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YUKON UTILITIES BOARD

CARMACKS-STEWART TRANSMISSION PROJECT

PART 3 REVIEW

Held at High Country Inn Convention Centre

Whitehorse, Yukon

May 15th, 2007

Volume 2 - P.M. Session

Page 105 - 185

BEFORE BOARD MEMBERS:

- | | |
|------------------|------------------|
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APPEARANCES:

Yukon Energy Corporation	John Landry
	David Morrison
	Cam Osler
Utilities Consumers' Group	Michael Buonaguro
The Yukon Electrical Company Limited	Doug Tenney
Peter Percival	Peter Percival

TRANSCRIBER:

Doug Ayers Reporting Services

Preliminary Matters

1 (PROCEEDING RESUMED AT 2:40 P.M.)

2 THE CHAIRPERSON: In terms of a couple of
3 preliminary matters, it appears that there are no
4 questions from any of the intervenors for the Minto
5 representative, so subject to YEC's desire, we will
6 leave that open to you whether you feel it is
7 necessary to have a Minto representative appear at
8 the hearing tomorrow.

9 It also appears that intervenors are open to
10 the idea of having preliminary oral argument and
11 reply, time permitting, before the public input
12 session on Tuesday evening, with also follow-up
13 final argument, after the public input session,
14 orally.

15 Mr. Landry.

16 MR. LANDRY: Just one preliminary
17 matter, Madam Chair. As I understood this morning,
18 there was only one undertaking that was left on the
19 record and we do have a response to that
20 undertaking, and that undertaking related to the
21 expression of interest with respect to the
22 pre-qualification of the engineering firms.

23 Just for the record, the reference was in
24 relation to UCG YEC 1-22. And attached to 1-22 is
25 actually the advertisement that was, as Attachment
26 1, is the advertisement that was placed in the

Preliminary Matters

1 Globe and Mail, which is effectively the request
2 for Expression of Interest.

3 What we do have, that we can file on the
4 record in follow up to that, is the actual
5 pre-qualification application that was sent out to
6 anybody who expressed interest in the project. So
7 if I can, I would like to mark that as the next
8 exhibit, which I believe is B-7.

9 EXHIBIT NO. B-7:
10 YEC SUPPLIER PRE-QUALIFICATION
11 APPLICATION

12 THE CHAIRPERSON: B-7 so marked.

13 MR. LANDRY: And it's my
14 understanding, Madam Chair, that that is the only
15 undertaking, so there are no further undertakings
16 on the record from our perspective.

17 THE CHAIRPERSON: Thank you.

18 Mr. Buonaguro, I am told you feel that perhaps your
19 cross-examination might take an hour, or within
20 that area.

21 MR. BUONAGURO: That sounds about
22 right.

23 THE CHAIRPERSON: Okay. In which case,
24 we will look to have a short break after
25 Mr. Buonaguro's cross-examination, 15-minute break,
26 so that would take us about to 3:30, depending on

Preliminary Matters

1 where you are, of course.

2 Would you like to proceed?

3 MR. BUONAGURO: Thank you.

4 YEC PANEL FURTHER CROSS-EXAMINED BY MR. BUONAGURO:

5 Q MR. BUONAGURO: Actually, I had one
6 question that I did not get to, that was a
7 follow-up, generally, so I am going to ask it now,
8 because it doesn't fit anywhere in particular.

9 Could you give us your opinion, or YEC's
10 opinion, on a submission that we are probably going
11 to make, which is that, as part of the approval in
12 this case, YEC should be -- well, the project on an
13 ongoing basis should have an auditor or, slash,
14 consultant, independent, monitor the process on
15 behalf of the Yukon Government, the YUB, and/or
16 other stakeholders, as the Carmacks-Stewart Project
17 develops?

18 A MR. MORRISON: I am not sure what I
19 was just asked, Madam Chair. I do not know
20 where --

21 Q Are you opposed to that sort of condition on the
22 certificate?

23 A On the certificate? Well, let me try to answer the
24 question perhaps a little bit differently. I do
25 not think there is a need for it. I am not sure
26 what that person or persons would do. YEC will

1 have a project manager. It will do its own due
2 diligence on the project as the project is being
3 carried out. We are subject to audit by the
4 Government of Canada's auditor, the Auditor
5 General. So I am not exactly sure what you are
6 proposing, and/or who would pay for it, because
7 I certainly would not volunteer to do that.
8 Because we don't want to add costs because I am
9 sure, Mr. Buonaguro, you are concerned about the
10 cost of the project.

11 Q Well, assuming -- well, I understand that there
12 would be costs, but presumably the idea is that,
13 instead of auditing after the fact as in what
14 happened in the Mayo-Dawson situation, there could
15 be a process where interested parties, and I guess
16 particularly because of the level of funding that
17 has been provided by the Yukon Government, either
18 an auditor or consultant on behalf of the
19 government be involved in the process on an ongoing
20 basis, so that, as problems arise, they could be
21 informed by the auditor on an ongoing basis rather
22 than after the fact.

23 A Well, I am absolutely flabbergasted at what you are
24 proposing. I do not know what you mean by that,
25 I have never heard of anything like this. You are
26 suggesting that we have somebody who could stop the

1 project and make decisions? I wasn't talking
2 earlier, and I do not -- I hope you do not think
3 I was being flip when I said to you that we are all
4 concerned about the cost of the project, as are
5 you, but this kind of thing would drive the cost of
6 the project out of sight. And I do not mean the
7 payment for an individual or individuals. But
8 somebody stopping the project and saying, well,
9 let's have a talk about what we are doing? From
10 what you are proposing, to me sounds absolutely
11 ludicrous.

12 Q Let's, I guess, de-construct it a little bit. It
13 wouldn't necessarily be that the person would have
14 the authority to stop the project in its tracks on
15 a whim. I think the idea would be, is that there
16 would be information, on an ongoing basis, coming
17 from the company to this person, consultant,
18 auditor, whatever you would like to call it, and
19 then passed on to the interested stakeholders,
20 i.e., the Yukon Government, Utilities Board and/or
21 stakeholders?

22 A To what end?

23 Q And at the same time providing -- and possibly by
24 having that information ongoing, there would be an
25 increased transparency of the process. At the same
26 time, properly qualified auditor/consultant could

1 provide input to the company either on its own or
2 through the Yukon Government, YUB, or interested
3 stakeholders --
4 A Madam Chair --
5 Q -- to the company.
6 A Sorry, Mr. Buonaguro, I thought you had finished.
7 Q No, that's it.
8 A Madam Chair, we have engaged highly competent
9 engineers. We will engage, hopefully, if the
10 project goes ahead, the same engineers to finish
11 the final design stage. We will then engage
12 competent line contractors and substation
13 contractors. As part of this process, we will also
14 have an owner's representative or project manager
15 from our side of the -- to represent our interest,
16 the stakeholders' interests, on the project. They
17 will have a contract, and they will have
18 authorities under the contract that we would
19 give -- that we would sign with both the
20 construction -- the line construction company and
21 with the substation construction company, to
22 undertake quality control work and to ensure that
23 the companies that are doing the construction,
24 whether on the line side or the substation side,
25 are following the contract and meeting the terms of
26 the contract in every respect.

YEC Panel
Cr-ex. (Buonaguro)

1 Having someone else stand over the shoulder of
2 somebody trying to do that job will add significant
3 costs to the project. This is not a debate, once
4 the project starts, about whether or not we should
5 do this today or that today. A construction
6 contract is a legal contract by law, and will have
7 proper authorities and proper stopgaps in it to
8 make sure that we can monitor and oversee this
9 project and provide the transparency and oversight
10 that it needs.

11 We will then report those costs to you, the
12 regulator, to put them into rate base at some point
13 in time. I don't know where this idea of
14 Mr. Buonaguro's comes from, but if he is asking me
15 am I supportive of it, absolutely not.

16 Q You have mentioned a couple of times where the idea
17 comes from, I can tell you.

18 A I am not particularly interested, actually.

19 Q There are precedents for it in Ontario where
20 consultative process is involving stakeholders and
21 utilities doing large projects, where there's an
22 independent consultant hired on behalf of the
23 stakeholders and the Board to provide input and
24 receive output, I guess you call it, from the
25 company, and it seems to work well. That's where
26 it came from. It's not something peculiar to this

1 proceeding that I am bringing it up.

2 A Is it my turn to ask questions?

3 THE CHAIRPERSON: Not yet.

4 Q Well, I just wanted to give it some context. We
5 can leave it there.

6 MR. LANDRY: Madam Chair, the only
7 thing I would say is that, to my knowledge, none of
8 the intervenors, including UCG, intends to call
9 evidence here, and I don't mind that being a
10 question for context, but it is not evidence in
11 this proceeding, and I would want to make sure that
12 that was clearly in the record, because we don't
13 necessarily accept or reject what he says, but we
14 don't have any way in which to test what
15 Mr. Buonaguro has said to Mr. Morrison.

16 THE CHAIRPERSON: Are you happy to leave
17 it at that, Mr. Buonaguro?

18 MR. BUONAGURO: I am just thinking.
19 I could put into the record a decision of the
20 Ontario Energy Board where they directed several
21 consultatives between the stakeholders and the
22 company, if it helps.

23 THE CHAIRPERSON: Mr. Landry, do you have
24 some comments on that one?

25 MR. BUONAGURO: That would be a matter
26 of regulatory precedent as opposed to, I would

1 think, strictly speaking, evidence.

2 MR. LANDRY: Mr. Buonaguro, in
3 argument, can put in whichever precedent he feels
4 is relevant to your determinations, I accept that,
5 but it is not evidence on the record, is the point
6 that I made.

7 MR. BUONAGURO: I accept it is not
8 evidence on the record.

9 THE CHAIRPERSON: Would you like to
10 proceed?

11 MR. BUONAGURO: Thank you.

12 Q MR. BUONAGURO: I would like to turn
13 now to the amended Power Purchase Agreement and
14 several questions on that. The first question may
15 be a simple one. But looking at the signatory
16 lines, we have the Yukon Energy Corporation
17 signing, and Minto signing, but there are
18 references to both the YDC and the YTG throughout
19 the document. Could you explain why, with respect
20 to the document, only those two parties are
21 signatories?

22 A MR. MORRISON: Because this is an
23 agreement between only those two parties.

24 Q Well, presumably it is -- well, as I understand it,
25 there was negotiation between all four, and that
26 there are obligations on both the YTG and the YDC

1 in the agreement?

2 A No, there are -- this is an agreement, very
3 clearly, Madam Chair, between two parties, YEC and
4 Minto Explorations, and that is why it is signed by
5 only those two parties. There are conditions in
6 here that other parties have agreed to meet, and
7 they will do that, but they are not party to this
8 agreement.

