



January 4th, 2007

BY FAX: 867-667-5059

Yukon Utilities Board
Box 31728
Whitehorse, Yukon
Y1A 6L3

Attn: Ms. Deana Lemke
Executive Secretary
Yukon Utilities Board

Re: Power Purchase Agreement between YEC and Minto Exploration Ltd.

Dear Ms. Lemke

The Yukon Conservation Society (YCS) thanks you once again for this opportunity to participate further in the Yukon Utilities Board hearing of the Yukon Energy Corporation (YEC) 20-Year Resource Plan: 2006 – 2025.

YCS is very concerned that through the proposed Power Purchase Agreement between YEC Minto Exploration Ltd. (Minto) involves major changes to energy policy and pricing in the Yukon without appropriate review.

YCS recommends that the Yukon Utilities Board either extend the current round of Resource Plan hearings, or convene new hearings, to examine the serious implications of this proposed Power Purchase Agreement.

This will permit proper intervention by Yukon interveners and allow for a detailed review of the implications of the proposed Power Purchase Agreement.

Should this not occur, YCS requests immediate clarification on the following sections of the proposed Term Sheet for Power Purchase Agreement between YEC and Minto.

Section 1.a.i

Mine Spur: Minto will provide a customer contribution (the “Spur Contribution”) equal to the actual costs incurred by YEC to develop and commission the Mine Spur, including all related planning, permitting, design, engineering, procurement, construction, and commissioning costs and interest at YEC’s assumed cost of capital at 7.5% per year on such costs prior to the commencement of delivery of electricity to the Mine.

But Section 1.a.iii.1 and 1.a.iii.2 states

Interest only payments will be made by Minto to YEC for the first four years; and

In years five through seven equal blended annual payments of interest and principal will be made by Minto to YEC such that the loan will fully repaid by the end of year seven.

Is YEC loaning Minto the amount of the spur and CS contribution with repayment between years 5 and 7? If so, if the mine shut down after year 4, YEC would be out of pocket for those contributions?

Section 1.c.

Minto Security provided by YEC: Minto will provide security (the “Security”) for its above take-or-pay power obligations, as well as for the Minto Contribution, through a charge on the Mine assets granted to YEC second only to the Current Bank Financing.

The security for the Minto contribution and the take or pay power provision is a charge on the mine assets second only to Current Bank Financing. Unfortunately, there is a history in the Yukon of mining operations having no money left after Current Bank Financing should the operation goes bankrupt or collapses. Will YEC be out of pocket for the take-or-pay obligations should there not be enough funds to cover Current Bank Financing obligations.

In addition, this particular agreement would place the power repayment above mine reclamation in the financial pecking order. Mine reclamation would then default back to the Yukon taxpayer if there isn't enough money set aside for reclamation.

Section 1.a.d.ii

Mine Net Revenue Account: The Mine Net Revenue amount as determined each year by YEC will be assigned to the Mine Net Revenue Deferral Account and thereby not be part of YEC's earnings in that year. YEC will use the Mine Net Revenue Account (a) to fund outstanding infrastructure capital costs for the CS Project or other new infrastructure such as the Aishihik 3rd Turbine if developed on an accelerated basis due to the Mine, and (b) net incremental costs (if any) in any year that exceed Mine payments to YEC for purchase of electricity in that year.

Does this mean that development of the Aishihik 3rd Turbine is dependent upon a fiscal agreement being finalized between YEC and Minto Exploration Ltd.? Can the Aishihik 3rd Turbine be developed independent of specific agreements between YEC and large power consumers?

Section 2.a

New firm Mine Rate: A new Major Industrial Customer firm mine rate providing for projected 2008 costs of service for the Major Industrial Customer class including \$15 per kVA per month (demand charge) and \$0.076 per kW.h (energy charge) applicable to the Minto Mine in 2008 that yields an estimated average charge to the Mine for all electricity charges (net of GST) of approximately 10 cents per kWh for purchase of an estimated 32.5 GW.h per year of electricity at a peak contract load of up to 4.4 kVA.

YCS is concerned that this new Major Industrial Customer firm mine rate is being rushed through the approval process. Should there not be opportunities for all Yukoners to provide input to the YUB on the new firm Mine Rate? Should this proceed, it will set a precedent for other major industrial operations. Without proper review, it could be fiscally detrimental to Yukon energy consumers?

Section 2.e.

Provision for Low Grade Ore Secondary Energy rate: A new secondary energy sales rate set at 6 cents per kWh for processing ore at the Mine with less than 1% copper content ("Low Grade Ore"), subject to the following terms and conditions:

YCS is concerned that this new secondary energy sales rate is being rushed through the approval process. Should there not be opportunities for all Yukoners to provide input to the YUB on the new secondary energy sales rate?

Can YEC provide further details on “Low Grade Ore”? Who provides the assay analysis? What is the definition of Low Grade Ore on minerals other than copper should another mining operation be interested in taking advantage of this program?

Does implementation of new secondary energy rates apply only to mines, or can any major industrial customer apply for a revised secondary energy rate?

Section 2.e.iv.

Given that such surplus energy use will not be separately metered at the Mine, Minto will secure the reduced secondary energy sales rate by accounting for its use of Low Grade Ore at the Mine. The PPA will set out commitments in this regard for auditable reporting and controls by Minto as reasonably needed by YEC.

Can YEC provide a better rationale for not separately metering surplus energy? Asking the user of the surplus energy to account for its own use based on a questionable definition of “Low Grade Ore” for one particular type of metal is not acceptable.

Section 2.g.

Mine Diesels: Terms for Minto selling to YEC 6.4 MW of its Mine Diesels (the “Used Mine Diesels”) consisting of four 1.6 MW trailer mounted units, under the following terms and conditions:

But in the first page, second paragraph of the Term Sheet for Power Purchase Agreement between YEC and Minto it states:

The Mine will commence operations using on-site diesel generation (“Mine Diesels”) leased and operated by Minto.

Why is YEC purchasing leased diesel units from Minto? From whom is Minto leasing these units, and is YEC purchasing the units from Minto or from whomever leased them to Minto?

It is YCS’s understanding that Minto will sell the units to YEC once the power comes in, but they'll be kept onsite for emergency back-up. YEC needs to demonstrate how this deal has any benefit to Yukon Ratepayers and Taxpayers (the shareholders of YEC).

With the purchase of these diesels, YEC is increasing its greenhouse gas emissions. Can YEC provide details on the increased amounts of greenhouse gas emissions this purchase will create?

YCS can find no reference in the 20-Year Resource Plan: 2006 – 2025 to purchase of four 1.6 MW trailer mounted units? Can YEC provide information on how they arrived at the determination that these units should be purchased?

Can YEC provide assurance that the \$2.4 million that will be paid to Minto for these units is not an energy subsidy? Why does YEC need to purchase these diesel units? What about all the money being spent on refurbishing the Murrlees? Is there still a requirement to refurbish the Murrlees?

In conclusion, YCS recommends that the Yukon Utilities Board either extend the current round of Resource Plan hearings, or convene new hearings, to examine the serious implications of the Power Purchase Agreement. This will permit proper intervention by Yukon interveners, and permit YEC to provide detailed responses.

If you have any questions, please do not hesitate to contact the undersigned.

Yours truly

Lewis Rifkind
Energy Coordinator
Yukon Conservation Society

cc: JP Pinard, Treasurer, YCS Board of Directors
Sally Wright, President, YCS Board of Directors
Karen Baltgailis, Executive Director
Intervenors and Interested Parties to YUB hearing (by e-mail)