

**IN THE MATTER OF YUKON ENERGY  
CORPORATION APPLICATION FOR  
REQUESTED APPROVALS RELATED  
TO THE POWER PURCHASE  
AGREEMENT BETWEEN YEC AND  
ALEXCO RESOURCE CORP. ET AL.**

**FINAL ARGUMENT  
YUKON ENERGY CORPORATION**

**DECEMBER 8, 2010**

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## **PREFACE**

### **OVERVIEW OF APPLICATION**

Yukon Energy ("YEC") filed an application (the "Application") on September 28, 2010 seeking an Order from the Yukon Utilities Board ("YUB" or "the Board") for requested approvals related to the implementation of the Power Purchase Agreement ("PPA") that Yukon Energy has recently concluded with Alexco Resource Corp. et al. ("Alexco"). The PPA was provided as an Attachment A to the Application (capitalized terms in this Argument that are related to the PPA are as defined in the PPA).

The Board in Order 2010-10 ordered the Application to be of limited scope and determined by way of a written proceeding with one round of interrogatories and written argument. Order 2010-11 granted intervenor status to Yukon Electrical Company Limited (YECL); John Maissan (Leading Edge); and Utilities Consumers' Group (UCG), and observer status to City of Whitehorse.

### **SUMMARY OF REQUESTED APPROVALS**

In relation to the Alexco PPA, YEC is requesting an Order of the Board approving:

- A Fixed Charge of \$7,289 per month for service as permitted by Rate Schedule 39;
- A customer contribution by Alexco for all of the Capital Costs (a) for the Initial Mine Facilities Spur and (b) to negotiate and conclude the PPA, as well as the Capital Costs for any other Mine Facilities Spurs that YEC agrees to develop in the future;
- The provisions in the PPA that oblige Alexco to pay for future Decommissioning Costs for the Mine Facilities Spurs; and
- Section 6.1 of the PPA, whereby the Electric Demand and Electric Energy at the Points of Delivery will be totaled and only one bill will be issued for such Points of Delivery<sup>1</sup>.

Yukon Energy's Application and interrogatory responses fully address and support the reasonableness and necessity of the requested approvals.

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<sup>1</sup> See Section 4 of this Argument. Tab 5 of the Yukon Energy and Yukon Electrical 2009 Phase II Rate Application sets out proposed adjusted Terms and Conditions of Service wherein Section 7.7 would allow such totalized metering where (as in this PPA) it is specified in a contract. YEC notes that under the current ESRs, Section 4.7 would not permit totalized metering in this instance as the Points of Delivery are not located within a radius of a half a mile of each other – and therefore, until such time as the current ESRs are modified to so permit this totalized metering, YUB approval is being sought to proceed with the above provision of Section 6.1 of the PPA.

## **OVERVIEW OF YUKON ENERGY FINAL ARGUMENT**

Yukon Energy's Final Argument is divided into the following Sections:

- Limited Scope of PPA Application;
- Ratepayer risks significantly mitigated by PPA approach adopted;
- Principled basis for requested approvals; and
- Other issues.

### **1.0 LIMITED SCOPE OF PPA APPLICATION**

As determined by the Board in Order 2010-10, and as compared to the recent Minto PPA review, the approvals currently being sought involve a limited scope Application.

The Minto PPA as finally approved by the YUB was used as a template for the Alexco PPA; however, the Alexco PPA is considerably simplified because of the different circumstances surrounding the negotiation of the respective Agreements, and the uniqueness of the provision of service to each of the Mines. YECL-YEC-1-4(k) describes the similarities and differences between the Minto and the Alexco PPAs. This response confirms that both PPAs apply the same Firm Mine Rate, the same general principles for Capital Cost Contributions and Decommissioning Costs, and contain many other similar provisions.

YECL-YEC-1-4(k) also highlights the areas of risk included in the Minto PPA that required complex loan and security and take-or-pay arrangements that were not required or included in the Alexco PPA<sup>2</sup>. With regard to the Alexco PPA, there is no comparable new bulk transmission required to be developed, no loan provisions and YEC is not required to purchase any on-site diesel units. Alexco is simply paying full capital costs for the Initial Mine Facilities Spurs shortly after commissioning, negating the need for the more complex arrangements in the Minto PPA.