9 Q At Section 3.1 (a)(i) of the agreement, it says:
10 On or before May 31st, 2007, the YUB would have
11 approved this agreement including the following
12 provisions, (i), on an interim basis the low grade
13 ore processing secondary rate as set out in
14 Schedule D.

15 Could you confirm that the reference to "on an
16 interim basis", in the amended agreement, is the
17 same meaning as determined by the Board, namely,
18 interim until rates can be finalized after a
19 general rate application review.

20 A That is correct, Madam Chair.

21 Q Thank you. You will happy to know I am editing
22 questions.

23 Now, referring to Section 1.1, I think it is
24 (1), which talks about the capital cost
25 contribution from Minto, of \$7.2 million.

26 A Just to be clear -- okay, just if people are

1 following, Madam Chair, I think the reference in
2 the amended agreement is Section 10, and there is a
3 reference in Section 10 to Section 1.1.

4 Mr. Buonaguro, am I correct?

5 Q Yes, you are right, sorry.

6 A And then sub of that is (1), the \$7.2 million.

7 Q Right. So I guess it is now 10(1). We are
8 referring to 10(1) of the amendments?

9 A Yes.

10 Q Thank you.

11 A And \$7.2 million.

12 Q Right. Now, by way of confirmation, we are talking
13 about the contribution towards the project, and the
14 mine spur is still separate, obviously, right?

15 A Yes, yes.

16 Q And the 7.2 million contribution, I think you
17 explained this earlier, is for the low, the mid and
18 the high, and that the indexing, I think, applies
19 to something other than the high estimate; is that
20 right?

21 A MR. OSLER: Yes. The estimates in
22 Schedule 1 of the PPA application, which is what
23 the Board was referring to in Order 2007-5, or
24 Schedule 1 in the Part 3 application that is before
25 us in this hearing, each have low, medium and high
26 estimates. The medium estimate for the

YEC Panel
Cr-ex. (Buonaguro)

1 transmission line construction is, I believe,
2 \$160,000 per kilometre in 2005 dollars. The high
3 estimate, I know, is \$190,000 per kilometre in 2005
4 dollars, for the construction period costs. So
5 that is why that number is referenced here.

6 Our understanding of the order, on this
7 matter, is that the indexing would come into effect
8 if the tendered costs for the line go above the
9 high estimate. So in this case, we are providing
10 certainty as to what the high estimate was. It
11 would have to be adjusted to the in-service dollars
12 at the time that the project is developed, to get
13 it from 2005 dollars, but for the sake of the
14 record, Schedule 1 of the current application
15 inflates these numbers by approximately 12 percent
16 to do that. So that we are trying to give
17 certainty as to what the high estimate means for
18 the segment of the Carmacks-Stewart Project that is
19 relevant to the calculation of the \$7.2 million.

20 Q You confused me a little bit there, so let me try
21 to make sure I understand. The \$7.2 million, is
22 that calculated on the 2005 dollar basis?

23 A No.

24 Q No, okay.

25 A \$7.2 million is calculated to be an amount
26 applicable to the in-service costs of the project,

1 so, therefore, it is in the in-service dollars.
2 And it reflects, I believe, the 69 kilometre line
3 distance estimated between Carmacks substation and
4 the Minto landing substation, the hundred and, if I
5 am correct, sixty thousand dollar estimate
6 escalated by 12 percent, and another 10 percent
7 added on for planning costs as an allocation.

8 The approach taken in the amending document is
9 to focus exclusively on the construction tendered
10 costs because that will be a clear and certain
11 number, and apply the indexing if the final
12 tendered costs go above the relevant number.

13 Q Okay. I am not 100 percent sure I am clear yet.

14 If I am looking at Schedule 1 --

15 A In the Part 3 application?

16 Q Yes.

17 A Okay.

18 Q Page 7.

19 A MR. MORRISON: Page 7, Schedule 1?

20 Q Yes. So this exhibit says everything is in 2007
21 dollars, right?

22 A MR. OSLER: Yes. And technically,
23 it says 2007 dollars when, on reflection, it is
24 really, for the sake of the capital cost, it is in
25 in-service dollars. So, in some cases, it could
26 even be some 2008 dollars in there, just to be --

YEC Panel
Cr-ex. (Buonaguro)

1 it has escalated, from the 2005 dollars, by 12
2 percent, for interest during construction and
3 escalation, so the construction costs, if anything,
4 are a little bit more than 2007 dollars.

5 Q And when you break down your high cost estimate of
6 \$25.9 million into a cost per kilometre, you get
7 190,000.

8 A \$25.9 million estimate consists of three things:
9 one of them is the line costs from Carmacks to
10 Pelly Crossing; a second is the substations at
11 Carmacks and Pelly Crossing; and the third is the
12 planning costs for the Stage One work as it was
13 estimated.

14 So it's three things: The Carmacks-Minto
15 Landing segment, relevant to the \$7.2 million, only
16 deals with the line between Carmacks and Minto
17 Landing, 69 kilometres, and an allowance for the
18 planning costs overall of adding on 10 percent. So
19 if I was to take the 69 kilometres, and it is
20 \$160,000 a kilometre that was assumed for the
21 midpoint estimate, and I was to add on 10 percent
22 and then add on another 12 percent, it should come
23 to about \$7.2 million as the midpoint estimate.

24 The only difference between that and a high
25 point estimate would be the use of \$190,000 per
26 kilometre, rather than a hundred and sixty, if you

- 1 want to know what is in Schedule 1.
- 2 Q Okay.
- 3 A And there is no difference in Schedule 1, in the
4 estimating of the basic costs for the substations
5 or the estimating of the basic costs for the
6 planning, other than -- no, there is no
7 difference. So the only thing we varied in going
8 from one to the other, at the time it was done, was
9 the line costs, because we had hard information,
10 from the discussions with engineers and others, of
11 potential range of cost per kilometre for lines,
12 and it was not as easy a thing to get useful
13 information on the other components.
- 14 Q So one thing I took from that is that the
15 difference between 22.6 midpoint, and 25.9, is the
16 escalation of line costs?
- 17 A It's the difference in a basic assumption as to
18 what the line costs may be per kilometre, yes.
- 19 Q Right. And everything else is assumed to be
20 constant?
- 21 A As far as I recollect, yes.
- 22 Q The 7.2 million then goes up only as the line cost
23 goes up over 190,000, pursuant to this amended
24 clause, because that is the only thing that you
25 consider to be variable?
- 26 A Well, I misspoke in saying the 7.2 million, just to

1 refresh everybody's memory, is for a 35 kV line
2 over the same distance.

3 Q Right.

4 A So if we can just get the transcript correct here,
5 and get my head on screwed right, that was at
6 \$85,000 a kilometre, midpoint estimate, 69
7 kilometres, that will give you a 2005 cost; add on
8 10 percent as allowance for planning and escalate
9 it by 12 percent, and you should be \$7.2 million,
10 just to get the record straight.

11 What I understand the Board's order to be is,
12 in order to index that number to change, the
13 proposal, the direction, was to look at the actual
14 costs of the 138 kV line, forget the 35 kV line,
15 and whether the actual tendered cost for the 138 kV
16 line came in more than you see in the Schedule 1
17 table.

18 In order to interpret that in a meaningful way
19 for the \$7.2 million, we had to go back to look at
20 what was the \$7.2million based on. It was based
21 on the line distance between two points. And
22 taking the Carmacks-Stewart 138 kV cost for that
23 line, rather than a 35 kV line, we took the intent
24 of the Board's direction to be, What happens if the
25 costs for that segment of the line are higher than
26 the high cost estimate you showed us in your table,

1 which would be \$190,000 a kilometre?

2 And since the intent is only to come up with
3 an index of percentage change, it seemed to us the
4 simplest way to do that was to take the line costs
5 for that distance, and if they are in excess of
6 \$190,000 a kilometre escalated by 12 percent, if
7 the tendered costs come in more than that, then
8 that gives you the escalation that the Board was
9 intending to have apply to the \$7.2 million, in a
10 percentage terms.

11 Q So, for example, if it turns out that the line
12 costs for the 150 -- sorry, I got the numbers mixed
13 up. For the actual line that goes in, if the line
14 costs are above 190,000 per kilometre by 10
15 percent --

16 A Yes.

17 Q -- then you would escalate the line portion of the
18 7.2 million by 10 percent?

19 A No, you escalate the -- if I understand the
20 direction and certainly the way this is applied
21 here, you would escalate the 7.2 million by 10
22 percent.

23 Q The whole 7.2 million?

24 A Yes. Because the 7.2 million is nothing more than
25 dealing with a line cost. It has got no substation
26 costs in it. It has got the planning relating to

YEC Panel
Cr-ex. (Buonaguro)

1 it, but we don't need to get into that to do an
2 index. If the construction tendered costs per
3 kilometre, keep it really simple, were 10 percent
4 higher than \$190,000, if that was in current
5 dollars, they are 10 percent higher, the intent and
6 the application here is that this 7.2 million would
7 be then escalated by 10 percent, and an additional
8 payment equal to 10 percent of 7.2 million, or
9 \$720,000, would be payable, and the Yukon
10 Development Corporation would pay it on or before
11 the commencement of delivery on behalf of Minto.

12 Q One more clarification, I am looking at (1) -- I am
13 looking at Schedule 1, and it says clearly 2007
14 dollars, and then it says at the end of
15 Section 10(1) in the amended agreement, right at
16 the end, it says 2005 dollars. Is that --

17 A 190,000, I can assure you, was in 2005 dollars. In
18 order to get the estimates that you see in Schedule
19 1 of the Part 3 application, as distinct from the
20 PPA application, they were all escalated by 12
21 percent. Just move them from 2005 dollars to 2007
22 dollars, 190 would have to be increased by 12
23 percent.

24 Q I think I got it.

25 A It would be equivalent to about \$212,800 per
26 kilometre, just to do the calculation, which

1 I shouldn't do up here.

2 Q Well, I guess that makes sense, so then, because in
3 the amended agreement you refer to 2005 dollars, it
4 is implicit that you would correct it to update it
5 with the table?

6 A Yes.

7 Q It is important that 2005 is in that bracket?

8 A Yes. Every word is important.

9 Q And this is really just a confirmation, any capital
10 cost contribution made by or on behalf of Minto
11 doesn't provide Minto with any ownership rights?

12 A MR. MORRISON: No.

13 Q Thank you. Now, turning to Section 3.1(n) of the
14 agreement, of the amended agreement.

15 A MR. OSLER: Did you say (n)?

16 Q (n).

17 A That would be Item 6 in the amending agreement on
18 page 3, which isn't paged.

19 Q Thank you. I keep referring to the part that is
20 being changed. Sorry, you are right, 6(n). It
21 says: On or before May 31st, 2007, the YTG will
22 undertake arrangements to ensure that Rate Schedule
23 39, that the YUB has stated it will accept on an
24 interim basis, as attached to this agreement as
25 Schedule C, be fixed as final until December 31st,
26 2012.

