year's maximum pensionable earnings to a maximum of \$2,500 per year.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

The Utility has contracted with external organizations to provide services of trustee, administrator and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of January 1, 2004 by the consulting actuarial firm AON Consulting Inc. The next valuation for funding purposes will be conducted as of January 1, 2007. The pension costs and obligations were based on the data used in the January 1, 2004 funding valuation and have been projected to December 31, 2005 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by Royal Trust, the plan's custodian as at December 31, 2005. The plan assets are invested in a pooled balanced fund. The distribution of assets by major asset class is as follows:

	December 31, 2005	December 31, 2004
Equities	62.4%	60.5%
Fixed Income Securities	34.6%	30.1%
Short Term Securities and Cash	3.0%	9.4%

Information about the Utility's defined benefit plan as at December 31, in aggregate, is as follows:

	2005	2004
Discount rate-accrued benefit obligation	5.25%	6.00%
Discount rate-benefit costs	6.00%	6.50%
Expected long-term rate of return on plan assets	6.50%	6.50%
Assumed rate of salary escalation	3.00%	3.00%
Assumed rate of pension indexing	2.50%	2.50%
Expected average remaining service period of active employees	14 years	14 years
Benefit obligation determined by actuarial valuation	\$ 8,269	\$ 6,282
Fair value of plan assets	6,144	5,371
Plan deficit	\$ 2,125	\$ 911
Unrecognised amount:		
- transitional asset	203	220
- net actuarial losses	(1,907)	(741)
Accrued benefit liability	\$ 421	\$ 390
Pension expense	\$ 337	\$ 286
Employer contributions	\$ 306	\$ 320
Employee contributions	\$ 110	\$ 132
Benefits paid	\$ 97	\$ 299

The accrued benefit liability has been recorded on the Utility's books of account and is included in accounts payable on the balance sheet.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and employees hired before January 1, 2002 who belonged to the defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2005, these were \$122,000 (2004 - \$105,000).

Total cash payments for employee future benefits for 2005, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were \$428,000 (2004 - \$425,000).

As at December 31, 2005, the Utility's defined pension plan had 40 members (2004 - 41), and the RRSP had 33 members (2004 - 34).

18. CONTINGENCIES

(a) Mayo to Dawson City transmission line project

As discussed in Note 6, the Utility completed the construction of the Mayo to Dawson City Transmission Line project during 2003. Subsequent to energization of the line, the Utility and the general contractor notified each other that they have numerous claims arising out of the agreement and the construction of the line. These claims total several million dollars on a net basis. To date, no legal action has commenced.

In April 2005, the contractor provided the Utility with some additional information. Management is reviewing this information and anticipates further documentation will be required before claims can be fully assessed. Once the documentation stage is complete, the parties will meet to select an appropriate legal process to resolve the outstanding issues. To date, the Utility has not received sufficient information to assess the Utility's exposure.

(b) Federal transfer agreement

Most of the assets of the Utility were purchased under a March 31, 1987 Agreement of Purchase and Sale between the Government of Canada ("Canada"), Yukon Energy Corporation, the Government of Yukon ("YTG") and Northern Canada Power Commission ("NCPC") (the "Transfer Agreement"). There are several claims that the Utility has against Canada under the Transfer Agreement. The various claims are described below:

Yukon Energy Corporation claims against Canada

(i) Claim against Canada Arising from Requirement to Obtain a Fish Authorization in Relation to the Aishihik Facility

In January, 2004, the Utility filed a Writ of Summons against Canada for damages caused by a breach of the Transfer Agreement arising from Canada's notification of the Utility in May, 1999 that the Aishihik Facility required an authorization under the Fisheries Act. The Utility alleges the requirement for a fish authorization was contrary to Canada's representations and warranties under the Transfer Agreement. More particularly it alleges it reasonably relied on warranties and representations given by Canada under the Transfer Agreement to the effect that the Utility had all authorizations necessary for the generation of electricity from the Aishihik Facility. As a result, the Utility incurred significant costs and expenses in negotiating and obtaining a Fisheries Act authorization for the Aishihik Facility and further, its ability to use the Aishihik Facility has been restricted by the terms of the authorization. It is expected that a legal process will be initiated in 2006, resulting in damages being awarded to the Utility which can not be reasonably estimated at this time.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

(ii) Soil Contamination at the Whitehorse Facility

The Utility has notified Canada of a claim it has for indemnification for expenditures it incurred on site restoration at the Whitehorse Rapids Dam site for hydrocarbon contamination caused by a diesel fuel spill which occurred when Canada owned the facility. This contamination was discovered in 1999 and was rectified in 2000. In addition, further testing in 2004 revealed one additional area of contamination caused during Canada's ownership of the site. The Utility's claim of approximately \$260,000 for indemnification arises under the Transfer Agreement. It is expected that this matter will be resolved in 2006.

19. COMMITMENTS

(a) Aishihik Water Licence

The Yukon Territory Water Board issued a water use license in 2002, valid until December 31, 2019, for the Utility's Aishihik Lake facility. In addition to maintaining a minimum and maximum water level, this license commits the Utility to meet a number of future requirements including:

- a) annual payments of \$25,000 until 2011 for the purpose of construction and maintenance of a heritage camp and delivery of programs at the camp;
- b) a Heritage Mitigation Plan. The Utility spent approximately \$35,000 in 2005 on heritage projects, expects to spend up to \$50,000 in 2006 and \$30,000 in 2007 on heritage projects, and the balance which has not yet been determined in the future; and
- c) annual fish monitoring programs.

Fish monitoring programs are also required under an authorization provided by Canada Department of Fisheries and Oceans valid until December 31, 2019. The costs of meeting these requirements are accounted for as water licence costs in the year they are paid.

(b) Financial Information System Lease

The Utility leases a financial information system from the parent. Minimum lease payments for the remaining four years are as follows:

2006	\$	177
2007		177
2008		177
2009		147
Total		\$ 678

(c) Mayo – Dawson Apprenticeship Benefits Agreement

Under this agreement, the Utility is obligated to annual payments of \$15,000, adjusted by the percentage change in the Canadian consumer price index, to both The Tr'ondek Hwech'in and the First Nation of Nacho Nyak Dun. The agreement came into effect July 1, 2004 and expires June 30, 2024. The costs of meeting these requirements are expensed to Administration in the year to which they relate.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2005

(d) Mayo – Dawson Transmission Line Option Agreement

The Utility has provided an option to two Yukon First nations to acquire up to a \$14,470,000 "indirect interest" in the Mayo-Dawson transmission line system project. The option agreement provides for issuance by the Utility of a long-term debt instrument repayable over forty years, bearing interest equal to the Utility's blended cost of capital, including a component limited to the Utility's realized return on equity. The option expires on January 4, 2007. The option has not been exercised to date.