### **2.0 RATEPAYER RISKS SIGNIFICANTLY MITIGATED BY PPA APPROACH ADOPTED**

The Alexco PPA provides for Alexco to pay, shortly after Commencement of Delivery to each Mine Facility, the full capital costs of such new Mine Facilities Spur that YEC agrees to develop to provide grid service to the Mine Facilities; the PPA also requires Alexco to pay the full costs to negotiate and conclude the Agreement, and for any future Decommissioning Costs. Accordingly, the Alexco PPA ensures that any

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<sup>2</sup> The Minto PPA included more complex arrangements based largely on the fact that Yukon Energy was, under the Minto PPA, loaning Minto the funds to provide capital contributions to the CSTP Stage 1 Line and Minto Spur line, and Minto was to repay these funds over a 7 year period. YEC was also incurring, under the Minto PPA, potential net costs for CSTP Stage 1 development, and sought security and minimum annual payments (take or pay provision) to offset risks related to such costs.

cost risks related to these specific new facilities will not be shouldered by other Yukon ratepayers in the future.

As reviewed in YUB-YEC-1-5(a), YEC has already invoiced Alexco, and Alexco has paid, for 50% of the estimated Capital Costs as provided for in Section 5.1 of the PPA. By the end of December YEC will finalize the Capital Costs and invoice Alexco for the remaining portion<sup>3</sup>.

### **3.0 PRINCIPLED BASIS FOR REQUESTED APPROVALS**

Based on past Yukon precedent and current YEC practice industrial customers are required to make contributions towards existing and new transmission infrastructure built specifically to provide industrial service to their mine site<sup>4</sup>.

The charges and capital cost contributions to be paid by Alexco pursuant to the PPA are consistent with the principles included in the Minto PPA (approved by the Board in Order 2007-5), and as outlined in Tab 5 of the Yukon Energy and Yukon Electrical 2009 Phase II Rate Application.<sup>5</sup> For more detail on precedents and directives regarding the charges applicable to Alexco specifically, and Yukon Major Industrial Customers generally, see YUB-YEC-1-3(c) and UCG-YEC-1-17(g).

#### **3.1 BASIS FOR FIXED CHARGE FOR SERVICE TO ALEXCO MINE AND MILL SITES AS PERMITTED BY RATE SCHEDULE 39**

In determining the fixed charge for Alexco, YEC relied upon the precedent and rationale for the fair allocation of costs to the Faro Mine as provided in the 1985 NEB report<sup>6</sup>. The relevant analysis to apply this precedent to Alexco is provided in Attachment B of the Application.

YECL-YEC-1-4 (d and j) contrasts the circumstances of the CAMC/Faro mine and the Alexco PPA, and concludes as follows:

“There is sufficient similarity in the circumstances of each of the Whitehorse-Faro line (in relation to CAMC/Faro) and the Mayo-Keno line (in relation to Alexco), including past commitments of YEC as regards capital costs spent on this line after the UKHM closure, that there is a basis to continue to apply the principles established in 1985 by the NEB and previously endorsed and approved by the YUB. In addition, in the case of Alexco there is a contractual arrangement through the PPA that provides specifically for this Fixed Charge allocation.”

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<sup>3</sup> See also response to LE-YEC-1-4(a) and (b).

<sup>4</sup> The Yukon Energy and Yukon Electrical 2009 Phase II Application (Tab 5, Section 5.3.5) summarizes the principles applied in Yukon related to investment in facilities required to provide service to industrial customers.

<sup>5</sup> See also Application, pages 3-7.

<sup>6</sup> See IR responses UCG-YEC-1-4 (a),(f) and (g) for copy of relevant section of the NEB 1985 report that determined the 85% direct allocation to the Faro Mine. See YUB-YEC-1-3(a) and YUB-YEC-1-4(a) for review of previous YUB decisions where the NEB precedent was accepted.