1 And the first part I am interested in, it says
2 here that the escalation will be based each year on
3 the latest percentage increase in the 12-month
4 implicit chain price index for gross domestic
5 product at market prices for Canada as reported by
6 Statistics Canada.

7 Can you provide a copy of the report that you
8 are talking about there?

9 A MR. MORRISON: Yes, we will do that,
10 Madam Chair. I don't have one with me, but we can
11 undertake to do that. It's a Stats Canada index,
12 and we will do that.

13 Q Do you know how often that report is published?

14 A I can't confirm off the top of my head but we can
15 do that. We can undertake to find that out as
16 well, too.

17 A MR. OSLER: We know it is published at
18 least annually.

19 Q And I guess as part of that, you can tell us where
20 to find it, if you want to get -- I guess it is on
21 the internet?

22 A It is on the internet, and since we have to find
23 it, we can give you a road map too.

24 Q Okay, thank you.

25 A It's such a mysterious term. It is a standard Stat
26 Can publication along with other indices. For the

1 sake of the record, as of March -- well, it is
2 increased at a certain level, not that much
3 dissimilar from other indices, and we will provide
4 you with sort of a road map as to where it is, and
5 a copy of the page that it is on.

6 A MR. MORRISON: Madam Chair, we have
7 got some copies, we can do it at the break, if that
8 makes some sense.

9 THE CHAIRPERSON: Thank you.

10 A MR. OSLER: We have put in the
11 words that are the words that tell you which it is
12 and which part of the gross domestic product you
13 are looking at. You are looking at the one at
14 market prices, all that type of stuff. The basic
15 point is, it is a statistical report that is done
16 regularly, and it is for Canada, and it sort of
17 smooths out some of the more volatile elements that
18 would make things jump all over the place.

19 Q MR. BUONAGURO: Thank you.

20 Now, in the Board's recommendations on the
21 20-year Resource Plan, and I will give you the
22 reference, it is at page 50, the part I am focussed
23 on right now is a simple one, the Board states, and
24 I will quote, "The Board also suggests that YEC and
25 YECL consider performance based regulation
26 mechanism." And this is in the context of its

1 comments about the General Rate Application.

2 In light of that recommendation, can you
3 describe --

4 A MR. MORRISON: Sorry, Mr. Buonaguro,
5 I lost your last few words, and I know you said
6 page 50, but could you just give that to me again?
7 Sorry.

8 Q Sure, it was page 50 of the 20-year Resource Plan
9 decision or recommendations, and it's the paragraph
10 that talks about General Rate Application matters.
11 And the specific sentence is a suggestion that YEC
12 and YECL consider performance based regulation,
13 applying for some sort of a regime, and we are just
14 trying to figure out how that would interact
15 possibly with the proposal for Rate 39 in the
16 amended agreement, if at all.

17 A That is the question?

18 Q Yes.

19 A MR. MORRISON: You know, Madam Chair,
20 my friend, Mr. Osler, is, you know, usually game to
21 try anything. I am not particularly interested in
22 us trying this. I don't know anything about
23 performance based regulation, and I'm not jumping
24 into this lake on this. I can't speculate that. I
25 just can't do it.

26 Q Presumably there would have to be some sort of

1 different treatment of this rate than normal?

2 A Madam Chair --

3 THE CHAIRPERSON: Mr. Buonaguro, I think
4 that question has been answered as best as it can
5 by the panel at the present time.

6 Q MR. BUONAGURO: Thank you. Can you
7 confirm that the proposal with respect to this rate
8 is to increase both the demand charges and energy
9 charges by the same percentage under this -- in the
10 escalation?

11 A MR. OSLER: Yes.

12 Q Now, in the recent PPA decision, the Board refused
13 to implement Rate 39 as other than -- as anything
14 other than an interim rate, and I am assuming that
15 is your understanding as well?

16 A MR. MORRISON: Yes, that is correct.

17 Q Now, perhaps you could explain on what basis the
18 rate could be approved by the Board, in the context
19 of the rise PPA, when it has already decided that
20 the rate itself, and maybe I am paraphrasing,
21 doesn't fit in with a regulatory approach to the
22 rate?

23 MR. LANDRY: Madam Chair, I don't
24 understand that question, so I don't want the panel
25 answering a question that -- I am sure
26 Mr. Buonaguro could try it again, but I really did

YEC Panel
Cr-ex. (Buonaguro)

1 not understand that question, and I think it is --
2 he is trying to get to something obviously, I
3 think, which he considers important, I would rather
4 it be clarified.

5 Q MR. BUONAGURO: Sure, I can try. I
6 think the Board has already said Rate 39, as it
7 stands, isn't appropriate. What makes it
8 appropriate now as a final rate order?

9 A MR. MORRISON: I thought I understood
10 the question better the first time. Let me try
11 this.

12 Q You could answer both questions, if you like.

13 A If -- we are not asking the Board, Mr. Buonaguro,
14 and you can see clearly in this application before
15 you, we are not asking the Board to approve
16 Rate 39. We have said that the 10 cents, and the
17 rate that is being fixed for Minto, is exactly the
18 same as we applied on Rate 39. But it is fixed,
19 and it is fixed at a rate higher than I believe it
20 would be if the rate was subject to the cost
21 evaluations once we start receiving revenue from
22 Minto, where we have talked clearly that our
23 revenues of three -- three-and-a-half to \$4 million
24 a year, will be a downward rate driver, in our
25 opinion. Well, without fixing Minto's rates,
26 Minto's rates would be downward driven as well, and

YEC Panel
Cr-ex. (Buonaguro)

1 I was not prepared to enter into discussions with
2 Minto about certainty if their rates were going to
3 go down.

4 We felt very strongly that the 10-cent rate,
5 based on our cost of service analysis, preliminary
6 as it might be, was a fair rate for Minto, and if
7 we are going to take the mine net revenue account
8 and get rid of it, and then everybody's rates are
9 subject to the additional revenues it would be
10 taking in, and therefore subject to going to
11 decreases, I didn't feel that it was appropriate
12 for us to see Minto's rate go down with everybody
13 else's. So we agreed with them that we would fix
14 -- that they would get a rate, but it would be
15 fixed, and it would be fixed at the high rate, much
16 higher than it would be otherwise.

17 So again, in my opinion, this is a very good
18 deal for ratepayers because Minto are paying more
19 than they may normally otherwise have paid.

20 Q So in terms of meeting the obligation to set a rate
21 that at least covers the cost of service to all
22 industrial customers in the zone, I am paraphrasing
23 the Order-in-Council, and I think I have it -- I
24 have it as 1995/090, is that the right --

25 A MR. OSLER: Yes.

26 Q It looked funny on my computer. In terms of

1 meeting the obligation of that section, your
2 position is that the rate as proposed in Rate 39
3 is, in fact, in excess of the cost of service?

4 A MR. MORRISON: I am going to let
5 Mr. Osler add to this, but we were always confident
6 that the 10-cent rate was, if anything, slightly
7 higher than the cost of service numbers, and I mean
8 slightly by, you know, maybe a few 10ths of a
9 cent. So we were always confident that we were
10 meeting the Order-in-Council requirements when we
11 brought the 10-cent rate forward to the Public
12 Utility Board for consideration. We have done a
13 lot of work around that. We are very confident the
14 10 cents was a rate more than sufficient to cover
15 the cost of service of the industrial customers.

16 We are now much more satisfied that if, in
17 fact, rates were going to come down because of the
18 additional revenue being taken into revenue by
19 Yukon Energy, that the industrial rate would have
20 gone down some, and we did not feel that that was
21 in the best interest of ratepayers because we had
22 already negotiated a rate with Minto. So that is
23 why we want to keep it at the high rate. But it is
24 more than sufficient, in our opinion, to meet the
25 terms of the Order-in-Council.

26 Q Just to clarify, when you say it would have gone

YEC Panel
Cr-ex. (Buonaguro)

1 down, it would have gone down because capital costs
2 related to the project are no longer being included
3 in rate base because of the Yukon Government's
4 funding?

5 A Well, I would suggest to you that if there is \$22
6 million worth of contributions, or \$22.6 million
7 worth of contributions, contributed capital, none
8 of which goes into rate, for a \$22.6 million asset,
9 and we are receiving three-and-a-half to \$4 million
10 additional revenues every year, something has to
11 give. We are not going to come to the Board and
12 try to pretend that we have exceeded our rate of
13 return by a small amount and therefore, you know,
14 the Board should ignore that. It is going to be
15 three-and-a-half to \$4 million of additional
16 revenue, rates will have to come down if we are
17 taking that into consideration. And Mr. Osler,
18 I know, has a few things to add.

19 A MR. OSLER: To keep it simple, the
20 submissions we made to the Board in the PPA hearing
21 were that -- and particularly in the final
22 arguments, were that Yukon Energy's submission is
23 that the evidence compiled in that hearing
24 supported that the 10-cent rate for 2008 was more
25 than sufficient to cover the cost of service
26 pursuant to Order-in-Council 95/90, and that we

YEC Panel
Cr-ex. (Buonaguro)

1 submitted that that was the test that needed to be
2 applied rather than trying to set the grade exactly
3 equal to the cost of service pursuant to that
4 Order-In-Council. So that was the submission. I
5 am not aware of any evidence or questions that
6 suggested anything to the contrary.

7 There were lines of questions from Board --
8 from the Board to the effect that, if we change
9 certain cost of service methodologies with respect
10 to transmission, the effect would be to lower the
11 cost.

12 So since we had taken certain methodologies
13 that were, if anything, on the extreme side of
14 assigning costs to energy, and in general, in
15 ratemaking cost of service matters, if we take a
16 bundle of costs that are common and we assign more
17 of them to energy than to demand, that tends to
18 have a -- raise the rate, the average rate, for a
19 high load factor customer, a customer that is
20 tending to have a high level of load throughout the
21 year.

22 Minto Mine load is about 84 percent load
23 factor annually in the estimates we are using. It
24 is by definition, therefore, a pretty high load
25 factor customer. And if we take 100 percent of
26 certain transmission costs and we allocate them to

YEC Panel
Cr-ex. (Buonaguro)

1 energy, we are doing the most anybody could do to
2 assign costs to that type of customer. If somebody
3 comes along later and refines that and assigns some
4 of those costs, not all to energy, but some to
5 demand, that 10-cent rate will go down. So right
6 away there is that issue.

7 I mentioned one earlier, that the fact that
8 the government was now paying for the
9 Carmacks-Stewart costs would reduce a certain
10 portion. If, in fact, the LOLE matter was to lead
11 to all demand costs not being included in the cost
12 of service for this customer, the rate would go
13 down by more than 2 cents.