20. ENVIRONMENTAL LIABILITIES

The Utility's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Utility conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Utility, is considered probable and the costs can be reasonably estimated. To date, no such specific liabilities have been recorded in the Utility's accounts.

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, diesel contingency fund, and accounts payable approximate the carrying amount of these instruments due to the short period to maturity. The fair value of long-term debt is described in Note 13. The Utility also has access to a \$10 million line of credit. The renewal date on the line of credit is October 31, 2009. The account accrues interest on withdrawals at prime rate. The facility was not drawn on at year end.

The Utility is not exposed to significant interest rate risk due to its long-term debt having fixed interest rates. The Utility's credit risk is minimal in that its primary customer is a regulated utility.

22. COMPARATIVE FIGURES

Certain 2004 figures have been reclassified to conform with the current year's presentation.



Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the financial statements and all other financial information relating to the Corporation contained in this annual report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the financial statements.

Management has established internal accounting control systems to meet its responsibilities for reliable and accurate reporting. These systems include policies and procedures, the careful selection and training of qualified personnel and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditor to discuss auditing and financial matters to assure that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Audit Committee and management.

David Morrison,
President and CEO

Ed Mollard
Chief Financial Officer

March 23, 2007

Yukon Energy Corporation

Financial Statements

December 31, 2006

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Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Board of Directors of Yukon Energy Corporation

I have audited the balance sheet of Yukon Energy Corporation as at December 31, 2006 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, proper books of account have been kept by the Corporation and the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Public Utilities Act* and regulations, the *Business Corporations Act* and regulations, and the articles and the bylaws of the Corporation.

Sheila Fraser, FCA

Auditor General of Canada

Vancouver, Canada

March 23, 2007, except for Note 21 which is as of April 30, 2007

Yukon Energy Corporation

Balance Sheet

(in thousands of dollars)

As at December 31,	2006	2005
Assets		
Current		
Cash	\$ 5,952	\$ 4,068
Accounts receivable (Notes 4 and 15)	4,226	4,018
Materials and supplies	2,039	2,099
Prepaid expenses	181	217
	12,398	10,402
Deferred uninsured losses (Note 10)	500	(33)
Diesel contingency fund (Notes 3 and 5)	821	791
Property, plant and equipment (Note 6)	157,992	158,016
Deferred charges (Note 7)	9,238	8,199
	\$ 180,949	\$ 177,375
Liabilities		
Current		
Accounts payable (Note 15)	\$ 3,531	\$ 2,896
Current portion of long-term debt (Notes 12 and 15)	3,253	1,454
Regulatory liabilities (Note 8)	1,483	1,775
	8,267	6,125
Long-term pension liability	560	360
Deferred revenue (Note 9)	7,896	8,186
Contributions in aid of construction (Note 11)	12,187	11,799
Regulatory provision for future removal and site restoration costs	5,083	5,618
Diesel contingency fund (Notes 3 and 5)	821	791
Long-term debt (Notes 12 and 15)	86,397	86,114
	121,211	118,993
Shareholder's Equity		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	39,000	39,000
Retained earnings	20,738	19,382
	59,738	58,382
	\$ 180,949	\$ 177,375

Contingencies and Commitments (Notes 18 and 19)

The accompanying notes are an integral part of the financial statements.

Approved by the Board

Chair

Director

Yukon Energy Corporation

Statement of Income and Retained Earnings

(in thousands of dollars)

For the year ended December 31,	2006	2005
Revenue (Note 15)		
Sales of power	\$ 27,528	\$ 26,298
Other	533	591
	28,061	26,889
Operating expenses		
Administration (Note 13)	7,461	7,856
Operations and maintenance (Note 14)	5,375	5,433
Depreciation of property, plant and equipment	4,732	4,709
Amortization of deferred charges and water licensing costs	1,098	889
	18,666	18,887
Income from operations	9,395	8,002
Other income		
Allowance for funds used during construction	54	102
Amortization of capital assistance	215	215
Interest income	220	104
	489	421
Other expenses		
Interest on long-term debt (Note 15)	4,845	4,500
Provision for uninsured losses (Note 10)	100	100
	4,945	4,600
Net income	4,939	3,823
Retained earnings, beginning of year	19,382	18,398
Dividend	(3,583)	(2,839)
Retained earnings, end of year	\$ 20,738	\$ 19,382

The accompanying notes are an integral part of the financial statements.

Yukon Energy Corporation
Statement of Cash Flows
(in thousands of dollars)

For the year ended December 31,	2006	2005
Cash provided from Operations		
Cash receipts from customers	\$ 27,853	\$ 27,361
Cash paid to employees and suppliers	(14,988)	(15,467)
Interest paid	(4,845)	(4,500)
Interest received	220	104
	8,240	7,498
Cash (used for) provided from Financing		
Repayment of long-term debt	(1,501)	(1,368)
Contributions in aid of construction	733	776
	(768)	(592)
Cash used for Investment		
Additions to property, plant and equipment	(5,588)	(4,609)
Proceeds on disposal of property, plant & equipment	-	52
	(5,588)	(4,557)
Net increase in cash	1,884	2,349
Cash, beginning of year	4,068	1,719
Cash, end of year	\$ 5,952	\$ 4,068

The accompanying notes are an integral part of the financial statements.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2006

1. NATURE OF OPERATIONS

Yukon Energy Corporation (the "Utility") was incorporated under the *Yukon Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation, a corporation owned by the Government of Yukon. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon. The Utility is not subject to income taxes.

The Utility is subject to overall regulation by the Yukon Utilities Board ("YUB") and specific regulation by the Yukon Territory Water Board. Both boards are independent from the Utility.

Rate Regulation

All operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act*. There is no minimum requirement for the Utility to appear before the YUB to review rates. However, the Utility is not permitted to charge any rate for the supply of power that is not approved by an Order of the YUB. The Utility is subject to a cost of service regulatory mechanism under which the YUB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment in rate base. Whereas actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The regulatory hearing process used to establish or change rates typically begins when the Utility makes an application for its proposed electricity rate changes over the next one or two forecast years. The YUB must ensure that its decision, which fixes electricity rates, complies with appropriate principals of rate making, all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-In-Council that specify how the interests of the customer and Utility are to be balanced.

