

## Utilities Consumers' Group Interrogatories on Yukon Energy/Minto Mine PPA Application

### UCG 1-1 Rate Base and Impacts to Ratepayers

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

Q. 1. How much does Yukon Energy anticipate to place into the Rate Base for the construction of this project?

2. Do you anticipate placing the costs associated with the Minto Mine contribution and spur line into the general rate base?

3. How much has the government contributed to this project? Do you anticipate placing this amount into the general rate base? Do you anticipate the need for further government funding for this project?

4. How will the 10 cents per kw.hr. charge to Minto or the \$3 million per year take-or-pay cover the capital costs of constructing the C/S Stage 1 line and spur line (yearly Rate Base costs), the cost of borrowing this money, yearly operation and maintenance of this line, and the yearly return to Yukon Energy, especially in the early years as Minto will not be paying any principal?

5. Who will pay for cost over-runs or do you anticipate placing this cost into the general rate base?

6. How will the present firm Yukon ratepayers be protected from negative impacts on their rates if this C/S Stage 1 project is completed and Minto shuts down temporarily or if the Mine pulls the pin before any or all the Minto Capital costs have been paid?

### UCG 1-2 Page 6 Application To Approve Minto Mine PPA

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

Q. 1. Please explain fully the portion that is in bold script as in context with the rest of this statement.

2. Please confirm that any amount of usage over the \$3 million per year take or pay will be returned to the Mine.

### UCG 1-3 Page 6 Application To Approve Minto Mine PPA

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

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

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

**UCG 1-4** Page 6 Application To Approve Minto Mine PPA 4.1.2 Peak Shaving Rate Option

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

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

**UCG 1-5** Application To Approve Minto Mine PPA ; Page 8; 4.1.3 Low Grade Ore Processing Secondary Energy Rate

- Secondary Energy under this rate is to be used only at a mine site engaged primarily in copper production for processing ore with less than 1% copper content (“Low Grade Ore”), and the customer will provide YEC with auditable reporting and controls as reasonably required by YEC to confirm that this secondary energy has been used only to process Low Grade Ore (any such energy use that is not so confirmed will be charged at the Industrial Primary Rate).
- The customer is also to provide reporting as is reasonably required by YEC to determine which portion of its recorded Demand and Energy in any billing month relates to such secondary energy use (any such Demand or Energy use that is not so confirmed will be charged at the Industrial Primary Rate)<sup>9</sup>.

Section 4.1(b) of the PPA provides maximum annual use levels by Minto of Secondary Mine Processing Energy Electricity (including, until June 30, 2015 or when the Capital Cost Contribution plus accrued interest is fully paid (whichever is earlier), a maximum annual use limited to permitted use in excess of 32 GW.h/year)<sup>10</sup>. Secondary Energy in this instance will be used to process Low Grade Ore in the same processing equipment used to process high grade ore with Mine Firm Electricity; thus, unlike rate Schedule 32 Secondary Energy, this Rate Schedule 35 energy will not be separately metered from firm energy supplied by YEC. However, metering of the relevant processing equipment would at least allow for separating this processing use of electricity from other uses at the Mine Site.

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

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

**UCG 1-6** Application To Approve Minto Mine PPA; Page 10 ; Attachment B indicates that bringing Aishihik 3rd Turbine on line mitigates this situation by reducing diesel generation costs and extending secondary sales opportunities, e.g., baseload diesel generation required in 2016 is reduced to 1.8 GW.h (2016) with the 32.5 GW.h/year Minto Mine load and 6.6 GW.h/year (2015) with the 42 GW.h Minto Mine load. Bringing Aishihik 3rd Turbine on earlier (2010 as compared with 2013) is shown to result in slightly increased economic savings as regards diesel generation costs and secondary sales revenues<sup>12</sup>.

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

Q. 1. Please indicate how Yukon Energy will protect the interests of firm energy ratepayers from the impacts of Aishihik 3 construction which will clearly benefit industrial and secondary users of energy.

2. Please confirm that YEC intends to hold a review of the Aishihik 3 proposal before construction.

**UCG 1-7** Application To Approve Minto Mine PPA; Page 10 4.2.2 Diesel Units at the Mine  
The PPA requires YUB approval of provisions respecting the YEC purchase of the four Diesel Units (each with a continuous rating of at least 1.6 MW) as set out under Part 10 of the PPA for \$2.24 million<sup>13</sup>, with YEC to provide payments to Minto in this regard on the same basis as Minto's Mine Spur Capital Cost Contribution payments, i.e., in equal blended monthly payments of interest and principal over the first seven years of YEC service.