14 There were other things that I could get into
15 that we had agreement from Minto to do it a certain
16 way, but if you are going to get into the game of
17 let's get it equal to costs, if anything, my
18 professional judgment was the costs would tend to
19 go down, in terms of allocation methods, to Minto,
20 besides matters the Board has specifically flagged,
21 or the government has flagged through government
22 contributions.

23 So the weight of evidence seemed to be pretty
24 clear which direction the rate was going, and it
25 might go down quite surprisingly if the LOLE matter
26 was to be taken a certain way, because the demand

YEC Panel
Cr-ex. (Buonaguro)

1 portion of that 10 cents was over 2 cents, and you
2 can get that from Schedule A-1, page A-17 of
3 Attachment A to the PPA application.

4 There are, therefore, a lot of reasons when
5 somebody -- and Minto wanted certainty, they were
6 quite clear about that point. So the position that
7 Mr. Morrison laid out, I understand, was the
8 position taken by the parties who had the ability
9 to discuss certainty, that if you want certainty,
10 the rate will be the one you agree to pay, the 10
11 cents, not something lower. Obviously Minto has
12 agreed so, therefore, the rate is not subject to
13 the risk of going down for the first four years.
14 After that, it is open to whatever the cost of
15 service rulings would be, but for the first four
16 years, it is 10 cents or more. In the sense that
17 if their load factor is 84 percent, it will be 10
18 cents.

19 A few people have had trouble with why do we
20 keep saying approximately 10 cents. It's because
21 of the combination of demand and energy rates being
22 applied, and it depends on the customer's load
23 factor. But assuming that Minto's load factor
24 stays in that range, and regardless of whether it
25 is higher or lower, whatever the rate would be that
26 it would pay, it will be the same as it would have

1 been in the application, or higher, in the period
2 between now and the end of 2012.

3 A MR. MORRISON: Madam Chairman, not to
4 belabour this issue, but I just think it is
5 worthwhile clarifying for everyone that, when we
6 originally negotiated the PPA with Minto, we had a
7 great debate with Minto about the rate. And quite
8 naturally Minto, as any customer would, would like
9 to get the lowest rate that they possibly could.

10 Our position was very simple with them, and it
11 continues to be that, is that we cannot provide you
12 with a rate, in a contract, that we cannot defend
13 in front of the Public Utility Board. And in order
14 to defend that rate, it has to do exactly what
15 Mr. Buonaguro cited earlier, it has to meet the
16 terms of the Order-in-Council that we all live
17 with, in terms of how industrial rates have to be
18 set.

19 So when we finally got Minto to understand
20 that, when we have done our calculations, it wasn't
21 a matter of us coming here jointly and saying we
22 are going to defend a rate that we have picked out
23 of the air, the rate was very specifically and
24 technically analyzed in order to get that rate and
25 make sure that, when Mr. Osler and I swore an oath
26 this morning, that we could defend that rate, that

1 we, in fact, could defend that rate.

2 So as Mr. Osler mentioned earlier, we set that
3 rate at, you know, some amount incrementally higher
4 than what we thought the true cost of service was.
5 To make sure that we were erring, we were erring
6 on the side of being a little higher rather than a
7 little lower, and therefore meeting terms of the
8 cost -- of the Order-in-Council.

9 I was not prepared, and we were in a very
10 difficult position trying to go back to Minto to
11 negotiate, but they had already agreed on a rate,
12 and they had agreed on the principles around that
13 rate, and when they asked us for certainty, I was
14 prepared and understood their argument on
15 certainty, but I was not prepared to have their
16 rate subject to downward fluctuations, which I
17 think may be being a little stubborn on my part.
18 But I took the position that if they wanted
19 certainty, there was a price for certainty, and the
20 price was a higher rate, and they agreed to it.

21 Q Thank you. Just looking at Schedule C of the
22 amended agreement with respect to the firm mine
23 rate, I am looking at the first page and I see it
24 says applicable to all major industrial customers,
25 and then it seems to be -- the way it is described
26 here, it seems to apply to all industrial

YEC Panel
Cr-ex. (Buonaguro)

1 customers, but then it has specific things that are
2 specific to Minto. For example, under rate it
3 says, (a) demand charge, (b), energy charge and
4 then, (c), fixed charge. So generally speaking, it
5 is applicable to all the customers but then there
6 are special provisions in the schedule that relate
7 only to Minto. Is that how I should understand
8 that?

9 A MR. OSLER: That's how you should
10 understand it. And the history of this rate, this
11 wasn't a rate that was radically changed, in
12 structure, from the rate that applied to the Faro
13 Mine. And if you read the rate that applied in
14 that time period, you would see a demand charge, an
15 energy charge and a fixed monthly charge that had
16 been there for as long as I can remember, which
17 applied to the Faro Mine. If a new mine had come
18 along, we would have had to consider whether
19 another fixed monthly charge should apply to that
20 mine.

21 So the concept in Yukon, under this rate
22 schedule, of the fixed charge being specific to a
23 specific customer, is the way in which it has been
24 addressed. And in this instance, to be technical,
25 we used that part of the rate to include the
26 monthly payments that they had to make under the

YEC Panel
Cr-ex. (Buonaguro)

1 capital cost contribution. So that the monthly
2 payments under the capital cost contribution would
3 be a payment required by law under the rate, and
4 therefore subject to the protection of the Miner's
5 Lien Act in the event of certain circumstances
6 materializing.

7 So there was a reason for it being done that
8 way, and it wasn't necessarily the way we started,
9 and it has never been done that way in the past
10 because nobody has ever made a customer pay these
11 types of amounts in these type of circumstance, so
12 there hasn't been the opportunity to apply it in
13 this way.

14 In fact, the Faro Mine, which was deemed to be
15 charged a certain percentage of the line from
16 Whitehorse to Faro, I think about 85 percent of the
17 line cost from Whitehorse to Faro, going back to an
18 NCPC decision in the mid '80s -- but that was only
19 an allocation, a direct allocation, of the cost as
20 annually charged. It wasn't a capital cost
21 allocation even though the line was, for all
22 effective purposes, only developed for the purpose
23 of serving that mine at the time.

24 Q Thank you. Now, as I understand it with respect to
25 the diesel units, I understood, I think it is from
26 your opening, that the intent is still to purchase

1 the diesel agreements and leave that part of the
2 PPA intact, correct?

3 A MR. MORRISON: That is correct. And I
4 believe, Madam Chair, in our opening, that we were
5 clear that, you know, it is our opinion that the
6 diesel units are still something that we should
7 proceed with, but we clearly heard the Board, and
8 we will, of course, be back to justify that before
9 asking for the diesel units to be put into rate
10 base.

11 Q Now, until that time, can you maybe describe, are
12 you able to and how would you track or separately
13 track the capital related and O & M related costs
14 with respect to those units, so that they are not
15 included in rate base or in operating costs until
16 the Board approves them, if they do approve them?

17 A MR. OSLER: As I think we have
18 answered you in questions that you have asked
19 through interrogatories, the procedure for tracking
20 costs for any capital item, be it part of the
21 Carmacks-Stewart Project, the mine diesel purchase
22 or anything else, is the same procedure as used for
23 tracking any other capital purchase.

24 At the time that the company seeks to change
25 rates by having the Board consider all of its costs
26 and determine which ones should be in rate base for

YEC Panel
Cr-ex. (Buonaguro)

1 the purpose of setting new rates, the matter would
2 be brought before the Board, as it was in 2005, for
3 a determination as to what should be included in
4 the approved revenue requirement. But in all of
5 the years prior to 2005, the company spent money
6 and purchased assets and rolled them into its
7 accounts in exactly the same way as it does today.

8 So the formal role of the Board commences when
9 there is a General Rate Application or an
10 application for revenue requirement review and
11 approval, and until that time, anything that is in
12 "the accounts of the company" and treated in an
13 annual report as part of rate base, is subject to
14 the Board's review at the time of the next rate
15 application. But for the rates on a go-forward
16 basis, it would be changed at that time. I believe
17 that the answer I have given is consistent with
18 what's in UCG-YEC 2-1.

19 Q Thank you. I have a couple of diesel related
20 questions, and forgive me, I just got them and you
21 can explain them to me if I am wrong about what I
22 am asking you about. There is something called the
23 Diesel Contingency Fund, do you understand?

24 A MR. OSLER: Yes.

25 Q If diesel is required at Minto, is the Minto mine
26 able to access that fund?

YEC Panel
Cr-ex. (Buonaguro)

1 A The short answer is no, but I don't know whether
2 anybody would know what that means.

3 Q I know I don't, but I was asked that. I am getting
4 from my client here that the Diesel Fund is
5 inactive at the moment?

6 A There is surplus hydro on the system, so the fund
7 -- neither of the two utilities can access the
8 fund for that reason, and in that sense it is
9 inactive. Just -- the Diesel Contingency Fund is
10 an amount, I believe, regulated on the accounts of
11 YEC only, but I may be wrong on that, given the two
12 companies now manage their affairs separately.

13 It is there when diesel was on the margin,
14 meaning when we run diesel most of the year because
15 we need to; it was there to accommodate
16 fluctuations in our diesel requirements because of
17 changes in the flow of water. In other words, if
18 we came to this Board when the -- when we came to
19 this Board when the Faro mine was operating, last
20 year 1996, '97, diesel was being used year-round on
21 the Whitehorse-Aishihik-Faro system because of the
22 load to the Faro mine. Which means that, if we had
23 a low water year, we had to burn a lot more diesel
24 than if we had an average water year, because our
25 hydro wouldn't have been up to snuff. If we had a
26 flood year, we would burn less diesel. So it

1 fluctuated.

2 So after we had been through this experience
3 of the joys of it fluctuating, one of the thoughts
4 for rate stability was to create the Diesel
5 Contingency Fund so that rates would be set based
6 on long-term average water flows, and the
7 fluctuations would be absorbed through the account
8 called the Diesel Contingency Fund, and it was
9 approved effectively in one of the -- I think the
10 '96/'97 GRA for that purpose.

11 The fund has no role if diesel isn't on the
12 margin, so for that reason, it is inactive. It
13 wouldn't probably become active again until diesel
14 was being used for base load purposes, which is
15 down the road a bit under most of the scenarios
16 anybody is looking at. And thirdly, it is only
17 there for the benefit of Yukon Energy and Yukon
18 Electrical with its Fish Lake plant. Minto would
19 have no right in principle, let alone any other
20 basis, as a non-utility entity to even consider
21 asking to look at the fund except during a rate
22 application.

23 Q Thank you, that was interesting. Now, we
24 understand, from the May 14th YTG news release, a
25 couple of things about what the impacts are,
26 proposed impacts, of this new agreement will be,

1 and perhaps I can just take you through them, and
2 you can maybe talk about them a little bit.

3 Now, the one statement is that the revenue
4 that Yukon Energy earns once the Minto mine is on
5 hydro power will be returned to residential and
6 commercial ratepayers in the form of a rate
7 reduction. And we are wondering if you could
8 quantify what level of rate reduction we are
9 talking about there?