The YUB typically follows a two-stage decision process. In the first stage, the total costs that the Utility will incur to provide electricity to its customers over the immediate future are approved. The approval of these costs determines the total revenues the Utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the Utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment; and
- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

As well, in the first stage, the YUB reviews the addition of costs to rate base and assesses these costs to ensure they are prudent.

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by requirements of Yukon Government Order-in-Council 1995/90 and can include a cost-of-service study which allocates the overall utility's cost of service to the various customer classes on the basis of appropriate costing principles.

Normally, the Utility applies for rates in advance of the applicable years. The last rate application was for the 2005 year. Interim hearings may be used between rate applications to deal with unforeseen circumstances which could result in the use of interim rates or riders until the next rate application when rates are reviewed and set as final.

Yukon Energy Corporation

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Water Regulation

The Yukon Territory Water Board pursuant to the *Yukon Waters Act* decides if and for how long the Utility will have a water license for the purposes of operating hydro generation stations in the Yukon. The licenses will also indicate terms and conditions for the operation of these facilities.

Capital Structure

The Utility's policy is to maintain a relatively constant capital structure of 60% debt and 40% equity. Annual dividends are declared to the parent and typically loaned back in order to maintain this ratio.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements of the Utility have been prepared by management. They conform to Canadian generally accepted accounting principles ("GAAP") and take into account generally accepted methods and practices of regulated bodies. The regulatory accounting policies adopted by the Utility may differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that of a non-regulated enterprise. Impacts of accounting for rate regulated operations are further described in Note 3. Consequently, the significant accounting policies have been classified accordingly in the notes below:

Rate regulated accounting policies

Property, plant and equipment

Capitalized assets include an allowance for funds used during construction ("AFUDC") calculated at the weighted average cost of capital. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Regulatory liabilities

Regulatory liabilities represent amounts ordered by the YUB to be held by the Utility on behalf of ratepayers. Typically these amounts are either refunded to the customers or applied to ratepayer deficits through the rate-setting process.

Deferred uninsured losses

As a means of self-insurance, the Utility provides for uninsured losses. An annual provision is approved by the YUB and collected through customer rates. Variances between the approved annual provision and actual costs incurred are deferred until the following general rate application or until a specific application is made to the YUB requesting recovery from or refund to customers.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

Cost of feasibility studies and infrastructure planning are amortized on a straight-line basis over five years.

Regulatory hearing costs are amortized on a straight-line basis over three years.

Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

Yukon Energy Corporation

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Regulatory provision for future removal and site restoration costs

The Utility maintains a provision for the future removal of property, plant and equipment and the costs of site restoration related to those assets. Per YUB Order 2005-12 no additional provision is permitted. This account provides for the costs of demolishing, dismantling, tearing down, or otherwise disposing of an asset and any site restoration costs, net of actual recoveries. This account is not used when the costs relate to an asset retirement obligation.

Deferred revenue

Deferred revenue represents a gain on fire insurance proceeds received related to a fire at the Whitehorse Rapids Generating Station in 1997. The gain is being amortized to income at the same rate as the replacement assets.

Diesel contingency fund

The Utility maintains a trust asset and an offsetting trust liability on behalf of ratepayers. The trust is used to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. The Utility is required to file an annual report with the YUB on the fund's activity.

Generally Accepted Accounting Principles

Revenue recognition

All revenues are recognized in the period earned. Revenue from the sale of power is recognized based on cyclical meter readings. Sale of power includes an accrual for electricity deliveries not yet billed.

Materials and supplies

Diesel fuel, materials and supplies are recorded at average cost. Obsolete materials and supplies are recorded at salvage value in the period when obsolescence is determined.

Property, plant and equipment

Property, plant and equipment is stated at cost which includes materials, direct labour, a proportionate share of directly attributable administration overhead, and finance charges capitalized during construction, less accumulated amortization.

Depreciation is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	30 to 65 years
Diesel plants	25 to 45 years
Wind Turbines	30 years
Transmission	40 to 50 years
Distribution	25 to 40 years
Buildings	20 to 40 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

Yukon Energy Corporation

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Asset retirement obligations

On an annual basis, the Utility identifies legal obligations associated with the retirement of tangible long-lived assets. Where a reasonable estimate of the fair value of these obligations can be determined, the total retirement costs are to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment.

The Utility has determined that it has tangible long-lived assets with associated future legal obligations for retirement. As the Utility anticipates using the assets for an indefinite period, the date of removal of these assets cannot be reasonably determined, and therefore an asset retirement obligation has not been recorded. When the timing and amount of the retirement can be reasonably estimated, an asset retirement obligation and the corresponding increase in property, plant and equipment asset will be recognized.

Effective January 1, 2006, the Utility retroactively adopted the Canadian Institute of Chartered Accountant's ("CICA") Emerging Issues Abstract regarding conditional asset retirement obligations. This abstract requires an entity to record a liability for an asset retirement obligation where the timing and/or method of settlement are conditional upon the occurrence of a future event that may or may not be within the control of the entity. Adoption of this abstract had no effect on the financial statements for the year ended December 31, 2006.

Contributions in aid of construction

Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or capital assistance from the Utility's parent. These contributions are amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers is netted on the statement of income against amortization expense while amortization of capital assistance from the parent is disclosed separately under Other income.

Deferred water licensing costs

Costs related to obtaining water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the license. The Utility operates its hydro generation facilities under three separate water licenses, with terms ranging from 17 to 25 years.

Employee pension plan

The Utility has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. The cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from plan enhancements, actuarial gains and losses, and changes in assumptions are amortized over the expected average remaining service period of active employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and actuarial gains and losses. Amortization is on a straight-line basis over the expected average remaining service period of active employees, which is currently 14 years. The transitional asset that arose when this policy was first applied is amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan as of January 1, 2000. The expected return on plan assets is based on the fair value of these assets.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, property, plant and equipment, asset retirement obligations, and employee pension obligations. Actual results could differ by a significant amount from these estimates.

Yukon Energy Corporation

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Management's estimates and assumptions, especially those affecting the reported amounts of assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the Yukon Utilities Board as described in Note 3.

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

Certain items in these financial statements are accounted for differently than they would be in the absence of rate regulation.

Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues in the statement of income as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in earnings in the period that the YUB renders a subsequent decision.

Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2006	2005	Expected remaining recovery/settlement (years)	For 2006: In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets:				
Deferred charges (Note 7), net book value				
Feasibility studies	\$ 2,999	\$ 1,498	2 to 5	\$ (1,501)
Downsizing costs	71	119	2	48
Hearing costs	311	622	1	311
Dam safety review	49	89	3	40
Diesel contingency fund (Note 5)	821	791	Indeterminate	(30)
	4,251	3,119		(1,132)
Regulatory liabilities:				
Faro mine dewatering deferral revenue (Note 8)	1,483	1,775	Indeterminate	(292)
Deferred gain on fire insurance proceeds (Note 9)	7,896	8,166	29	(270)
Deferred uninsured losses (Note 10)	(500)	33	Indeterminate	(533)
Regulatory provision for future removal and site restoration costs	5,083	5,618	Indeterminate	(535)
Diesel contingency fund (Note 5)	821	791	Indeterminate	30
	14,783	16,383		\$ (1,600)
Net impact	\$ (10,532)	\$ (13,264)		\$ (2,732)

Yukon Energy Corporation

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Regulatory assets

(a) Deferred charges

Deferred charges represent costs which have been deferred and are being amortized over various periods. In the absence of rate regulation, GAAP would require such costs to be recognized as expenses in the year incurred.

Feasibility studies

The costs of determining the feasibility of future capital projects that did not result in a capital project are deferred and amortized over five years as approved in the Utility's 1991/92 General Rate Application and re-confirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2006 would have been \$1,501,000 higher. (2005 - \$632,000 higher expenses)

Downsizing costs

Costs incurred to assist in downsizing the Utility's workforce are capitalized and amortized to expense over seven years as approved in the Utility's 1993/94 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2006 would have been \$48,000 lower. (2005 - \$48,000 lower expenses)

Hearing costs

These costs are associated with the YUB regulatory proceedings that were held in 2005. The costs consist primarily of legal and consulting costs incurred by the Utility, and reimbursement of YUB and intervenor costs. YUB Order 2005-12 directed the Utility to defer and amortize the approved hearing costs of \$933,000 over 3 years commencing January 1, 2005. In the absence of rate regulation, expenses in 2006 would have been \$311,000 lower. (2005 - \$297,000 higher expenses)

Dam safety review

The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2006 would have been \$40,000 lower. (2005 - \$63,000 higher expenses)

(b) Diesel contingency fund

The Diesel contingency fund ("DCF") was established by YUB Order 1996-6 through the Negotiated Settlement process. The DCF is administered by the Utility on behalf of the YUB, and as such is recorded as a trust asset and a trust liability. The DCF attracts interest based upon short-term bond rates in which the Utility invests the funds held in trust. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. Pursuant to YUB order 1996-6, the Utility from time to time is required to transfer amounts to or from the trust it maintains on behalf of ratepayers to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. In the absence of regulation, GAAP would have required any interest earned or incurred to be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's net income in 2006 would have been higher by \$30,000 from interest earned on the DCF. (2005 - \$19,000 higher net income)

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Regulatory liabilities

(c) Faro mine dewatering deferral revenue

As directed by YUB Order 1998-5, all revenues, less any incremental costs to provide the service, collected from the Faro Mine under Rate Schedule 34 (Faro Mine Firm Shutdown Power) prior to December 31, 2004, were deferred for the benefit of ratepayers pending direction from the YUB. YUB Order 2005-12 confirmed that effective January 1, 2005 the Faro minesite would be charged the General Service-Government rate so there will be no further increases to Faro Mine Dewatering Deferral Account. This order also enables the Utility to draw down on the Faro Mine dewatering revenue to fund its approved revenue shortfall. YUB Order 2006-4 set the approved 2006 revenue shortfall at \$292,000. In the absence of rate regulation, GAAP would have required only the recognition of actual sales earned during the year. As a result, the Utility's sales of power in 2006 would have been \$292,000 lower (2005 - \$292,000 lower). The period over which the remaining liability will be recognized as revenue for the benefit of ratepayers is dependent on future YUB Board orders and, therefore, cannot be estimated.

(d) Deferred gain on fire insurance proceeds

The deferred gain on fire insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to Board Order 2000-3, is being amortized to income at the same rate as the replacement assets. In the absence of rate regulation, GAAP would have required the gain to have been completely recognized as income in the year received. As a result, the Utility's current year net income would have been lower by the amount of the amortization of \$270,000 (2005 - \$270,000 lower).

(e) Deferred uninsured losses

The YUB has approved the use of a provision for uninsured damages and injuries as a means of self-insurance. The provision is maintained through an annual provision approved by the YUB. In order to eliminate the deficit rate payers held as a result of uninsured losses, the Utility was directed by YUB Order 2005-12 to transfer the insurance proceeds being held on behalf of rate payers of \$744,000 to the provision for uninsured loss, and increase the annual charge from \$50,000 to \$100,000 for the years 2005 to 2007. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2006 would have been higher by \$533,000 (2005 - \$86,000 lower). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

(f) Regulatory provision for future removal and site restoration costs

Pursuant to amortization rates approved by the YUB in the Utility's previous general rate applications, under section 23(1)(b) of the *Public Utilities Act*, the Utility has maintained a provision for future removal and site restoration costs. As a result of the YUB Order 2005-12, effective January 1 2005, the Utility is required to maintain this provision as a regulatory provision in addition to any asset retirement obligations. The provision is not to exceed the cumulative value of the provision at December 31, 2004 of \$5,757,000. In the absence of rate regulation, GAAP would have required the Utility to reverse the provision to retained earnings in 2004. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches \$2,000,000. Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2006 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of \$535,000 (2005 expenses - \$139,000 higher). The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is, therefore, indeterminate.

Yukon Energy Corporation

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g) Fuel price adjustment

OIC 1998/90 directs the YUB to permit the Utility to adjust electricity rates to reflect fluctuations in the price of diesel fuel. The amount by which actual fuel prices vary from the YUB approved rates is deferred and recovered from or refunded to customers in a future period.

In the absence of rate regulation, GAAP would require that actual diesel fuel expenses be included in the operating result of the year that they are incurred. In 2006, fuel expenses were deferred and consequently lower by \$56,000 (2005 - \$11,000).

Other items affected by rate regulation

The Utility is required under the *Public Utilities Act* to obtain prior approval from the YUB before making changes to depreciation, amortization, and depletion rates and methods. The YUB permits an allowance for funds used during construction ("AFUDC"), based on the Utility's weighted average cost of capital, to be included in the rate base. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only a cost of debt component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation.

It is the Utility's policy to charge to income, in the year of disposal, any gain or loss upon retirement or disposal of land or vehicles. As approved by the YUB, the gain or loss on all other property, plant and equipment is charged to accumulated depreciation and deferred and amortized over the expected life of the remaining pool of similar assets. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement.

