



February 23rd, 2007

BY FAX: 867-667-5059

Yukon Utilities Board
Box 31728
Whitehorse, Yukon
Y1A 6L3

Attn: Ms. Deana Lemke
Executive Secretary
Yukon Utilities Board

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

Dear Ms. Lemke

The Yukon Conservation Society (YCS) thanks you once again for this opportunity to participate further in the Yukon Utilities Board hearing of the Yukon Energy Corporation (YEC) 20-Year Resource Plan: 2006 – 2025. This submission is regarding Board Order 2007-01, detailing the Power Purchase Agreement between YEC and Minto Exploration Ltd.:

In order to provide clarity, YCS has posted areas of concern from the YEC/Minto PPA and then stated the YCS information request immediately beneath it.

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3.2 TIMING REQUIREMENTS AND CONDITIONS

Timing is critical to the viability of the Transmission Project, and in order to achieve an in service date by late 2008 project construction must commence by the fall of 2007. Consequently, pursuant to section 3.1 of the PPA, the following timelines must be achieved:

- **February 15, 2007:** Minto will have received written approval from Macquarie of Minto's execution and delivery of this Agreement and the YEC Security and Minto will have provided a copy of such approval to YEC;
- **February 15, 2007:** YEC will have entered into an agreement with Macquarie and Minto governing the respective rights and obligations of each party;
- **February 28, 2007:** YEC will have completed its due diligence review of Minto and the Mine;

- **March 31, 2007:** Unless the MRI Agreement has been amended (as is currently being renegotiated) such that MRI no longer has security over the Copper Concentrates, YEC will have entered into an agreement with MRI and Minto governing the respective rights and obligations of each party;
- **April 30, 2007:** YUB will have approved the PPA including the provisions respecting rates, the Capital Cost Contribution, Mine Net Revenue Account, the minimum Take-or-Pay and the YEC Security, YEC's purchase of the Diesel Units, and Decommissioning Costs;
- **May 31, 2007:** Minto will have provided to YEC the YEC Security as required under the PPA;
- **June 30, 2007:** The Mine will have begun commercial operations as defined in the PPA;
- **June 30, 2007:** The right of way will have been secured for the segment of the Mine Spur over the Selkirk First Nation settlement lands on the west side of the Yukon River to the satisfaction of YEC;
- **June 30, 2007:** YEC will have obtained all licences, approvals, consents, and right of ways (excluding the Mine Spur Right of Way which is addressed above) as required by YEC, acting reasonably, to design, engineer, procure, construct, commission and operate the Transmission Project;
- **June 30, 2007:** YDC will have obtained any and all approvals as required under OIC 1993/108 for YDC to allow YEC to proceed with the construction and development of the Transmission Project;
- **July 31, 2007:** YEC will have received tenders for equipment and materials and as otherwise required for construction of the Transmission Project, satisfactory to YEC; and
- **July 31, 2007:** The YEC Board of Directors will have approved contracts for the construction of the Transmission Project.

If any of the above conditions are not either fulfilled or waived on or before the date specified the PPA will be terminated.

Timely completion of the Transmission Project prior to the end of 2008 will enable YEC to supply electricity to Minto, displacing ongoing baseload use of the mine Diesel Units and securing economic benefits for both Minto and Yukon electricity ratepayers.

Yukon Conservation Society Information Request

Can YEC provide clarification on “If any of the above conditions are not either fulfilled or waived on or before the date specified the PPA will be terminated.”

- **Has the following timeline been met?**
 - **February 28, 2007:** YEC will have completed its due diligence review of Minto and the Mine;
- **Has YEC received assurances, within reason, from YESAB, YUB, FN's and other regulatory bodies that the YEC/Minto PPA timelines will be met?**
- **Is YEC prepared to adjust timelines, given that that approval dates are for the regulatory bodies to determine?**
- **Has YEC a backup plan if the timelines stated above are not met?**

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4.1.3 Low Grade Ore Processing Secondary Energy Rate

Approval of the Low Grade Ore Processing Secondary Energy Rate (Rate Schedule 35), as set out in Schedule D of the PPA, is sought for Secondary Mine Processing Energy Electricity delivered by YEC to Minto. The Low Grade Ore Secondary Energy Rate is interruptible and available only from surplus hydroelectricity supplies. It is only available for use in processing low grade copper ore as defined in the rate schedule.