10 A MR. MORRISON: No, Madam Chair, we
11 can't at the moment.

12 Q No?

13 A No.

14 THE CHAIRPERSON: I think the question
15 has been answered.

16 Q MR. BUONAGURO: It just made no sense
17 at all -- all right, thank you.

18 Do you know, what would it take to quantify
19 it; is it something you can do by undertaking?

20 A No, I am not prepared to do that -- I am not
21 suggesting to you that we are not going to do it,
22 but I am not prepared to take it as an undertaking,
23 Madam Chair, because it takes a lot of work, and
24 I do not have all of the numbers to work with,
25 so...

26 Q All right, thank you. Turns out that is the only

YEC Panel
Cr-ex. (Buonaguro)

1 question I wanted to ask on that.

2 I would like to ask you generally about the
3 cost estimates related to the project. And I guess
4 it's maybe implicit in several things you have
5 said, but sort of a general statement, could you
6 give me an idea of how confident YEC is in the
7 current cost estimates?

8 A We have done quite a bit of work, over the period
9 of time, on these cost estimates and we are -- at
10 this point, we are comfortable with the numbers,
11 but as -- and as I mentioned earlier, you know, a
12 project that takes several years to -- from its
13 conception, to get to a construction stage, is
14 subject to, you know, inflationary and cost
15 increases in the marketplace. So in order to
16 ensure that when we finally decide to go ahead with
17 the project, if that is the case, that we have very
18 -- that we are very comfortable with these cost
19 estimates, we have as much certainty as possible.

20 We have two more cost estimate benchmarks
21 that, as I mentioned earlier, we are going to deal
22 with. One will be towards the end of this month
23 when Wardrop, our engineers, will be providing us
24 with their estimation of what our cost estimates
25 for the line should be. So they will give us their
26 best estimate and I am not -- I don't have it in

YEC Panel
Cr-ex. (Buonaguro)

1 front of me, so I can't tell you, but there will be
2 some error margin in it, they will give us a margin
3 of error, they will give us their best estimates on
4 cost, and they will do so on both the line and the
5 substation.

6 So they will have done quite a bit of work
7 around current contract prices for line
8 construction in various areas, current costs for
9 substation, for transformers and those kind of
10 things, and they will be able to say, based on what
11 they now know from the marketplace, that the
12 current estimate should be X, plus or minus some
13 factor, and that will give us and our Board a very
14 valuable piece of information upon which we can
15 decide whether it is still economic and affordable
16 to go forward with final engineering and to
17 tender.

18 The final engineering will be required for
19 tenders, we will get tenders, and those tenders
20 will really be the final test in terms of whether
21 or not these estimates and the next estimates that
22 we are getting from Wardrop -- that is the acid
23 test, I guess, if you will. That is the real --
24 the reality check where we find out, you know, have
25 our estimates really been well done, or has
26 something happened in the marketplace that has

1 driven prices sky high.

2 We all understand and we hear about, you know,
3 the construction boom overall in the oil patch and
4 in western Canada in general, so we understand that
5 some of our costs will go up. The issue here is
6 not -- I don't think it is reasonable to expect
7 that we can manage costs -- our estimates can't be
8 static. They are going to increase because the
9 marketplace and costs will increase.

10 The question here is, can we manage those
11 costs once they are in place, and can we get a
12 construction project that comes out based on the
13 costs of the contract, not based on some estimate
14 that we have had that may be a year or two old.

15 So we are very confident that Wardrop will
16 give us a set of numbers with which it will help us
17 make the next set of decisions, and those numbers
18 will be better than what we have here. We are
19 comfortable with the ones we have, but certainly
20 they will be more current, they will be very
21 precise, these are people who build transmission
22 lines, you know, day in and day out, they have
23 access to suppliers, they have access to the
24 construction companies that do this, and I think we
25 will have some very good costs at that point.

26 Q I have two follow-up questions. At first, you

YEC Panel
Cr-ex. (Buonaguro)

1 mentioned again the Wardrop report. I think you
2 said near the end of the month it is due. Is there
3 an actual due date?

4 A Yes, there is.

5 Q Could I get you to provide --

6 A We have a Board meeting on the 24th, and the costs
7 are due for presentation at that Board meeting.

8 Q Will that report be available to the Board?

9 A To this Board?

10 Q This Board, yes?

11 A Madam Chair, and I do not want you to take this the
12 wrong way, but no, it won't be, particularly
13 because we are very concerned about these costs
14 being out in the marketplace and people using them,
15 you know, to some competitive advantage or to our
16 disadvantage. So those will be costs that will be,
17 from our perspective, confidential and we will not
18 be sharing them. Will we -- are we prepared to
19 tell people whether or not we are still within
20 ranges, perhaps, but not specific numbers.

21 Q Well, why couldn't it be submitted to the Board
22 under confidentiality --

23 A Well, I --

24 MR. LANDRY: Mr. Morrison, if I may
25 for a moment. Madam Chair, this goes to the,
26 probably the heart of the point that I made earlier

YEC Panel
Cr-ex. (Buonaguro)

1 today, that, in these type of situations, what you
2 don't want to have, in my submission, and I think
3 I would submit other jurisdictions respect this
4 point, you don't want to provide information to the
5 public which may have a commercial disadvantage to
6 either Yukon Energy and, therefore, ratepayers
7 ultimately.

8 As I mentioned earlier, you know, releasing
9 information to the Board in confidence is one
10 thing, but it would not be generally, in my
11 submission, available to the public, nor do I think
12 it would be the proper thing to do in the
13 circumstances.

14 So this one is a good example of that because,
15 ultimately, Yukon Energy, obviously on behalf of
16 the company, but effectively for the benefit of
17 ratepayers, is going to go out into the marketplace
18 to get a construction contract with, as
19 Mr. Morrison has said, a reputable company, and the
20 hope is that there will be a number of companies
21 which will compete for that.

22 This type of information is, in my submission,
23 highly confidential and competitive information and
24 should not be released generally to the public.

25 THE CHAIRPERSON: Mr. Buonaguro.

26 MR. BUONAGURO: I accept all that, and

YEC Panel
Cr-ex. (Buonaguro)

1 I have no problem with the confidentiality being
2 imposed on the report. I think that that would
3 then allow it to be submitted to the Board for its
4 review.

5 THE CHAIRPERSON: Do any other parties
6 have any comments they wish to make on this?
7 Before we make a ruling on that, I see that it is
8 probably a good time for a break. So we will take
9 a 20-minute recess, it will bring us back about
10 10 minutes after the hour.

11 (PROCEEDINGS ADJOURNED AT 3:45 P.M.)

12 (PROCEEDINGS RESUMED AT 4:20 P.M.)

13 THE CHAIRPERSON: In a matter of a ruling
14 on the last question, the Board concurs with YEC on
15 the UCG request of the Wardrop report filed with
16 the Board. The Board sees no need to have the
17 report filed as it does contain commercially
18 sensitive information. We don't see the need to
19 have the report filed with the Board.

20 MR. LANDRY: Madam Chair, I wonder
21 if I could, just again on a preliminary matter,
22 just comply with one further undertaking if that
23 would be okay?

24 The undertaking related to the escalator in
25 the amended PPA, and I provided copies to the
26 Registrar of a one-page document that comes from

1 Statistics Canada's website. And it effectively is
2 entitled Implicit Chain Price Indices Gross
3 Domestic Product. The date at the bottom is
4 May 11th, 2007. And that is the document which
5 effectively responds to the undertaking, and the
6 link is indicated on the document at the lower
7 left-hand portion of the page.

8 In terms of the final question, as I
9 understood it, as to when these are updated, that I
10 don't have an answer to that question, and I am not
11 so sure we can find it. We know it is done
12 annually, but that is about as good as we can give
13 at this point in time.

14 THE CHAIRPERSON: Thank you. B-8, so
15 marked.

16 MR. LANDRY: Exhibit B-8, thank
17 you.

18 EXHIBIT NO. B-8:
19 STATISTICS CANADA CONSUMER PRICE
20 INDEX DATED MAY 11, 2007

21 THE CHAIRPERSON: Mr. Percival.

22 MR. PERCIVAL: I didn't catch exactly
23 what you said there when you first came in. Is
24 this about this confidentiality on the --

25 THE CHAIRPERSON: The Board was providing
26 a ruling on UCG's request to have the Wardrop

1 report filed with the Board, and the Board's ruling
2 is that we concur with YEC that the report would
3 not be required to be filed with the Review Board.

4 MR. PERCIVAL: With?

5 THE CHAIRPERSON: With the Utility Board.

6 MR. PERCIVAL: With the Utility
7 Board. I didn't get a chance to speak to this. I
8 thought when you were coming back --

9 THE CHAIRPERSON: I think if we check the
10 transcripts, Mr. Percival, I asked all parties if
11 they had any other comments --

12 MR. PERCIVAL: I'm sorry, I didn't
13 hear.

14 THE CHAIRPERSON: I think if we go back
15 and check the transcripts, before the Board left
16 for its recess to make a ruling, I asked if there
17 were any other parties that wanted to comment on
18 that matter?

19 MR. PERCIVAL: I missed it.

20 THE CHAIRPERSON: Would you like to
21 proceed, Mr. Buonaguro?

22 MR. BUONAGURO: Thank you.

23 Q MR. BUONAGURO: I am just looking at
24 this last exhibit. Do you think you can, in 30
25 seconds or less, tell me how it would be applied?
26 I am sort of guessing that this ends at 2006, so if

YEC Panel
Cr-ex. (Buonaguro)

1 we were moving from 2006 to 2007, and escalating a
2 rate that was set in 2006 for 2007, we would apply
3 something from the first line. How would we do
4 that, just as an example?

5 A MR. OSLER: Well, as an example,
6 assume that we were going -- we had a number in
7 2007 in the first line, and the number was, for the
8 sake of argument, 125.0. So the increase over the
9 two years, in a percentage sense, over the 121.0,
10 125.0 divided by 121.0 would give you the
11 percentage increase in that period of time. The
12 percentage increase would come out to be about 3.3
13 percent.

14 Q That would be applied for 2008? I am trying to
15 figure out.

16 A I would have to check the text as to what we are
17 talking about, but if we were in -- let me just go
18 through this step by step.

19 So the Amending Agreement, clause 6, dealing
20 with item (n) says that the escalation will occur
21 once each calendar year, starting January 1, 2010,
22 so based each year on the latest percentage
23 increase in the 12-month implicit chain price
24 index. So you would look, at January 1, 2010, at
25 the most recent 12-month increase that was on
26 record. You would compare the index for the most

1 recent period of 12 months, and you look 12 months
2 earlier, and see how much it had increased over
3 that time period, and then you would apply that
4 percentage increase to the demand and energy
5 charges for the year 2010. You do the same thing
6 again January 1, 2011, and January 1, 2012.