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

Q. 1. Please explain why Yukon Energy should pay anything to Minto for these gensets until after the Mine has payed all its debts to YEC for construction of the lines...i.e.hold these gensets as a small portion of collateral on the mine debt?

2. Is there a real need for Yukon Energy to purchase these diesel units?

Please explain.

**UCG 1-8** Application To Approve Minto Mine PPA; Page 11; 5.0 PROTECTION FOR RATE-PAYERS OVER THE LONGER TERM

5.1 NO ADVERSE IMPACT ON RATEPAYERS

As stated in the PPA<sup>16</sup>), it is the Parties' intention that the costs of the Transmission Project required to provide Grid Electricity to the Mine will not adversely impact other ratepayers in Yukon. Accordingly, the PPA ensures that there is "no net cost to Yukon ratepayers", and further, that no individual ratepayer will see an increase to their rates due to the Transmission Project.

Q. 1. Please explain how this portion of the PPA gives Minto Mine the responsibility to ensure there is no negative impact to ratepayers.

2. What guarantees are in this PPA besides the YEC Security, which is second to the Banks, to ensure that Minto will pay at least the required \$24 million Take or Pay?

**UCG 1-9** Application To Approve Minto Mine PPA Page 12; YEC Security

- Minto will provide YEC with acceptable security (the "YEC Security") for the payment of the Capital Cost Contribution, the Minto Power Bills, the Minimum Take-or-Pay Amount, the Decommissioning Cost Payment, and certain other obligations; the YEC Security will be discharged only when the Capital Cost Contribution, Decommissioning Cost Payment, and Minimum Take-or-Pay Amount have been paid in full.

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

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

- Minto is fully responsible for all Decommissioning Costs for the Mine Spur; these costs are to be provided for initially out of the Accrued Decommissioning Fund established to set aside an amount equal to 25% of the actual capital costs of the Mine Spur.

- YEC is to conduct comprehensive due diligence with regard to the YEC Security, Minto and the Mine.

Q. 1. What good is YEC collateral security if the Mine only has sufficient assets to pay the Banks that are first in line?

- ferral account?
2. What make up the incremental annual revenues or losses for this de-
  3. How will the acquiring of the diesel units add security if the YEC is paying for them rather than using them as collateral?
  4. If Minto goes bankrupt or pull the pin how will they be held responsible for decommissioning costs?
  5. Should not the Board and all interveners know the outcome of this Minto due diligence report before attempting to make any decision?  
Please explain!

**UCG 1-10** Application To Approve Minto Mine PPA Page 13; **Costs vs. Revenues**

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

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

**UCG 1-11** Application To Approve Minto Mine PPA Page 13;

- Under Part 5 of the PPA, YEC will require New YEC Industrial Customers (i.e., a YEC Major Industrial Customer other than Minto (e.g., Carmacks Copper) that receives Electricity through connection with the Transmission Project or the CS Project) to pay customer contributions for their share of capital costs for the CS Project and any spur lines on a similar basis to the Capital Cost Contribution payable by Minto<sup>19</sup>.

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

Q. 1. Is Yukon Energy saying that they will not entertain any other industrial customer on this line without an agreement to contribute their share of the capital cost of not only the C/S line Stage 1, but also the C/S line Stage 2 as well as full costs for any spur line? Please explain.

2. Does Yukon Energy concur that a set industrial rate for the Minto Mine will set a precedent for all other industrial customers? Please explain.

3. Does Yukon Energy rationalize that they can isolate an industrial customer rate as they have done with Minto Resources? Please explain.

**UCG 1-12** Application To Approve Minto Mine PPA Page 14

Section 5.2(d) ensures that the above Capital Costs payment schedule set out under Section 5.2(a) and b), and detailed above, is dependant upon Minto providing satisfactory documentation

to YEC by December 31, 2008 of Minto's ability and commitment to process Additional Reserves and to extend the Mine life as stipulated. If Minto does not provide satisfactory documentation to YEC that supports an ability to continue such operations as stipulated then YEC **may require** Minto to pay off the balance of its Capital Cost Contribution on the earlier of either the fourth annual Payment Date or by December 31, 2013.