YUB Order 2005-12 disallows the Utility from earning a return on any additional costs incurred with respect to the Mayo-Dawson line as a result of pursuing any claims or counter claims against the general contractor and directs the Utility to record any recoveries from the general contractor in an interest-bearing deferred account for future review and disposition by the YUB.

The Utility's policy of maintaining a constant capital structure of 60% debt and 40% equity is reviewed by the YUB as part of the rate-setting process and in the determination of the return on rate base. In the absence of rate regulation, the Utility would determine the appropriate capital structure solely based on decisions by the Board of Directors of the Utility, which may differ from the current policy.

All amounts maintained as regulatory assets and liabilities are expected to be recovered or settled over the periods noted above. However, there are risks and uncertainties associated with the recovery or settlement related to potential future decisions of the regulator which could result in material adjustments to these assets and liabilities.

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4. ACCOUNTS RECEIVABLE

	2006	2005
Wholesale energy sales	\$ 2,764	\$ 2,666
Retail energy sales	1,109	1,008
Other	353	344
	\$ 4,226	\$ 4,018

Wholesale energy sales are made to Yukon Electrical Company Limited, an unrelated company also regulated by the Yukon Utilities Board. Wholesale power energy in 2006 were approximately \$18,111,000 (2005 - \$16,977,000).

5. DIESEL CONTINGENCY FUND

	2006	2005
Opening balance	\$ 791	\$ 772
Interest	30	19
Closing balance	\$ 821	\$ 791

Diesel Contingency Funds are monies invested in a pooled money market fund. The short-term securities held in the fund have an average maturity less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2006 was 4.08% (2005 - 2.75%). The fair market value of these investments is equal to the carrying amount.

6. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	2006 Net book Value	2005 Net book Value
Generation	\$ 137,571	\$ 46,254	\$ 91,317	\$ 92,050
Transmission	54,314	11,070	43,244	43,451
Buildings and other equipment	15,754	5,533	10,221	9,201
Distribution	14,596	5,113	9,483	8,750
Transportation	1,995	605	1,390	1,121
Land and land rights	1,074	-	1,074	1,074
Construction-in-progress	1,263	-	1,263	2,369
	\$ 226,567	\$ 68,575	\$ 157,992	\$ 158,016

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2006

7. DEFERRED CHARGES

	Cost	Accumulated Amortization	2006 Net book Value	2005 Net book Value
Deferred water licensing costs	\$ 8,352	\$ 2,544	\$ 5,808	\$ 5,871
Feasibility studies and infrastructure planning	3,576	577	2,999	1,498
Regulatory Hearing costs	933	622	311	622
Downsizing costs	334	263	71	119
Dam safety review	213	164	49	89
	\$ 13,408	\$ 4,170	\$ 9,238	\$ 8,199

8. REGULATORY LIABILITIES

	2006	2005
Insurance proceeds held on behalf of ratepayers		
Opening balance	\$ -	\$ 744
Applied to Reserve for uninsured losses (Notes 3 and 10)	-	(744)
Closing balance	-	-
Faro Mine Dewatering Deferral revenue		
Opening balance	1,775	2,067
Applied to revenue shortfall YUB Order 2005-17 (Note 3)	(292)	(292)
Closing balance	1,483	1,775
	\$ 1,483	\$ 1,775

9. DEFERRED REVENUE

	2006	2005
Deferred gain on fire insurance proceeds - capital assets (net of amortization and adjustments of \$3,707,000 (2005 - \$3,438,000))	\$ 7,896	\$ 8,166
Other	-	20
	\$ 7,896	\$ 8,186

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2006

10. DEFERRED UNINSURED LOSSES

	2006	2005
Opening balance	\$ 33	\$ (797)
Provision	100	100
Transfer from Regulatory liabilities (Notes 3 and 8)	-	\$ 744
Losses incurred		
Asset replacements	(633)	(14)
Closing balance	\$ (500)	\$ 33

11. CONTRIBUTIONS IN AID OF CONSTRUCTION

			2006	2005
	Gross	Accumulated Amortization	Net	Net
Capital assistance from parent since 1998	\$ 8,855	\$ 1,276	\$ 7,579	\$ 7,794
Contributions from customers since 1998	4,087	295	3,792	3,123
Pre-1998 contributions	1,739	923	816	882
	\$ 14,681	\$ 2,494	\$ 12,187	\$ 11,799

The sources of contributions received prior to 1998 were not recorded separately.

Yukon Energy Corporation

Notes to Financial Statements

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12. LONG-TERM DEBT

The Utility's long-term debt is summarized as follows:

	2006	2005
Yukon Development Corporation		
\$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of up to \$1,000,000 principal, plus accrued interest and secured by mortgage over specific assets	\$ 27,316	\$ 27,867
\$27,313,661 term note bearing interest at 5.88%, payable monthly, and semi-annual principal payments commencing June 30, 2007 and ending December 31, 2023. The note is unsecured.	27,314	27,314
\$18,000,000 flexible term note related to the Mayo to Dawson Transmission Line project bearing interest at 6.55% repayable in annual installments of \$450,000 principal, plus accrued interest with the balance of \$307,000 due December 31, 2043. The note is unsecured.	16,507	16,957
Unsecured advance bearing interest at 6.03%, due one year after demand	3,649	3,649
Unsecured advance bearing interest at 5.403%, due one year after demand	2,839	2,839
Unsecured advance bearing interest at 5.34%, due one year after demand	3,583	-
TD Canada Trust		
\$12,400,000 term note bearing interest at 7.81% payable in monthly installments of \$102,000 interest and principal, with the balance due September 30, 2011. The note is guaranteed by the Yukon Government.	8,442	8,942
	89,650	87,568
Less current portion	3,253	1,454
	\$ 86,397	\$ 86,114

\$40,000,000 Flexible term note

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated, respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts. After adjusting for abated interest, the effective interest rate on this instrument for 2006 is 3.01% (2005 - 2.90%).

Yukon Energy Corporation

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(tabular amounts in thousands of dollars)

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Mayo - Dawson Transmission Line Financing

The Utility obtained financing from its parent in the amount of \$18 million for a transmission line from the Mayo hydro generating station to Dawson City. The financing was obtained effective September 6, 2003, the date the transmission line came into service. The financing was made under terms that ensure that ratepayers are not paying more in any year than they would otherwise have paid if the transmission line had not been built and Dawson City had continued to be served by diesel generation. The maximum interest payable on the note in any year is determined by a formula which compares the costs and benefits of operating the line. For example, the costs include depreciation, return on equity, and operating and maintenance expense. The benefits include diesel fuel costs not incurred. As per the agreement, total costs, including interest, cannot exceed the benefits.