7 Q All right. So if, in theory, we were trying to
8 escalate numbers on January 1st, 2007, because
9 that's the only thing we can do with this table, we
10 would use the percentage increase between 2005 and
11 2006?

12 A If, hypothetically, we were using this type of
13 language and the words were January 1, 2007, you
14 would look at the information, if -- at the time
15 you were January 1, you wouldn't necessarily have
16 what I am seeing here because this was produced, I
17 see at the bottom of the page, in March, I think.
18 Either March or February, depending how they print
19 it. But you would look at it and you would say,
20 what was the increase in the year 2006, and that
21 would be 121.0 divided by 118.4, minus 1.

22 Q Okay, I think I understand, thank you.

23 I actually only had one other question before
24 we broke, and it had to do with your discussion or
25 your evidence on cost certainty, or your feelings
26 about the estimates you are working with. And you

YEC Panel
Cr-ex. (Buonaguro)

1 mentioned the construction contracts. When the
2 construction contract or contracts are awarded,
3 will they be based on a fixed amount, or will they
4 be variable or some mix, in terms of -- I am trying
5 to get at what kind of variability there will be
6 even after the construction contracts are awarded?
7 A Let's just say it very generally without trying
8 to -- we get advice from the engineers on anything
9 to do with a contract detail. But as a general
10 observation in construction contracts, obviously
11 everyone would like to get -- they take a tendered
12 design, so you are not subject to uncertainty as to
13 the design. They would like to get a fixed price
14 for the exercise. There may be some elements where
15 the quantities are uncertain, or something is
16 uncertain, so they would have the contractor quote
17 a per unit price that could be varied depending on
18 what quantities were actually required. But
19 that's not the norm, in the sense of it's only
20 dealt with where, in the opinion of the technical
21 people dealing with it, that's the best way to
22 protect the interests of the owner in getting the
23 best price.

24 I don't know whether you want to add anything
25 to that.

26 The short answer is, I don't know until we see

YEC Panel
Cr-ex. (Buonaguro)

1 what the engineers specifically recommend for this
2 contract and the Board of Directors disposes of the
3 recommendation. I wouldn't be surprised if it was
4 largely fixed price but had some variable elements
5 for certain items. And don't ask me to elaborate
6 more because it's beyond what I would know at this
7 time.

8 Q That would be, at least to some extent, guided by
9 the report you are waiting for?

10 A Oh, yes. But just so we all get the flavour of
11 what's happening, the reports that are being
12 generated now are doing preliminary engineering,
13 detailed estimate, and the organization for a final
14 design. The final design is a much more costly
15 exercise that goes on for a few months, and that
16 produces the tender documents that would be
17 submitted out for people to bid on, and then we see
18 what the bids are, and the Board of Directors gets
19 a recommendation as to which contractor that made
20 the bid is the best one. That's the point when you
21 begin to know exactly what it is that you are
22 finally ending up with.

23 Some contractors, if they are given some
24 variability, some may bid a little bit differently
25 on some options than others, so all of those things
26 are what an engineer is retained to assess; advise

YEC Panel
Cr-ex. (Buonaguro)

1 on what you should put out there and then do the
2 assessment of the different bids for the owner, for
3 the Board of Directors.

4 Q Thank you.

5 MR. BUONAGURO: Thank you, those are my
6 questions.

7 THE CHAIRPERSON: Thank you.

8 Ms. Marx, are you prepared to proceed with
9 your cross-examination?

10 MS. MARX: Yes.

11 YEC PANEL EXAMINED BY BOARD STAFF:

12 Q MS. MARX: The price index that
13 was just filed after the break here, how did YEC
14 determine -- or why was this index chosen over
15 other indices?

16 A MR. MORRISON: Well, there is a long
17 answer and a short answer. The short answer is we
18 wanted an escalator, and we had a great debate with
19 Minto over which escalator was the right one, and
20 in the scheme of things we settled on this, because
21 it was the one that the parties could come to that
22 could somehow make -- that we could all live with
23 and make some sense. It's not the -- there is no
24 magic to it. It's an escalator, and it was
25 agreeable to the parties.

26 Q Now, regarding the \$10 million funding that the

1 Yukon Government has committed to, did YEC have
2 some input into determining that figure?

3 A No.

4 Q And has the government committed to providing any
5 specific amount of funding for the Stage Two?

6 A No, Madam Chair, they haven't. I didn't mean to be
7 so short with Ms. Marx. The government committed
8 its \$10 million, we had no input, and they have
9 committed to doing some -- making some further --
10 or providing some further assistance for Stage Two,
11 but we have no committed number from them as yet.
12 And, you know, I am not exactly sure at this time
13 when we will see that, but they are committed to
14 providing assistance.

15 Q I presume there would be some discussion with YEC,
16 from the government's part, in determining funding
17 for Stage Two?

18 A Well, I think probably more so in this case, the
19 case of Stage Two, because I think it was fairly
20 clear to everybody at the time that there was a
21 \$10 million gap in the funding for Stage One. When
22 the government came along and said, Well, we are
23 going to fill that gap, they knew what the number
24 was, because we had very clear numbers and we had
25 contribution from Minto and from YDC. We have not
26 concluded any agreement with another industrial

1 customer, so I think the number for Stage Two is
2 less certain -- or certainly less available to
3 anybody at the moment, what might be the difference
4 that might be required. So I would hope that they
5 would come to us and ask, at some point, what
6 assistance is required.

7 Q So would it be fair to say that the contribution
8 that you would be expecting or hoping from the
9 government would be the difference between the cost
10 of the project and any contribution received from
11 an industrial customer?

12 A MR. OSLER: I think you could say
13 that is our reading of the intent of the
14 commitment; they would work with industry and YEC.
15 Which really means you have to come up, YEC, with
16 somebody, an industrial customer, and tell us how
17 much this person is going to apply. And the other
18 part of what they told us was that the -- they will
19 also ensure that it can be constructed in the
20 future without any direct cost to other ratepayers,
21 which we have taken to imply that the overall sum
22 of industry and government would come to the same
23 result for Stage Two as it came for Stage One.

24 Q Okay. And, Mr. Morrison, I believe you said
25 earlier that you haven't had any discussions
26 recently with the other -- the Carmacks Copper

1 Mine?

2 A MR. MORRISON: The company, Western

3 Copper?

4 Q Yes.

5 A Yes, that's correct. As I said, the only contact I
6 have had with them recently is, they asked if it
7 was possible to have a discussion, and basically
8 said to them it certainly is, but we need some
9 time, we are fairly tied up. So the last time we
10 talked to them prior to this was three or four
11 months ago, and we haven't heard from them since.
12 And, at that point I can tell you that our
13 discussion with them, because it was Mr. Osler and
14 I that had the discussion, was we were asking them
15 to please tell us what they were going to do
16 because it would help in our planning as we were
17 trying to go forward, and we got no indication from
18 them.

19 Q So do you not have any idea what their forecast
20 load requirements would be?

21 A I think we don't have -- we have an idea of what
22 their load requirements might be, from old
23 information, and I am hesitant to use it because we
24 started with -- when we started discussions with
25 Minto, we started discussions at 18 gigawatt hours
26 a year. We are now at 32 and going up. And so

1 when I say the information we have is old, it's, as
2 I understand it, several years old, a number of
3 years old. And my experience, again with Minto
4 was, when we first started talking to them, that
5 that number was absolutely the number, it was never
6 going up. They had a plan, they knew the
7 equipment, that was absolutely what they were going
8 to need, was 18 gigawatt hours a year. And as we
9 can see, it's doubled.

10 So I really -- you know, we have very old
11 information. It was never specific information.
12 It was again a forecast, or what they thought they
13 might need, but it was very old.

14 A MR. OSLER: Just so that the record
15 is clear, we used numbers in the Resource Plan,
16 they are the best numbers we have as to length of
17 life and a level of gigawatt hours. We got those
18 numbers from them in the last year, but they just
19 simply took off the shelf the feasibility studies
20 from the mid 1990s, when this had last been looked
21 into in detail, and gave it to us as their best
22 estimate at that time.

23 I think the other thing that everybody should
24 understand is that they are before the YESAB
25 process, as we sit here, getting their permits and
26 approvals for this mine, based on an application

1 that consumes diesel power. But the bottom line is
2 that they have to complete that process before they
3 have got the ability to even consider starting
4 construction. And at some point they have to go
5 into detailed engineering, make their decision when
6 they are prepared to do that, so they can answer
7 the type of questions Mr. Morrison is talking
8 about. In practice, if they did this this time,
9 what would be their design. That's when Minto made
10 its changes, when it was going through its detailed
11 engineering.

12 So a conversation, when it takes place, would
13 want to know where they are in all these processes,
14 and when they would get down to some firm numbers
15 that people could start to use, and when they would
16 be prepared to undertake a discussion about a firm
17 commitment. Because it is a totally different
18 situation than Minto, in the sense that they are
19 not proceeding at the moment, they don't have
20 licenses, they don't have financing, they don't
21 have all sorts of things, and we are very busy
22 doing other things at the moment.

23 Q I think I have a few questions following up on what
24 you both have said.

25 The first is, Mr. Osler, do you have an idea
26 as to when the Carmacks mine, when they hope to

1 proceed with that, or be in operation?

2 A Well, all that they said to us was, and this was
3 last year in the fall, whenever it was we last saw
4 them, last summer or fall, that they had to get
5 through the permit process, which might, if all
6 went lucky, be this summer. They would have to do
7 their design. They would have to get contracts,
8 everything. And once they started building it, it
9 would take a certain period of time. So the
10 earliest that we could see them producing would be,
11 at the very earliest, the fall of 2009, I think is
12 what we've assumed. That doesn't seem very likely,
13 as we sit here today, as a likely event.

14 We would also have to get a YESAB process
15 through and finished for the 11 kilometre line, and
16 that takes, we can see from experience this year, a
17 certain period of time. So we would have to be
18 applying for that this fall if we wanted get a
19 license a year later.

20 So just to work things out, when we put in
21 this application, we said the earliest it could be
22 would be one year later than the Minto, but we are
23 not holding any great credibility to that being a
24 probability, just that was the earliest possible
25 date that we could see them doing it. It might
26 well be a year later, or it might never be if they

1 don't get their financing and don't pull it all
2 together. So it's that kind of knowledge base
3 right today.

4 Q Now, with respect to the load forecast, you
5 mentioned how the Minto load forecast changed
6 significantly from when you first entered into
7 discussions, and I haven't gone back to check the
8 Resource Plan, but perhaps you can just let me know
9 whether the load forecast for Minto changed, from
10 what was given in the Resource Plan, to what was
11 provided in the PPA proceeding?