Further, the 85% allocation of line fixed costs to Alexco fully considers Alexco's estimated share of the load on the Mayo-Keno line (at 98%), which for all practical purposes also appears to reflect the Faro Mine actual share of the Whitehorse Faro line load in 1983/84 referenced in the 1985 NEB report (96.8%). As in the Faro Mine case, it is understood that under any future COS determination the Alexco mine (as a member of the Industrial customer class) would also be assigned its share of the pooled costs for this line (i.e., the remaining 15% of the fixed costs not assigned directly to Alexco).<sup>7</sup>

### **3.2 BASIS FOR CUSTOMER CONTRIBUTION FOR CAPITAL COSTS AND DECOMMISSIONING COSTS**

As noted above, based on Yukon precedent, industrial customers are required today to make contributions towards new transmission infrastructure built specifically to provide industrial service to their mine site<sup>8</sup>.

As noted at page 7-8 of the Alexco PPA Application letter (dated September 28, 2010), the Alexco Decommissioning Cost arrangements are based on the provisions outlined in the Minto PPA. Similar to the Minto PPA, at the appropriate time Alexco will make Decommissioning Cost Payments (based on the Estimated Decommissioning Costs) to be deposited into the Accrued Decommissioning Fund account by YEC and invested at 6.5% interest per annum. Under Part 11, this amount will fund YEC's regulated rate base during the Term. The Estimated Decommissioning Costs will for any Mine Facilities Spur (or part thereof) be an amount equal to 25% of the Capital Costs incurred by YEC for that Mine Facilities Spur (or part thereof)<sup>9</sup>.

### **3.3 PAYMENTS FOR FUTURE MINE FACILITIES SPURS**

Pursuant to Section 4.5 of the PPA, Alexco agrees to pay to YEC the Capital Costs for any subsequent Mine Facilities Spurs that YEC agrees to develop. This includes provision for payment of 50% of YEC's estimated costs for such facilities prior to YEC ordering equipment for, or construction of such new Mine Facilities Spurs. The balance of such Capital Costs will be paid by Alexco to YEC within 30 days of notice

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<sup>7</sup> See YUB-YEC-1-4(d). Details for calculation of fixed monthly charge – Detailed calculation of the agreed upon Fixed Charge is set out in Attachment B of Application and YUB-YEC-1-3(b); YUB-YEC-1-14(a) provides the source for the 2008 actual transmission costs for Mayo-Keno line used in these calculations. YUB-YEC-1-2 reviews future adjustments to the Alexco Fixed Charge if another Major Industrial Customer were to connect to the Transmission Facilities.

<sup>8</sup> This principle was specifically reviewed and addressed during the Minto PPA hearing (and accepted by the Board in Order 2007-5). See YECL-YEC-1-4 (c) re: Minto Spur precedent. See LE-YEC-1-4(a) and (b), UCG-YEC-1-8 and UCG-YEC-1-9 re: actual Alexco Capital Costs to date; the response to YUB-YEC-1-6 clarifies that the Capital Costs do not include costs for the current regulatory proceeding; YUB-YEC-1-5(b) and YUB-YEC-1-7 confirm that working capital costs (AFUDC) are included in the Capital Costs. YUB-YEC-1-14(c) and (d) confirm that Alexco derives no benefit from CSTP Stage 2, and therefore no costs for the CSTP are directly assigned to Alexco Capital Costs.

<sup>9</sup> Decommissioning cost payments are addressed in the Application (at page 7-8) and in responses to UCG-YEC-1-19 (details of Accrued Decommissioning Fund); YECL-YEC-1-2; YUB-YEC-1-10 (costs included in decommissioning); YECL-YEC-1-4(k) (addresses similarities and differences with Minto PPA); and YUB-YEC-1-8.

by YEC that such Mine Facilities Spurs are commissioned and available to receive Grid Electricity to provide to Alexco.