Secondary energy is available from time to time under the rate in Schedule D at 6.0 cents per kW.h⁸ and it is only available to Industrial Primary customers supplied under Rate Schedule 39 in parts of the WAF and Mayo-Dawson systems as determined by YEC based on the availability of surplus hydro as well as transmission capacity. The above rate is only applicable to Industrial Primary customers applying for such service and satisfying all of the conditions set out in the rate schedule, including:

- Secondary Energy under this rate is to be used only at a mine site engaged primarily in copper production for processing ore with less than 1% copper content ("**Low Grade Ore**"), and the customer will provide YEC with auditable reporting and controls as reasonably required by YEC to confirm that this secondary energy has been used only to process Low Grade Ore (any such energy use that is not so confirmed will be charged at the Industrial Primary Rate).
- The customer is also to provide reporting as is reasonably required by YEC to determine which portion of its recorded Demand and Energy in any billing month relates to such secondary energy use (any such Demand or Energy use that is not so confirmed will be charged at the Industrial Primary Rate)⁹.
- Service provided under this rate schedule will only be surplus energy remaining after supplying customers served by Rate Schedule 32 Secondary Energy service.

Service under this rate will not contribute to WAF winter peak or the running of diesel generation and will require no more than 24 hours notice for YEC to stop its use by any customer.

Section 4.1(b) of the PPA provides maximum annual use levels by Minto of Secondary Mine Processing Energy Electricity (including, until June 30, 2015 or when the Capital Cost Contribution plus accrued interest is fully paid (whichever is earlier), a maximum annual use limited to permitted use in excess of 32 GW.h/year)¹⁰.

⁸ YEC secondary retail customers, as at the last quarterly rate adjustment for Rate Schedule 32 (based on changes hearing oil prices), pay 5.9 cents per kW.h. Whereas Rate Schedule 32 rates are subject to quarterly adjustment, the new Rate Schedule 35 will remain fixed.

⁹ Secondary Energy in this instance will be used to process Low Grade Ore in the same processing equipment used to process high grade ore with Mine Firm Electricity; thus, unlike rate Schedule 32 Secondary Energy, this Rate Schedule 35 energy will not be separately metered from firm energy supplied by YEC. However, metering of the relevant processing equipment would at least allow for separating this processing use of electricity from other uses at the Mine Site.

¹⁰ For the remaining years of the Mine life, the maximum use per year is up to the maximum Electric Energy permitted under Section 4.1(a) (which is currently contemplated to be 42 GW.h per year, subject to Minto giving YEC six months notice to obtain this level of permitted maximum use), subject to the overall Electric Demand not exceeding 6.0 MVA or the Maximum Electric Demand as determined under Section 4.5.

Yukon Conservation Society Information Request

Can YEC provide clarification on the following aspects of the Low Grade Ore Processing Secondary Energy Rate:

- **Why, or how, was the 1% figure arrived at?**
- **Why "only at a mine site engaged primarily in copper production for processing ore with less than 1% copper content"? Would other mine operators interested in the Low Grade Ore Processing Secondary Energy Rate be bound just by the 'copper' rule, or would it apply to zinc, lead etc.**
- **What if the ore has 1% copper, but also has other percentages of metals such as gold or zinc? Is the Secondary Energy Rate still applicable?**

- **Will YEC be prepared to provide the Low Grade Ore Processing Secondary Energy Rate for every mine with an ore body with less than 1% copper?**

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4.2.2 Diesel Units at the Mine

The PPA requires YUB approval of provisions respecting the YEC purchase of the four Diesel Units (each with a continuous rating of at least 1.6 MW) as set out under Part 10 of the PPA for \$2.24 million¹³, with YEC to provide payments to Minto in this regard on the same basis as Minto's Mine Spur Capital Cost Contribution payments, i.e., in equal blended monthly payments of interest and principal over the first seven years of YEC service. The negotiated Diesel Units Purchase Price for the assignment to YEC of the Cat Leases for the Diesel Units reflects a proxy for the estimated market value in the event that Minto had proceeded to buy out the Cat Leases and then sell these units to other off-site users (as had been planned to occur after YEC commenced delivery of Grid Electricity to the Mine).