12 A The short answer, I think, is yes, but let me just
13 check. In a certain period of time, you start to
14 forget.

15 Here we are. On page 44 of the overview
16 document, which was updated in June, it reflected
17 Minto property annual energy in the range of 22 to
18 28 million kilowatt hours a year; and when we had
19 done the report in January of that year, it was
20 about 14 or 15 or 18, something like that. So we
21 already updated it once.

22 The number we used in the PPA application and
23 in the PPA agreement, in Article 4, is a minimum
24 sort of 32 and a half million kilowatt hours a year
25 after the first year of -- they ramp up to that
26 over the first year, but by the time we got to

1 serve them it would be 32 and a half million. And
2 the maximum was at 42, which they tell us they
3 might go to, and they wanted provision for, without
4 radical change to their facilities. So it has gone
5 from 14 or 15 million kilowatt hours in January of
6 '06, to about 22 or 28 in June of '06, up to about
7 32 and a half, when we did the PPA, to 42 range.
8 So it changed quite dramatically.

9 Q And in the Resource Plan overview that you were
10 just mentioning, was a forecast given for the
11 Carmacks Copper Mine?

12 A Yes. The same table shows the number that I was
13 referring to earlier, which was 48 million kilowatt
14 hours over eight and a half years, per year, for
15 the Western Copper Carmacks property, and that came
16 from our discussions with them some time ago. I
17 think we had had a discussion earlier with them
18 that year. And it really just reflected the
19 feasibility study in the 1990s.

20 Q In terms of timing for projects, the Aishihik third
21 turbine, what indication can you give to me as to
22 when that project will proceed?

23 A MR. MORRISON: Well, I am probably not
24 going to be very helpful, Madam Chair. I think,
25 you know, based on the circumstances that were
26 there at the time of the Resource Plan hearing, and

1 the Board's subsequent decision, we were turning
2 our minds to an Aishihik third turbine project in
3 that 2011-2013 range, as I believe the Board
4 indicated. As Mr. Osler mentioned earlier, with
5 the \$5 million contribution, obviously the
6 economics of that project changed fairly
7 substantially. You know, we have been spending our
8 energies trying to get the PPA and the Part 3
9 application dealt with subsequent to hearing that
10 we have a \$5 million contribution, and we have not
11 turned our attention to whether or not we would
12 look at moving the Aishihik third turbine project
13 to a specific time. So is it 2009, is it 2010? I
14 am not trying to be evasive here, we just really
15 haven't sat down and done the analysis and tried to
16 figure out where we can do it with that much
17 certainty. We certainly have addressed it, but I
18 just don't have a very specific time for you right
19 today.

20 A MR. OSLER: If you looked at our
21 answer to UCG-YEC 1-26, we observed that the
22 earliest it might be possible to think about might
23 be 2009, which is what we said in the Resource Plan
24 report. That would be, as Mr. Morrison says, given
25 that we haven't been working on it recently, it may
26 well be ambitious. But it looks like it might be

1 that type of discussion; okay, sit down and look at
2 it, what would be a feasible time period? It takes
3 24 months, we said in the Resource Plan, to go from
4 the time you seriously start looking at it to the
5 time it might be in service. We haven't started to
6 seriously look at it yet. You can do the
7 calculations yourself. I think it would be some
8 time in the next several months before the
9 corporation could turn its mind to it at the level
10 Mr. Morrison is talking about.

11 But it is that type of consideration now,
12 rather than what's the load on the system or other
13 things like that. It's a question of somebody has
14 to sit down and apply their mind to it, retain some
15 resources and come to some firmer decisions than we
16 have been able to offer so far.

17 Q So if 2009 is ambitious, and you are looking at
18 moving it up from what was originally contemplated,
19 would it be fair to say that around 2010 would be
20 when that project would proceed?

21 A When we are looking at analysis, just from the
22 sense of trying to understand options, that would
23 be an assumption that wouldn't be unreasonable, but
24 it would be subject to the conditions that
25 Mr. Morrison just laid out. So if we were now
26 running future assessments for, let's say, what

1 happens if situations, with the funding that is now
2 available, we would assume Aishihik third turbine
3 is a project that will be committed and proceed,
4 and probably it will be committed, let's say by
5 2010 for the purposes of analysis, but that is
6 subject to people doing the work I described
7 earlier. And then we would run the analysis of
8 options with that assumed to be in place, because
9 it is no longer a hypothetical project, it could be
10 delayed into, say, 2013.

11 Q Now, when the third turbine is constructed, will
12 that result in substantial surplus hydro after the
13 Minto Mine closes, whenever that may be?

14 A MR. MORRISON: Madam Chair, if
15 Ms. Marx is asking if -- I guess maybe let me try
16 it this way. If the scenario is that we currently
17 have surplus hydro on the system, and we add the
18 Aishihik third turbine, which gives us some
19 additional ability to deal with peaking diesel, and
20 the Minto Mine closes seven or eight years from
21 now, and given we could assume that we haven't
22 replaced that mining customer with another mining
23 customer, we would have surplus hydro because we
24 would have surplus hydro on the system that the
25 mine was using, and now the mine is not there. Am
26 I kind of getting to where you are at?

1 Q Yes, yes.

2 A MR. OSLER: And if your staff want
3 to check it, I would say go to the PPA application,
4 go to Appendix B, and look at the tables there
5 which show year by year base load and peaking
6 diesel, with and without Minto, at the various
7 loads we are talking about, and with and without
8 the Aishihik third turbine. So the answer is, the
9 best of our knowledge, is right there. Look at the
10 year 2017, which there is no more Minto Mine, and
11 look at what happens to the diesel generation.

12 The bottom line is the Aishihik third turbine
13 might have a year or so with some surplus hydro
14 capability, but it starts to be -- we are still
15 seeing diesel starting to resurface soon
16 thereafter. And I remind you that the base case
17 forecast in the Resource Plan, we were starting to
18 use diesel without any mines around 2020, 2018.

19 So the Aishihik third turbine's economics,
20 without the mines, was based on those types of
21 realities. All the mines did was give it a whole
22 bunch of saving of diesel much earlier, as well as
23 all the diesel it was going to save down the road
24 anyway. So the numbers are all there, they can be
25 reviewed. They are the best estimates we have for
26 the question you are asking.

1 Q Now, with respect to Stage Two of the
2 Carmacks-Stewart Project, if the -- or I should
3 say, when the Aishihik third turbine proceeds,
4 would Stage Two be required?

5 A MR. MORRISON: Madam Chair, again, I
6 hope I have understood this correctly, if the
7 question is would the interconnection of Stage Two
8 be required in order to move excess hydro on the
9 Mayo-Dawson system down into the WAF grid, the
10 answer is, yes, it is still required even with the
11 Aishihik third turbine on, if we have both mines in
12 operation.

13 Q Sorry, could you repeat your answer for me.

14 A If your question is, is Aishihik still required --
15 sorry, is the connection to the Mayo-Dawson grid
16 still required once Aishihik third turbine comes
17 on, if your question related to the fact that we
18 would move still some surplus power from the
19 Mayo-Dawson grid, we would still need to move that
20 power, yes, is the short of the answer.

21 A MR. OSLER: And YUB asked us a
22 question, YUB-YEC 1-3. So the premise for doing
23 Stage Two is there is another mine. Let's assume
24 it's Carmacks Copper; that's what the question
25 did. The diesel displacement from the Aishihik
26 third turbine is 5.4 million kilowatt hours a year

1 on base load, which is 1.385 million litres of
2 diesel fuel a year. The base load diesel
3 requirement with 10 megawatt mine loads, which was
4 the combination in the Resource Plan, and that was
5 way back, that was the analysis done in January of
6 '06, with the Minto at the very low levels I was
7 discussing, about 14, 15 million kilowatt hours a
8 year, 64 million kilowatt hours a year of base load
9 diesel requirement for the years 2008 to 2016 time
10 period with those two mine loads on the system.

11 So with or without the Aishihik third turbine,
12 you are going to have a lot of diesel. In fact,
13 with the Aishihik third turbine, with the
14 connection of the two systems, Stage Two, we still
15 had to add diesel. So the short answer to your
16 question is, yes, you need Stage Two if you have
17 the two mines, with or without Aishihik third
18 turbine, and frankly you are looking around for
19 some other things to help displace diesel.

20 A MR. MORRISON: Ms. Marx, in addition,
21 I think that the tables that Mr. Osler mentioned
22 before, if you look at them, and he can perhaps
23 give us the reference again, but those tables will
24 indicate very clearly, again there is a table that
25 shows with the mines, with Aishihik, with the
26 connection, we still need them.

1 A MR. OSLER: And the ones I am
2 referring to -- the only tables we put into all
3 this process, dealing with Carmacks Copper, were
4 way back in the Resource Plan process, so they are
5 Appendix C of the initial Resource Plan submission
6 in June of '06, and that material, I remind you,
7 was prepared in January of '06. So it reflected
8 the lowest levels of Minto.

9 So if I take today's Minto levels, which are a
10 lot bigger than 14 million kilowatt hours,
11 everything I am talking about indicates you need
12 Stage Two, Aishihik third turbine, and everything
13 else. Frankly, in those days, we also had Marsh
14 Lake at 7 and a half million kilowatt hours a year
15 of extra energy from hydro, which is not currently
16 in any of the planning. And we still had
17 surplus -- we still had base load diesel
18 requirements with the two mines on the system.

19 Q Now, if I go back to Stage One of the
20 Carmacks-Stewart Project, YEC has indicated that it
21 hasn't determined a specific cost level where it
22 would consider the project to be no longer
23 financially viable. Could you explain to me why a
24 stop point hasn't been established?

25 A MR. OSLER: Well, in the answer to
26 that question, at the various stages of this

YEC Panel
Exam. (Board Staff)

1 hearing process, we have given the same answer, we
2 don't have an answer. The challenge of what that
3 number might be is getting more exciting as the
4 economics of the project keep improving. There are
5 many reasons why the Board of Directors will
6 obviously have an assessment when it receives its
7 final submissions as to whether the project is
8 within the realm of being economic or not, given
9 all the assumptions we have made, and the test that
10 it can't adversely affect ratepayers. So we have
11 laid out the test that would be used, but we are
12 very leery, even when the issue is much tighter
13 than it is today, of trying to come up with a
14 number to answer, to a question in a public record,
15 for all sorts of reasons that go to the uncertainty
16 of where the numbers are at at this stage. It does
17 not mean that the Board of Directors wouldn't be
18 advised, at the time it makes final decisions, as
19 to whether this project is still viable and meets
20 the tests that have been laid out, given the costs
21 that come in, but trying to tell you what that
22 number would be today is not a challenge that we
23 have been allowed to undertake today.

24 Q All right.

25 A It would be a much higher number today than it was
26 when we first were asked the question.

1 Q Now, in response to an IR from UCG, UCG-YEC 1-50, I
2 am just going to read you a sentence from --
3 towards the end of this IR response, and it
4 states: Generally, the project will encourage
5 economic development along the corridor and enhance
6 overall system reliability and flexibility
7 benefiting the Yukon as a whole.