If the costs of operating the line exceed the benefits in any year, Yukon Development Corporation will pay Yukon Energy Corporation the difference on or before March 31 of the next calendar year.

In 2006, benefits exceeded costs, which resulted in \$1,111,000 in interest paid to Yukon Development Corporation. (In 2005, benefits exceeded costs, which resulted in \$1,140,000 in interest paid to Yukon Development Corporation.)

Unsecured Advances

The Utility declared a dividend to the parent in the amount of \$3,583,000 (2005 - \$2,839,000) and this was loaned back to the Utility at an interest rate of 5.34% in order to maintain the capital structure. This advance is unsecured and due one year after demand.

Long-term debt repayment

Scheduled repayments for all long-term debt are as follows:

2007	\$	3,253
2008		3,244
2009		3,301
2010		3,357
2011		3,416
Thereafter		73,079
	\$	89,650

Fair value

Fair value at December 31, 2006 of \$105 million (2005 - \$101 million) for all long-term debt was estimated using discounted cash flows based on an estimate of the Utility's current borrowing rate for similar borrowing arrangements.

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

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13. ADMINISTRATION EXPENSES

	2006	2005
Wages and benefits	\$ 2,767	\$ 2,622
General office	1,175	1,307
Insurance and taxes	1,062	1,156
Regulatory loss	1,039	671
Information systems	435	554
Intercompany services	372	472
Training, recruitment and development	212	401
Material management and contracting	163	327
Environmental	145	190
Board of Directors	91	156
	\$ 7,461	\$ 7,856

14. OPERATIONS AND MAINTENANCE EXPENSES

	2006	2005
Wages and benefits	\$ 3,129	\$ 2,829
Maintenance		
- lines and substations	664	1,058
- hydro, diesel and wind	641	651
- building and vehicle	643	565
Water level measurement	173	193
Fuel	125	137
	\$ 5,375	\$ 5,433

15. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere, the following table summarizes the Utility's related party transactions for the year:

	2006	2005
Revenue		
Sales of service to:		
- direct parent company	\$ 216	\$ 244
- wholly-owned subsidiary of parent company	31	147
	\$ 247	\$ 391

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2006

Rate Stabilization Fund subsidy revenue from:

- direct parent company	\$	432	\$	358
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Expense

Payment of interest on long-term & short-term debt to:

- direct parent company	\$	4,164	\$	3,780
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Payment for Financial information system usage to:

- direct parent company		177		177
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Other receipts

Rural Electrification Support Program funding:

- direct parent company	\$	86	\$	-
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Other payments

Payment on contribution agreements to:

- direct parent company	\$	25	\$	34
- wholly-owned subsidiary of parent company		-		50

The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Revenue from related parties is reported as Other revenue on the statement of income. The corresponding cost of providing these services is reported as part of administration expense on the statement of income.

Rate stabilization fund revenues are received from the parent in accordance with terms established by the Government of Yukon, which established the fund to protect certain ratepayers by minimizing the impact of rate increases. These revenues are reported on the statement of income as a component of sales of power.

Interest on long-term debt is included on the income statement under Other expenses.

Rural Electrification Support Program funds are received from the parent and are recorded as an offset to the capitalized cost of the respective project.

At the end of the year, the amounts receivable from and due to related entities are as follows:

	2006	2005
Direct parent company		
Accounts receivable	\$ 179	\$ 136
Accounts payable	68	5
Current portion of long-term debt	2,609	904
Long-term debt	75,016	77,722
Wholly-owned subsidiary of parent company		
Accounts receivable	-	40
Accounts payable	-	8

These balances are non-interest bearing and payable on demand except for long-term debt (Note 12).

Yukon Energy Corporation

Notes to Financial Statements (tabular amounts in thousands of dollars)

December 31, 2006

16. PENSION COSTS AND OBLIGATIONS

The Utility sponsors a defined benefit pension plan which provides benefits based on length of service and final average earnings as follows:

- years of pensionable service;
- the average annual earnings during any five consecutive years of pensionable service where earnings are the highest; and
- the average of the years maximum pensionable earnings (Canada Pension Plan) for the same five year period

Annual cost of living increases to a maximum of 3.00% are provided to pensioners. The Utility contributes amounts as recommended by an independent actuary.

Employees make contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings; and
- 5.0% of earnings in excess of year's maximum pensionable earnings to a maximum of \$2,500 per year.

The Utility has contracted with external organizations to provide services of trustee, administrator and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of January 1, 2004 by the consulting actuarial firm AON Consulting Inc. The next valuation for funding purposes will be conducted as of January 1, 2007. The pension costs and obligations were based on the data used in the January 1, 2004 funding valuation and have been projected to December 31, 2006 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by Group Retirement Services, the plan's custodian as at December 31, 2006. The plan assets are invested in a pooled balanced fund. The distribution of assets by major asset class is as follows:

	December 31, 2006	December 31, 2005
Equities	51.9%	62.4%
Fixed Income Securities	38.3%	34.6%
Short-term Securities and Cash	0.0%	3.0%
Real Estate	9.8%	0.0%

Information about the Utility's defined benefit plan as at December 31, in aggregate, is as follows:

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2006

	2006	2005
Discount rate-accrued benefit obligation	5.25%	5.25%
Discount rate-benefit costs	6.00%	6.00%
Expected long-term rate of return on plan assets	6.50%	6.50%
Assumed rate of salary escalation	3.00%	3.00%
Assumed rate of pension indexing	2.50%	2.50%
Expected average remaining service period of active employees	14 years	14 years
Benefit obligation determined by actuarial valuation	\$ 9,181	\$ 8,269
Fair value of plan assets	7,006	6,144
Plan deficit	\$ 2,175	\$ 2,125
Unrecognised amount:		
- transitional asset	186	203
- net actuarial losses	(1,741)	(1,907)
Accrued benefit liability	\$ 620	\$ 421
Pension expense	\$ 506	\$ 337
Employer contributions	\$ 307	\$ 306
Employee contributions	\$ 115	\$ 110
Benefits paid	\$ 60	\$ 97

The accrued benefit liability has been recorded on the Utility's books of account and its current portion of \$60,000 (2005 - \$60,000) is included in accounts payable on the balance sheet.

Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and employees hired before January 1, 2002 who belonged to the defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2006, these were \$149,000 (2005 - \$122,000).

Total cash payments for employee future benefits for 2006, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were \$456,000 (2005 - \$428,000).

