



The Yukon Electrical Company Limited

An **ATCO** Company

December 20, 2011

Lawrence Joudry
Director of Engineering Services
Yukon Energy Corporation
P.O. Box 5920
Whitehorse, YT Y1A 6S7

Dear Mr. Lawrence Joudry:

Re: Invoice #8586 to Yukon Energy relating to Yukon Electrical cost incurred in Haines Junction due to Yukon Energy's Aishihik 3rd Turbine Capital Project.

As a result of the construction of a new Yukon Energy Aishihik 3rd turbine at the Aishihik Hydro facility, Yukon Energy advised Yukon Electrical that supply of WAF grid electricity to customers in the Haines Junction area would be suspended for an extended period of time. Further to this, Yukon Energy requested that Yukon Electrical's standby diesel plant at Haines Junction be put into service during this extended construction related outage.

Yukon Electrical did not support the Yukon Energy suggested plan for the following reasons;

- Risks associated with supplying Yukon Electrical customers at Haines Junction and Canyon Creek were too great due to lack of contingency for alternative supply and the inability to remove the stand by unit from service for maintenance and repairs.
- Additional diesel costs (estimated to be approximately 113000 L) were unacceptable when other options for supply from WAF Hydro system had not been explored.

Upon further analysis, Yukon Electrical recommended that a temporary substation be installed on the Yukon Energy transmission line to feed Haines Junction, Canyon City as well as a number of Yukon Energy customers fed off of the distribution system. This work could be done with the help of Yukon Energy's spare transformer.



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During meetings in January and April of 2011, Yukon Electrical recommended to Yukon Energy the incremental cost of the temporary sub (in lieu of diesel generation) as a result of Yukon Energy's capital projects, can and should be capitalized to Yukon Energy's Aishihik capital project and recovered from customers over the life of the asset. While Yukon Energy did not agree, Yukon Electrical nevertheless proceeded with running the project in good faith on the premise that Yukon Energy would work together with Yukon Electrical to arrive at a reasonable and fair agreement on the costs incurred.

Further to the above capitalization recommendation, Yukon Electrical notes Yukon Energy itself has been very clear over the years with its position on the regulatory record that extra diesel generation costs incurred as a result of a capital project are to be charged to the capital project. In this particular case, temporary substation and distribution work was completed in lieu of the extra diesel costs for reasons noted above.

Yukon Electrical acknowledges that it owns and maintains a standby diesel plant in Haines Junction to meet the needs of its customers and forecasts a small amount of dollars each year to cover off generation running costs incurred due to loss of transmission line supply for short durations of time. Yukon Electrical does not and did not, however, forecast the loss of supply and costs incurred for an extended period of time due to a Yukon Energy generation, transmission or substation capital projects.

For the above reasons, Yukon Electrical has prepared and attached an invoice to Yukon Energy for the incremental costs incurred to install and remove the temporary substation in support of Yukon Energy's Aishihik capital project. The amount includes the actual costs incurred for the project.

In conclusion, Yukon Electrical believes the determination of the attached invoice amount, and capitalization justification thereof, have been well considered and are reasonable in the circumstances. If you have concerns with the calculations and or justification of the invoice, we would be pleased to sit down with Yukon Energy to discuss the matter further.

Sincerely,

THE YUKON ELECTRICAL COMPANY LIMITED



Phil Borgel P.Eng
Supervising Engineer
Yukon Electrical Company Limited
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Encl: Invoice #8586

cc: W. Tonsi YECL