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

**UCG 1-13** Application To Approve Minto Mine PPA; Page 14; 5.1.2 Mine Net Revenue Account  
The PPA requires YUB approval of the provisions respecting the Mine Net Revenue Account as set out in Section 3.6 of the PPA. This deferral account, which continues to address annual Mine Net Revenue at least for so long as Minto continues to provide the YEC Security<sup>21</sup>, is one of the key measures to ensure that there are no adverse rate impacts on other ratepayers in Yukon due to the PPA. Mine Net Revenue in each fiscal year will be assigned to the Mine Net Revenue Account and will not form part of YEC's earnings in that year. Page 15 In essence, during any fiscal year prior to the cessation of commercial operations at the Mine Site, any net impacts on YEC's earnings due to the Mine or due to the CS Project can be assigned to this deferral account and consequently not be considered when assessing the rate requirements applicable to other ratepayers. These provisions under Section 3.6 of the Agreement set aside positive net incremental earnings due.

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

**UCG 1-14** Application To Approve Minto Mine PPA; Page 14; 5.1.3 Minimum Take-or-Pay Contract

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

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

**UCG 1-15** Application To Approve Minto Mine PPA; Page 14;

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

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

**UCG 1-16** YEC PPA Approval Application; Page 16 YEC

The YEC Security is expected to be enhanced by the new C\$45 million debenture financing announced February 8, 2007 that will replace the SLF debt included in the Current Bank Financing, as continuing security for the payment of the Capital Cost Contribution plus accrued interest, the Minto Power Bills, the minimum take-or pay obligations, the Decommissioning Cost Payment, and Minto payments to Caterpillar related to the Cat Leases after these leases are assigned to YEC. Further, Page 19: The Current Bank Financing of senior and subordinated debt that Minto has secured with Maquarie Bank Limited<sup>34</sup> for approximately \$85 million is covenanted by Minto in the PPA to be fully repaid by November 30, 2010, i.e., within a period just over the planned initial two years of YEC service to the Mine. After the Maquarie financing has been repaid, YEC 33

Minto has announced promising results from drilling of Area 2 adjacent to the mine. Minto's plans anticipate confirmation during 2007 of material additional high grade reserves. 34 The balance of the Current Bank Financing as provided by MRI Trading AG of Switzerland is the Copper Concentrate revolving inventory finance facility in the principal amount of up to \$20 million (USD).

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

**UCG 1-17** YEC PPA Approval Application; Page 18 5.2 RISKS

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

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

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

2. Is this request a temporary rate request until a firm rate can be qualified by a proper undertaking by the Board? Explain.

**UCG 1-18** YEC PPA Approval Application; Page 18

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

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

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

**UCG 1-19** YEC PPA Approval Application; Page 18

Under the above assumptions, the Mine will have stockpiled but not processed most of the Low Grade Ore reserves mined in association with the high grade reserves; these low grade reserves may potentially be processed after the assumed 10 year Mine life (thereby adding to the effective length of time for YEC power sales at the assumed annual energy use levels).

Further, Page 19 Risk that Mine life may be only 7.2 years with today's high grade reserves: Based on current announced Mine plans, the Mine today has sufficient high grade ore reserves to operate for six years at the power levels assumed in YEC's current forecasts, i.e., if the Mine starts commercial operations in June 2007, it would be expected to continue such operations using high grade reserves until June 2013, and (based on the current Mine plan) then to process some of the stockpiled Low Grade Ore for 1.2 years until at least September 2014. Based on current Mine plans and the target in-service date for YEC service, YEC power sales to the Mine at about 32 GW.h/year would be expected to continue for approximately 6 years based on today's established high grade ore reserves.

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

Q. 1. Is the mandate of this PPA to allow low grade ore only be processed after the 10 year Mine life **or** whenever Minto decides to use secondary power to process this ore as seems to be the message in other areas of this agreement?

2. If an industrial secondary energy rate is allowed by the Board, how will the Yukon Energy make assurances that Minto is using secondary power to process only low grade ore, if this is not done at the back end of the mine life or in isolation i.e. when all the high grade ore has been processed?

**UCG 1-20** YEC PPA Approval Application; Page 20

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

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

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

**UCG 1-21** YEC PPA Approval Application ; Page 20 5.3 HOW THE PPA WILL APPLY TO OTHER INDUSTRIAL CUSTOMERS

Section 5.7 of the PPA provides that New YEC Industrial Customers, as defined in the PPA36, will be required by YEC to pay a Capital Cost Contribution for their appropriate share of Capital Costs of the CS Project and any spur lines. This will not reduce or otherwise alter Minto's liability for the Capital Cost Contribution in the PPA. Section 5.7 states that the contribution to the Capital Costs incurred by YEC assigned to a New YEC Industrial Customer for the CS Project would be "based on the segment and voltage level of a transmission line that each New YEC Industrial Customer would require to receive Electricity in the absence of the Transmission Project or the CS Project." The Minto PPA will be used as a template for future PPA customers thus insuring "no negative impact on ratepayers" in this contract will protect ratepayers from being adversely impacted when other industrial customer join the system. 35 Impacts on ratepayers related to net CS/MS Project capital costs not covered by the Minto mine revenues and payments may also be prevented or mitigated if other mine loads are connected to the CS/MS Project. 36 A New YEC Industrial Customer is a YEC Major Industrial Customer, other than Minto, that receives Grid Electricity from the Transmission Project or the CS Project. One potential example would be Carmacks Copper.