Upon the start of YEC's delivery of Grid Electricity to the Mine, YEC will assume from Minto the Cat Leases¹⁴ for the four 1.6 MW trailer mounted diesel units at the Mine. YEC's obligation to take this assignment of the Diesel Units is subject to various conditions set out in Section 10.2. These conditions include prior completion of a minor overhaul on each unit (and a major overhaul on any unit with 16,000 hours or more of operation), written consent from Caterpillar to the assignment to YEC of the Cat Leases, certain representations and warranties from Minto, Minto's ongoing obligation to pay Caterpillar all lease and other amounts payable under the Cat Leases, and to pay the amount required to be paid on the termination or expiry of the Cat Leases on or before September 6, 2009, as well as provisions for subleases, easements, and an operating agreement. So long as YEC maintains the Diesel Units at the Mine, Minto will provide YEC with fuel and operator assistance under an operating agreement. Under the PPA, Minto will be allowed, under certain circumstances, to require that YEC run the Diesel Units to supply the Mine with electricity at Minto's sole cost for fuel and operator assistance when YEC is unable to supply Grid Electricity, and for so long as the units are not required by YEC to supply electricity to the WAF grid.

After acquiring the Diesel Units from Caterpillar, YEC may remove two of the Diesel Units from the Mine at any time after two years after the Commencement of Delivery, and may remove the other two Diesel Units from the Mine at any time after the earlier of the eighth Annual Payment Date and discharge of the YEC Security, subject in each instance to Minto's right to re-acquire the Diesel Units at a price that is generally the greater of:

- the price that YEC has otherwise agreed to sell the Diesel Units to a third party; and
- the Diesel Units Repurchase Price of \$2.24 million less provision for depreciation as affected the Diesel Units Purchase Price originally paid by YEC and for depreciation (as set out in section 10.5 (c) of the PPA) during the period of operation of the Diesel Units at the Mine Site by YEC.

After completion of the Transmission Project connecting the Mine to the WAF grid, YEC's purchase of the Diesel Units at the Mine Site will in effect add 6.4 MW of reasonably low cost and low risk diesel capacity to the WAF system. Since the units are mobile they can be easily moved to areas in need of diesel power, or sold in future and moved off site at such time as YEC determines that they are no longer required for WAF. The benefits to the WAF system and the Mine associated with this YEC purchase include:

- The units provide a comparatively low cost addition to WAF peak winter capacity (at a price not exceeding \$350 per kW, the cost is competitive with the Mirrlees Life Extension Project) at a time when YEC is actively examining options to enhance WAF firm winter peak capacity.
- The units provide added security to YEC and Minto as regards reliable supply at the Mine; in

YEC's case, the purchase payment arrangements for this asset enhance YEC's security with regard to the Minto obligations to pay the Mine Spur Capital Cost Contribution.

- When WAF diesel operation is required, YEC operation of at least two of the Diesel Units at the Mine Site (especially for baseload operation) is expected to be cost effective (due to the minimization of line losses and related additional diesel generation requirements).¹⁵
- In the near term these units provide cost effective contingency protection until such time as other potential major mine loads (Carmacks Copper) as well as capacity supply options are better clarified.

¹² NPV assessment of all relevant costs and benefits for the Aishihik 3rd Turbine Project, however, tends to show that 2013 inservice provides a slightly higher NPV than 2010 in-service assuming only Minto Mine loads in addition to Base Case WAF loads.

¹³ The Diesel Units Purchase Price payable by YEC provides for deductions from the \$2.24 million with regard to depreciation and maintenance expenses related to actual use in excess of certain stipulated hours of operation.

¹⁴ The PPA provides (Section 10.3(b)) for Minto to pay to Caterpillar on YEC's behalf all lease and other amounts payable under the Cat Leases and to pay the amount required to be paid on the termination or expiry of the Cat Leases on or before September 6, 2009 so that YEC can acquire title to the Diesel Units from Caterpillar, free and clear of all liens, charges and encumbrances.

Yukon Conservation Society Information Request

Can YEC provide clarification on the four Diesel Units to be purchased from Minto Mines:

- **Will the Mirrlee extension program be going ahead, in addition to the purchase of these four diesel units.**
- **Why purchase more diesel units, if the intent of the Carmacks/Stewart extension was to provide greater hydro power to communities and mines along the right-of-way?**

In conclusion, YCS thanks you for this opportunity to ask for clarification on aspects of the Power Purchase Agreement between YEC and Minto Exploration Ltd.

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

Yours truly

Lewis Rifkind
Energy Coordinator
Yukon Conservation Society

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