8 In terms of improving overall system
9 reliability, could you discuss how reliability is
10 improved for existing diesel customers that would
11 be connected to the grid with the new transmission
12 line?

13 A That is an interesting question, and the short
14 answer is probably no. I am not an engineer, and I
15 haven't studied it, and the diesel customers who
16 are being connected are YECL customers.

17 In other cases where I have seen the
18 discussion, it is always an interesting discussion
19 because a diesel-served community may have a high
20 level of reliability in the technical sense of
21 service, subject to a variety of things, whereas
22 somebody at the end of a long transmission line may
23 be technically interrupted more often, and
24 certainly one would assume that the Pelly Crossing
25 community would keep a diesel facility there in
26 order to give it reliability.

1 So if I assume that the diesel facility is
2 there and the line is there, then it's going to
3 have the reliability of redundant systems in order
4 to protect it. But beyond that, I don't have
5 numbers, and I don't have analyses at our
6 fingertips to help you with that question.

7 MS. MARX: Madam Chair, I see it
8 is five o'clock. I don't have very many questions
9 left. I think I could probably complete in about
10 ten minutes.

11 THE CHAIRPERSON: Is everybody okay with
12 that?

13 Please proceed.

14 Q MS. MARX: Now, in terms of,
15 again, looking at the benefits of the project,
16 benefits that a customer would receive from
17 connection to the grid, does YEC consider that to
18 be a relevant factor, or is it really more of a
19 question of YEC recovering or getting rates that
20 recover its costs?

21 A I am not sure what you are getting at in the
22 question, or that the two points that you are
23 making are either/or issues. And if the question
24 is do we view them as either/or issues or not, the
25 answer, I guess, is no.

26 Q Maybe I can rephrase my question and put it to you

1 this way. In looking at whether the project, the
2 Carmacks-Stewart transmission line project should
3 proceed, is it simply a question of looking at the
4 impact to ratepayers, or is there another level of
5 benefit that should be assessed; for example, some
6 benefit to being connected to the grid?

7 A MR. MORRISON: Madam Chair, I think I
8 have got this understood. From my perspective,
9 there is a very substantive number of, in my mind
10 at least, or maybe the economist's mind or the
11 analyst's mind, that are really the unquantifiable
12 benefits to me of the project, and it is one of the
13 reasons, from the very beginning, that I have been
14 a very strong advocate of this project. I cannot,
15 today, quantify for you the benefits, the long-term
16 benefits to Yukon ratepayers of having these grids
17 connected. But, certainly in looking at this
18 project, I was very keen to proceed into
19 discussions that would really look at, well, what's
20 the long-term need in the territory, and how do we
21 really address that need from a proposition of
22 serving customers over time?

23 One of the things that I don't think we have
24 done a very good job of is thinking about where do
25 we need to be tomorrow in order to serve
26 customers? And it is a difficult issue when you

1 are a regulated utility, both for the regulated
2 utility and the regulator, because you are spending
3 ratepayers' money. So when I look at
4 Carmacks-Stewart and the potential of where can the
5 system grow and how much flexibility could we
6 possibly have in determining how we would supply
7 future generation requirements, to me, the most
8 beneficial project that we could enter into is this
9 connection of these grids. And I look at it for
10 several different reasons. If I have a requirement
11 for new capacity, if the grids are not connected, I
12 have to service that requirement from where the
13 existing grid is, or, if I have no grid, for an
14 off-grid site. And if we are talking off-grid, we
15 are basically talking about diesel options, in
16 terms of what is available to us at the moment,
17 because nobody can afford to build a hydro plant
18 for a specific customer.

19 But let's just use an example of having maybe
20 a large industrial customer appear north of Mayo or
21 Keno Hill or that area, or Dawson. And without the
22 grids connected, we would have to find a generation
23 source in that very specific area. And they are
24 limited. They are certainly limited in the Dawson
25 area, and there's probably more options in the Mayo
26 area.

1 With the grids connected, we may be able to
2 find a generation source here, or close to here, or
3 close to -- let me use Drury Creek as an example
4 because it is in the Resource Plan. Drury Creek is
5 right under the transmission line on the way to
6 Faro, but maybe it's two or three megawatts of
7 power that we need in Mayo, and that's the most
8 economic project and the best location and the best
9 option that we have. And without the grids
10 connected, that option is gone, it's off the
11 table.

12 So I can't quantify those. But to me, it's a
13 big positive, it's a big plus of looking at this
14 line, although I can't come up with numbers here.

15 When we went to talk to the Northern Tutchone
16 First Nations, they made a very strong appeal to
17 us, and in the end I think it is more than an
18 appeal, it's probably a condition of them
19 supporting the project, that the community of Pelly
20 Crossing wanted off diesel, and it badly wanted off
21 diesel. It wanted to look at what options it had
22 to get off diesel. It was important to them.

23 Now, in the end, we can show you numbers that
24 there is a benefit, for all of us, of getting Pelly
25 off diesel, there's an economic benefit. But from
26 their perspective, their approach was it didn't

YEC Panel
Exam. (Board Staff)

1 have anything to do with the numbers. It had to do
2 with what they, as a community, feel strongly
3 about, which is running diesel plants in their
4 community, and they don't want to do that. They
5 seem to be very environmentally conscious, and they
6 are very concerned about the carbon CO2 emissions.

7 So there were several items like that, if I
8 have Ms. Marx's question correct, that to me are
9 very important considerations and benefits of the
10 project in addition to what we already have
11 quantified in the numbers.

12 A MR. OSLER: I would say at the
13 bottom of page 11 and the top the page 12 of the
14 application, we address this in the context of
15 summarizing what was in the YESAB application. I
16 would say the Northern Tutchone Memorandum of
17 Understanding emphasized a number of things that go
18 beyond the strict economics, to do with
19 opportunities in the communities to get this hydro
20 power, to have the opportunity in the communities
21 to develop new hydro or wind or other supplies and
22 sell it into the grid, to have the opportunity in
23 the communities to have access to the same power
24 supply for expansion and development as others
25 have. The economics of the Yukon Government, as to
26 mine development opportunities in this area and the

1 enhancement of taxes and royalties to First
2 Nations, are all relevant considerations directly
3 pertaining to the Minto Mine, but others.

4 So I would say going back a year and a half,
5 or whenever we started this odyssey, it was talked
6 about as an infrastructure project that was
7 initially financed by the Yukon Government. It was
8 attacked that way because it was a long-term
9 infrastructure development for the best interests
10 of the public, the region, and all the ratepayers.
11 Not just the ratepayers. It had a lot of
12 perception of being important. Yukon Energy said
13 we are very interested in doing that, but we have
14 to answer to a Utility Board, so ultimately we have
15 to be able to show it has no adverse impact on
16 ratepayers. And we have pursued that simple
17 thought for a long time now, and the result is The
18 Yukon Government has put up quite a lot of money to
19 make sure that the public benefit elements are
20 properly, I would say, reflected, and the ratepayer
21 is, in the end, going to benefit decisively because
22 of that.

23 Q Thank you. I think I just have a few more
24 questions for clarification. First, it relates
25 back to the Aishihik third turbine, and my question
26 is, if that project proceeds, how would YEC

1 accommodate that asset addition into rates, given
2 that the mine rate is to be fixed for the four-year
3 period, the Minto Mine rate?

4 A Sorry, your question is, if the Aishihik third
5 turbine goes forward, how would we accommodate its
6 costs in rates, in general?

7 Q Yes. What effect would it have if you have a fixed
8 mine rate, versus other rates that aren't fixed
9 like that?

10 A Well, the simple answer, in principle, is that the
11 mine rate is fixed, it won't change. Other rates,
12 if they are reflective of costs at all, might be
13 affected. Absent the government funding, that
14 would be the issue that was there as to timing.
15 The magnitude of the government funding, which is
16 at least 5 million, would leave some residual, I am
17 not sure what it will be yet, that will be going to
18 rate base. If we did a cost of service study, it
19 would be reflected in that cost of service study,
20 for example.

21 But any assessments that we have looked at
22 with the government funding, there, is that the
23 effect of it is very minimal, and the benefits in
24 terms of diesel displacement, particularly if a
25 mine is around, are material, and I wouldn't want
26 to give a guesstimate nowadays as to whether the

1 net effect is positive or negative even in the
2 first few years. It may well be positive in terms
3 of helping rates go down, not helping them go up,
4 because of what it is doing to displace diesel.
5 And the amount of the cost has been so minimized,
6 and it is amortized over the life of a facility,
7 which is not trivial, it's 50 years.

8 So I have not done that assessment, but I am
9 not very concerned, given the economics that we
10 have seen, it would likely have any great material
11 adverse effect. I wouldn't even be surprised if an
12 analyst told me it was positive.

13 Q Now, with regard to the Carmacks-Stewart Project,
14 YEC has indicated that there's no plans for
15 decommissioning that asset because it is intended
16 to provide -- be there long term. But my question
17 is, in terms of decommissioning, will the
18 accounting treatment for the Carmacks-Stewart line
19 be the same as for any other transmission asset?

20 A Yes. I am not sure of the connection to the first
21 part, but it would be treated the same, for
22 example, as the Mayo-Dawson transmission asset, to
23 the best of my knowledge. And the only difference
24 between when we started the Mayo-Dawson project to
25 today is that the Board no longer includes, in our
26 depreciation, provision for salvage, so that would

1 be the way in which the asset would be treated,
2 subject to the Board changing that provision. But
3 that would be the case for any new transmission
4 asset, or generation asset, or any other asset for
5 YEC.

6 Q All right. And my last question relates actually
7 to the peak shaving rate option that was included
8 in the PPA, and it's simply whether YEC has any
9 plans to introduce a rate for retail customers
10 based on the same premise as the peak shaving rate
11 option?

12 A The short answer at the moment is no.

13 MS. MARX: All right, thank you.

14 Those are all of my questions, Madam Chair.

15 THE CHAIRPERSON: Thank you, Ms. Marx.

16 In terms of tomorrow's schedule, we would like
17 to reconvene at 1:00, and Mr. Landry can do your
18 redirect at that time. And for the preliminary
19 argument and reply, we would request parties limit
20 their submissions to 20 minutes. So in that case,
21 we will reconvene tomorrow at 1:00.

22 (PROCEEDINGS ADJOURNED AT 5:10 P.M.)

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10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

INDEX OF PROCEEDINGS

Page

Preliminary matters..... 107

YEC PANEL

Further Cross-exam. by Mr. Buonaguro.... 109

Examined by Board Staff..... 158

INDEX OF EXHIBITS

EXHIBIT NO. B-7:

YEC supplier pre-qualification
application..... 108

EXHIBIT NO. B-8:

Statistics Canada Consumer Price
Index dated May 11, 2007..... 152

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