As at December 31, 2006, the Utility's defined benefit pension plan had 40 members (2005 - 40), and the RRSP had 40 members (2005 - 33).

17. CONTINGENCIES

(a) Mayo to Dawson City transmission line project

The Utility completed the construction of the Mayo to Dawson City Transmission Line project during 2003. Subsequent to energization of the line, the Utility and the general contractor notified each other that they have numerous claims arising out of the agreement and the construction of the line. These claims total several million dollars on a net basis.

In November 2006, the Utility and the general contractor appeared in Yukon Supreme Court on an application to determine a legal process for settlement. The court has yet to render a decision. To date, the Utility has insufficient information to assess the financial exposure.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2006

(b) Federal transfer agreement

Most of the assets of the Utility were purchased under a March 31, 1987 Agreement of Purchase and Sale between the Government of Canada ("Canada"), Yukon Energy Corporation, the Government of Yukon ("YTG") and Northern Canada Power Commission ("NCPC") (the "Transfer Agreement"). There are several claims that the Utility has against Canada under the Transfer Agreement. The various claims are described below:

Yukon Energy Corporation claims against Canada

(i) Claim against Canada Arising from Requirement to Obtain a Fish Authorization in Relation to the Aishihik Facility

In January, 2004, the Utility filed a Writ of Summons against Canada for damages caused by a breach of the Transfer Agreement arising from Canada's notification of the Utility in May, 1999 that the Aishihik Facility required an authorization under the *Fisheries Act*. The Utility alleges the requirement for a fish authorization was contrary to Canada's representations and warranties under the Transfer Agreement. More particularly it alleges it reasonably relied on warranties and representations given by Canada under the Transfer Agreement to the effect that the Utility had all authorizations necessary for the generation of electricity from the Aishihik Facility. As a result, the Utility incurred significant costs and expenses in negotiating and obtaining a *Fisheries Act* authorization for the Aishihik Facility and further, its ability to use the Aishihik Facility has been restricted by the terms of the authorization. A legal process was initiated in 2006 claiming damages; but the amount of the damages can not be reasonably estimated at this time.

(ii) Soil Contamination at the Whitehorse Facility

The Utility has notified Canada of a claim it has for indemnification for expenditures it incurred on site restoration at the Whitehorse Rapids Dam site for hydrocarbon contamination caused by a diesel fuel spill which occurred when Canada owned the facility. This contamination was discovered in 1999 and was rectified in 2000. In addition, further testing in 2004 revealed one additional area of contamination caused during Canada's ownership of the site. The Utility's claim of approximately \$260,000 for indemnification arises under the Transfer Agreement. Although it was expected this matter would be resolved in 2006, this did not occur. The Utility has recently had discussions with Canada and it is expected that this matter will be resolved in 2007.

18. COMMITMENTS

(a) Aishihik Water Licence

The Yukon Territory Water Board issued a water use license in 2002, valid until December 31, 2019, for the Utility's Aishihik Lake facility. In addition to maintaining a minimum and maximum water level, this license commits the Utility to meet a number of future requirements including:

- a) annual payments of \$25,000 until 2011 for the purpose of construction and maintenance of a heritage camp and delivery of programs at the camp;
- b) a Heritage Mitigation Plan. The Utility spent approximately \$6,000 in 2006 on heritage projects, expects to spend up to \$30,000 in 2007 on heritage projects, and the balance which has not yet been determined in the future; and
- c) annual fish monitoring programs.

Fish monitoring programs are also required under an authorization provided by the federal government Department of Fisheries and Oceans, which is valid until December 31, 2019. The costs of meeting these requirements are accounted for as water licence costs in the year they are paid.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2006

(b) Financial Information System Lease

The Utility leases a financial information system from the parent. Minimum lease payments for the remaining three years are as follows:

2007	\$	177
2008		177
2009		147
Total		\$ 501

(c) Mayo – Dawson Apprenticeship Benefits Agreement

Under this agreement, the Utility is obligated to annual payments of \$15,000, adjusted by the percentage change in the Canadian consumer price index, to both The Tr'ondek Hwech'in and the First Nation of Nacho Nyak Dun. The agreement came into effect July 1, 2004 and expires June 30, 2024. The costs of meeting these requirements are expensed to Administration in the year to which they relate.

(d) Mayo – Dawson Transmission Line Option Agreement

The Utility has provided an option to two Yukon First Nations to acquire up to a \$14,470,000 "Indirect Interest" in the Mayo-Dawson transmission system project. The option agreement provides for issuance by the Utility of a long-term instrument repayable over forty years, bearing interest equal to the Utility's blended cost of capital, including a component limited to the Utility's realized return on equity. The option expires January 4, 2007. In accordance with the agreement, one First Nation exercised the option to extend this deadline to July 4, 2007.

19. ENVIRONMENTAL LIABILITIES

The Utility's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Utility conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Utility, is considered probable and the costs can be reasonably estimated. To date, no such specific liabilities have been recorded in the Utility's accounts.

20. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, diesel contingency fund, and accounts payable approximate the carrying amount of these instruments due to the short period to maturity. The fair value of long-term debt is described in Note 12. The Utility also has access to a \$10 million line of credit. The renewal date on the line of credit is October 31, 2009. The account accrues interest on withdrawals at prime rate. The facility was not drawn on at year-end.

The Utility is not exposed to significant interest rate risk due to its long-term debt having fixed interest rates. The Utility's credit risk is minimal in that its primary customer is a regulated utility.

Yukon Energy Corporation

Notes to Financial Statements

(tabular amounts in thousands of dollars)

December 31, 2006

21. SUBSEQUENT EVENT

On February 8, 2007, the Utility signed a Power Purchase Agreement (PPA) with Minto Explorations Limited, an industrial mining customer. Under this agreement, the Utility has agreed to construct a power line to the mine site to deliver electricity from its grid for the mine's operation. The mine is expected to be in operation by mid-2007 and the current estimate of the mine's life is 7.2 years. There is no immediate financial effect on the Corporation from the signing of this agreement. The agreement was conditional on receiving Yukon Utilities Board approval of that agreement by April 30, 2007. On April 30th the YUB denied the Utility's application for approval. In its decision the YUB directed the parties to endeavor to reach a new agreement in principle consistent with the YUB findings. Subject to the parties coming to such an agreement (and that agreement being approved, as and if required, by the YUB) ,and also assuming the Utility receives a number of other regulatory and internal approvals, the line is currently forecast to be constructed and operational by the third quarter of 2008. The cost is expected to be funded by contributions from Minto Explorations Ltd, the Yukon Government and the parent, Yukon Development Corporation.

22. COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform with the current year's presentation.

1 **REFERENCE: General**

2
3 **PREAMBLE:**

4
5 CW wishes to better understand the proposed capital additions and system operation.

6
7 **QUESTION:**

- 8
9 a) Please provide a system map or maps appropriately showing the locations of
10 each of the communities served, transmission facilities by number and
11 generating units (size of units) at each location.

12
13 **ANSWER:**

14
15 **(a)**

16
17 The latest map of Yukon power facilities (as of December 2008) is provided as
18 Attachment 1 to this response. The map reflect the following:

- 19
20 • Carmacks-Stewart Stage 1 and Minto Mine Spur
21
22 • Minto Mine Diesel Units (6.4 MW)
23
24 • Faro Mirrlees diesels (increasing Faro diesel plant to 10.4 MW)
25
26 • DD4 and YM-1 mobile removed from Dawson Diesel plant (lowering capacity to
27 4.3 MW)
28
29 • Whitehorse diesel plant (remains at 25 MW, reflecting no derating of the three
30 Mirrlees engines at the plant).

YUKON TERRITORY POWER INFRASTRUCTURE AS OF 2008

Generating Stations

- ▲ YEC Diesel
- YEC Hydro
- ★ YEC Wind
- ▲ YECL Diesel
- YECL Hydro
- ▲ BC Hydro Diesel

Transmission lines

- 138kV
- 66/69kV
- 34kV
- 25kV
- ... FUTURE TRANSMISSION

YUKON ENERGY SYSTEM (in MW)

Hydro Facilities

Whitehorse (WAF)	40.0
Aishihik	30.0
Mayo	5.4
Total	75.4

Wind Facilities

Haeckel Hill	0.8
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Diesel Facilities

Whitehorse (WAF)	25.0
Faro (WAF)	10.4
Dawson	4.3
Minto Mine	6.4
Mayo	2.0
Total	48.1

TOTAL YUKON ENERGY SYSTEM 123.5

YECL SYSTEM (in MW)

Hydro Facilities

Fish Lake	1.3
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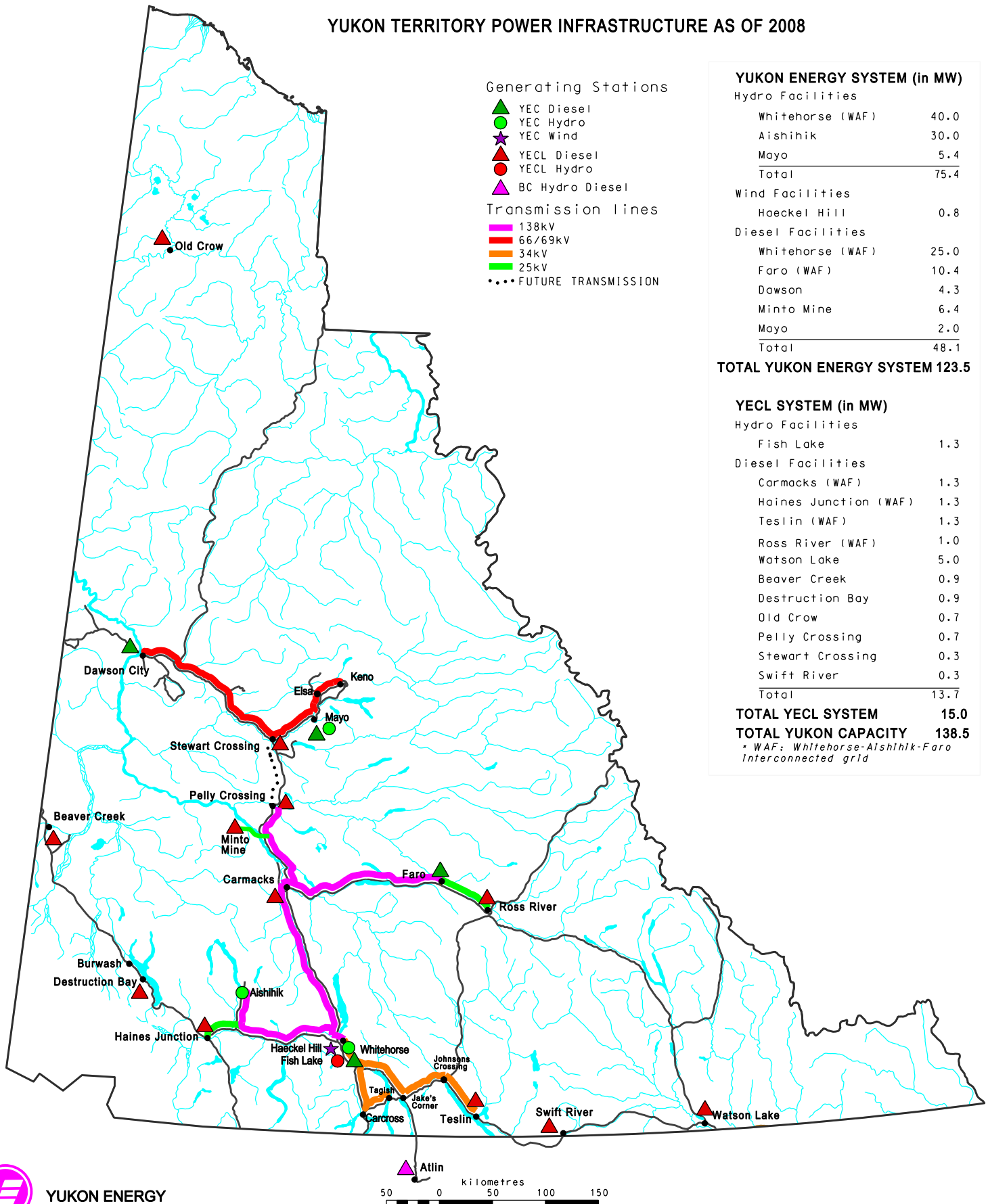
Diesel Facilities

Carmacks (WAF)	1.3
Haines Junction (WAF)	1.3
Teslin (WAF)	1.3
Ross River (WAF)	1.0
Watson Lake	5.0
Beaver Creek	0.9
Destruction Bay	0.9
Old Crow	0.7
Pelly Crossing	0.7
Stewart Crossing	0.3
Swift River	0.3
Total	13.7

TOTAL YECL SYSTEM 15.0

TOTAL YUKON CAPACITY 138.5

* WAF: Whitehorse-Aishihik-Faro
Interconnected grid



YUKON ENERGY