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**IN THE MATTER OF THE YUKON ENERGY CORPORATION
2008 – 2009 GENERAL RATE APPLICATION**

Heard before the

YUKON UTILITIES BOARD

May 5-6, 2009

**REPLY ARGUMENT OF JOHN MAISSAN
LEADING EDGE PROJECTS**

INTRODUCTION

Leading Edge Projects Inc. (Leading Edge) presented Final Argument on a number of issues related to the Yukon Energy Corporation (Yukon Energy) General Rate Application (GRA) on May 22, 2009. Leading Edge asserts that all of its arguments are still valid and has not altered its position on these matters as a result of Final Argument by the applicant and other intervenors to this proceeding. As with other intervenors, Leading Edge's silence on issues does not necessarily indicate agreement, it indicates that Leading Edge has nothing further meaningful to add to the evidence on the record and that the Board has the information it needs to make the appropriate decisions.

There are a few matters raised in Final Argument by the parties that Leading Edge believes deserve some additional specific mention and discussion. These matters are presented below.

1. Residential runout rate increase

In its Final Argument (P32-35) Yukon Energy reiterates its desire and justification to begin residential rate rebalancing by increasing the runout rates and decreasing the first block energy rates. Yukon Energy refers to OIC 1995/90 and GRA decisions of 1993 and 1996/1997. However, the situation at that time bears no resemblance to the present situation.

In 1993 to 1997 the Faro mine was operating and the WAF system required about 90 GWh per year of baseload diesel generation representing over 20% of the system energy requirements. This was costing about \$7,000,000 per year at \$0.30 per litre. The forecast for 2009 is for 1.26 GWh of peaking diesel only costing about \$0.58 million (Application Tables 2.5 and 3.1). This diesel represents 0.3% of WAF system energy requirements. The difference is about an order of magnitude in costs and two orders of magnitude in energy.

So in reality there is no comparison between the relative costs of diesel fuel now and in the mid 1990s.

Leading Edge agrees that it is important to set appropriate price signals in rate structures, however, this matter has been frustrated by significant YDC and YTG subsidies of the CSTP Phase I project. Had these subsidies not been made there would have been an opportunity to send appropriate price signals to retail consumers by recovering the increased revenue requirement through increases in runout rates without sending the opposite signal to 70% of residential customers through lower first block rates.

Furthermore the Aishihik storage reservoir was at a low level due to a series of drought years in the mid 1990s and at present it is completely full. So there is or will be an opportunity to use water from storage to defer diesel generation for a year or two after the mine loads materialize.

All these factors considered there is no earthly reason we cannot take a few months now to defer these requested residential runout and first block changes and give some very

serious and considered thought as to how to structure all retail rates to provide retail customers with meaningful price signals. The forthcoming cost of service study and Phase II GRA will allow us to do just that.

Recommendation: That the Yukon Utilities Board (the Board) denies Yukon Energy's request to change the residential runout rates at this time and defer the rate design issues to a Phase II GRA when all retail rates and rate design can be addressed by rate zone.

2. Mayo B

Yukon Energy reiterates its sense of urgency with respect to the need for new renewable power supplies on P55 of its Final Argument and reiterates its views of the Mayo B project (P54-56). Yukon Energy says that it is the only project that could be brought on line in the time frame in which they believe the power may be required. This is not true – wind energy projects could be brought on line in the same time frame but Yukon Energy has not done any work on advancing permitting and engineering to keep that option available. Nor has Yukon Energy looked at other alternatives such as IPP power supplies or DSM with the same level of urgency that they appear to have assigned to Mayo B. Furthermore these alternatives, and this is certainly the case for wind energy, may provide energy at significantly lower cost than Mayo B.

The cost of energy from Mayo B (including any reasonable portion of the required CSTP Phase II project required to make it useful) in its early years before depreciation reduces the annual cost of capital payments and depreciation payments, will be as high or higher as the Yukon Energy forecast for diesel generation in 2009. So why does Yukon Energy have a sense of panic about this project?

Yukon Energy says that Mayo B would displace 38GWh per year of baseload diesel generation. Leading Edge believes that this is not likely to be the case in the short term even if all of Alexco, Western Copper, and the Faro mine loads materialize. There would still be a hydro surplus at times in the summer as there was when the Faro mine was operating in the 1990s.

Recommendation: That the Board orders Yukon Energy to provide comprehensive feasibility and cost benefit studies on all supply alternatives and supply alternative mixes including IPP power supplies, wind energy, and DSM.

3. DSM

Yukon Energy on P61-62 of their Final Argument agrees to work with YECL and to provide to the Board a plan for DSM at their next GRA. In Leading Edge's opinion their next GRA is not likely to take place in 2010, and deferral of any meaningful action in time to begin to have an effect when new power supplies are needed will require action beginning immediately. DSM should be (should have been) treated with the same level of urgency, if not greater, than Yukon Energy is treating Mayo B and other hydro projects.

Yukon Energy and YECL should be working with partners such as the Energy Solutions Centre and Yukon Housing (example possibilities only) beginning immediately on appropriate DSM measures for implementation by October 2009, and be implementing their own DSM programming by January 1, 2010.

Recommendation: That the Board order Yukon Energy and YECL to begin cooperative DSM work (with partners as appropriate) immediately and that the Board allow Yukon Energy and YECL a deferred cost of up to \$100,000 each in 2009 and up to \$150,000 each in 2010 subject only to a report (to be filed with the Board and interested parties) of the meaningful DSM activities undertaken in each year for those costs, and that additional cost effective expenditures above these amounts would be considered at the next GRA.

4. Aishihik third turbine

The Utilities Consumers Group (UCG) indicates that it is not in support of the Aishihik third turbine project (P6 and 25 of their Final Argument). The Yukon Electrical Company Limited's (YECL) position is not clear about this project, but as they appear to oppose deferred study cost levels they may also be implicitly opposed to this project.

Leading Edge disagrees with those who oppose this project – Leading Edge believes that this is a very appropriate project and that its development should continue unabated. This project will provide an additional 7 MW of hydro peaking capacity during the winter when it can directly displace the peaking diesel that is presently being used thereby reducing diesel peaking costs immediately.

The additional peaking capacity will also provide the ability to make fuller use of surplus hydro for secondary sales further increasing revenues for Yukon Energy and YECL and their customers.

At a capital cost of about \$9 million, the cost of capacity of the Aishihik third turbine is less than one tenth of the projected Mayo B cost and the additional energy it will provide will be about half the cost of energy from Mayo B. Leading Edge believes that this project was cost effective for consumers without any YTG subsidies.

Recommendation: That the Board order Yukon Energy to proceed with final design and construction of the Aishihik third turbine project.

5. Other deferred study costs

Since Leading Edge confesses some uncertainty with respect to YECL's position on the Gladstone diversion, Atlin winter storage, and Marsh Lake fall and winter storage projects, it would like to reiterate its support for advancing these potentially cost effective projects.

Recommendation: That the Board order Yukon Energy to continue with study work on the Gladstone diversion, Atlin winter storage, and Marsh Lake fall and winter storage projects.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "John Maissan". The signature is fluid and cursive, with the first name "John" being more prominent than the last name "Maissan".

John Maissan
Leading Edge Projects
May 27, 2009