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

Q. 1. Please confirm that bring any new mine or industrial customer on the grid stream would affect the cost of service for all ratepayer groups. Explain.

2. How is this accommodated in this application?

**UCG 1-22** Prior Concerns Remain with the PPA and UCG Jan. 04/07 Submission re: PPA Term Sheet (numbers at far left are from UCG submission)

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

II. LACK OF EXAMINATION PROCESS

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

6. First, the late submission has left no opportunity for interested parties to submit information requests regarding the proposed term sheet and the underlying Letter of Intent nor any opportu-

nity to cross-examine any party with respect to the proposed term sheet regarding, amongst other issues, any alternative terms that were considered prior to settling on the filed term sheet.

#### V. CONDITIONS TO PROCEED WITH TRANSMISSION PROJECT

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

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

27. It appears that YEC equates approval of the purchase power agreement in a subsequent proceeding with approval of the project as a whole, which is not necessarily the case. It is possible that the purchase power agreement may be, with modifications, acceptable to the YUB, but that the specifics of the project may not. Accordingly UCG would expect that the term sheet would include the precondition that the YUB approve the project itself, and not simply the purchase power agreement.

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

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

2. Will Yukon Energy commit to thorough review of the Second Stage of the M/S line before commencing construction?

#### **UCG 1-23 Prior Concerns Remain with the present PPA as with UCG Jan. 04/07 Submission re: Term Sheet** *(numbers at far left are from UCG submission)*

Preamble: III. NO ADVERSE IMPACT ON OTHER RATEPAYERS

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

Customer Contributions

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

Q. 1. What happens if YEC's cost of capital varies from the stipulated 7.5%? Is there an adjustment mechanism built into the power purchase agreement? If not, why not?

2. Why isn't the value of Minto's diesel generators or up-front money used as a security deposit similar to that required of other Yukon ratepayers?

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

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

Security

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

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

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

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

Take-or-Pay Provision

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

6. Please explain Yukon Energy's position on the above statement.

7. In the PPA what is preventing the mine from limiting its payments to YEC in the early years and then abandoning operations prior to the requirement to pay the remainder of the \$24 million?

#### Net Revenue Account

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

8. If industrial customers are required to pay 100% of the cost to supply them electricity, why would there need to be any provisions for payments that would exceed that cost?

9. Would not any rate charged to an industrial customer such as Minto have to recover the entire, fully allocated cost of service for providing the mine with electricity?

#### IV. YUB APPROVAL OF RATES

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

10. UCG questions how any rate (seasonal or otherwise) for the Minto operation could be established without first undertaking a complete cost allocation and rate design review?

11. Please verify that these provisions are being maintained when any new industrial customer is added to the system.

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

12. Why were not other conditions considered, i.e. profitability rate riders established to facilitate the payment of funds by industrial customers during periods of high profitability to a rate stabilization fund used to the benefit of all Yukon ratepayers. Industrial customers could then be considered for a reduction in electricity costs paid during periods of low profitability which would be funded by the rate stabilization fund. As well, within the negotiated power service?

13. How will this special incentive rate offered be self-sustaining in that benefits will at least pay for the subsidy between normal utility rates and the special incentive rate?

#### **UCG 1-24 YEC Security that would protect Yukon ratepayers from the risks associated with this proposed transmission line project**

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

### **UCG 1-25 Proposed Purchase Power Agreement Attachment E**

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

Q. 1. Although we understand that the proposal is to have Miinto Mine provide diesel fuel when necessary diesel usage is required, what about other diesel associated costs, i.e. O&M of diesel generators at minesite, standby costs of diesel generators at mine-site?  
2. What if Whitehorse or Faro diesels are required to maintain the integrity of the grid?

In Schedule D of the PPA in the Rate section there is no Demand Charge, only Energy Charge.

3. Please explain.

### **UCG 1-26 Cost of Service Review**

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

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

### **UCG 1-27 Cost of Service Review**

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

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

### **UCG 1-28 PPA**

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

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