## 4.0 OTHER ISSUES

### 4.1 CLARIFICATION OF ISSUES AND REQUESTED APPROVALS RE: BILLING AND TOTALIZED METERING

The requested approval related to totalized billing is reviewed in the Application, and in LE-YEC-1-5, YECL-YEC-1-3, and YUB-YEC-1-1. The response to YUB-YEC-1-1(a) provides a sample bill calculation. In summary, the following are noted:

- YEC is seeking approval of the Board for the totalized metering provision of the PPA in the event that the YUB chose not to approve, or delays approval of, Section 7.7 of the Terms and Conditions. This approval would not be required if Section 7.7 of the Terms and Conditions is approved<sup>10</sup>.
- YEC is seeking approval of the totalized metering provision of the PPA on the grounds that the ½ mile radius criteria in the ESR (T&C) is a guideline that acknowledges the inter-dependency of two points of service contributing towards the existence of one mining operation. YEC also seeks approval to ensure, in any event, that only one Fixed Charge amount of \$7,289 (or any other such amount as approved by the Board) is billed per month to Alexco, regardless of the number of Points of Delivery for Major Industrial customer service to Alexco (Rate Schedule 39)<sup>11</sup>.
- When addressing energy and demand charges (separate from the Fixed Charge) the parties at the outset only contemplated totaling the energy and demand charges applicable to each Point of Delivery onto one bill. However, subject to the Board confirming that totalized metering can be applied in this instance, Alexco and YEC may in future arrange to totalize demand readings in the interest of promoting demand management. The current ESRs (as well as the proposed new Terms and Conditions) require that the Customer pay the incremental costs associated with totalized metering. Yukon Energy will be installing data loggers to monitor and determine the coincident peak associated with the Alexco industrial load, and will share this information with Alexco<sup>12</sup>.
- The rationale for having one total bill is to ensure a fair and reasonable Fixed Charge and to provide the opportunity for Alexco to manage its overall demand during peak winter months so as to minimize its overall maximum load on the grid. Accordingly, Alexco would not be

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<sup>10</sup> See YECL-YEC-1-3(a), (d) and (e).

<sup>11</sup> See YUB-YEC-1-1(b).

<sup>12</sup> See LE-YEC-1-5; also the sample monthly bill in YUB-YEC-1-1(a).

responsible to reimburse other customers in this rate class for any difference in rate revenues that result from totalized metering vs. individual bills<sup>13</sup>.

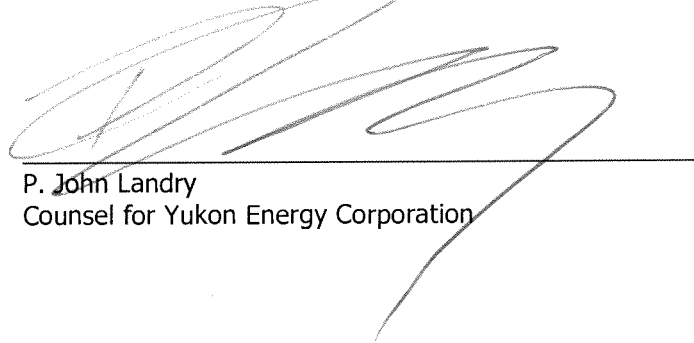
#### **4.2 SEASONAL RATES PROVISIONS**

The Firm Mine Rate (Rate Schedule 39) as approved by the Board includes some seasonal rate elements, namely the winter demand ratchet and the winter contract load provisions – however, no provision is made in this rate for seasonal energy rates<sup>14</sup>.

#### **4.3 CURRENT STATUS OF ALEXCO INDUSTRIAL OPERATIONS**

The Alexco industrial operations are currently being served with Grid Electricity at the Firm Mine Rate<sup>15</sup>.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED**



P. John Landry  
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December 8, 2010

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<sup>13</sup> See YUB-YEC-1-1(c).

<sup>14</sup> See LE-YEC-1-7 and UCG-YEC-1-21.

<sup>15</sup> As reviewed in YUB-YEC-1-9, the Commercial Operation Date for the combined Initial Mine Facilities (when Alexco first received Grid Electricity from YEC for a combined Electric Demand at the Points of Delivery in excess of 1,000 kW) was November 1, 2010. Connection dates for these facilities as well as their operating demand to date are reviewed in response to YEC-YEC-1-1 (see also UCG-YEC-1-1). The current expected life of the Alexco load is reviewed in YECL-YEC-1-4(h).