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Michael Buonaguro
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June 5, 2009

VIA E-MAIL

Yukon Utilities Board
Box 31728
Whitehorse, Yukon
Y1A 6L3

Attention: Deana Lemke

Re: YEC 2008-2009 General Rate Application – UCG Submissions

Dear Ms. Lemke:

Please find enclosed the reply submissions of UCG in the above noted proceeding.

Yours truly,

Michael Buonaguro
Encl.

YUKON UTILITIES BOARD

IN THE MATTER OF the *Public Utilities Act*
Revised Statutes of Yukon, 2002 c.186, as amended

and

IN THE MATTER OF Yukon Energy Corporation's General Rate Application for 2008 and 2009

REPLY ARGUMENT OF

UTILITIES CONSUMERS' GROUP

June 5, 2009

INTRODUCTION

1. The Utilities Consumers' Group (the "UCG") filed its Final Argument on May 22, 2009 with respect to Yukon Energy Corporation's ("YEC") 2008-2009 General Rates Application. Final arguments were also submitted by YEC, the Yukon Electrical Company Limited (YECL), Leading Edge Projects Inc., and the City of Whitehorse.

2. The UCG has confined its reply argument to the arguments submitted by YEC and YECL.

REPLY TO YEC FINAL ARGUMENT

3. YEC states on page 1 of its argument that the Application "*provides for a complete and thorough review of all aspects of Yukon Energy's operations including its costs, rates and capital spending*". In UCG's submission, YEC's application falls short on providing all the information needed to complete a comprehensive review of its costs, proposed rates and capital spending.

4. YEC states on page 5 of its argument that "*no evidence-based contrary position has been tendered by any party*". UCG respectfully suggests that the role of an intervenor in a regulatory proceeding such as this is to question whether the applicant has supported its requested revenue requirement with adequate evidence; except in particular circumstances it is unusual, in UCG's experience, for intervenors to submit contrary evidence on the costs of the applicant, nor is there an evidentiary burden on the intervenors to do so. UCG submits that it is entirely appropriate, in most cases, for intervenors to elicit evidence from the utility through interrogatories and the oral hearing, and then rely on that additional evidence, or failure to provide adequate responses, to make effective submissions to the Board.

<u>System Sales and Generation</u>

5. YEC states on page 11 of its argument that "*generally, YEC has taken a reasonable and efficient approach to forecasting retail, industrial and wholesale sales based on its role as primary generator and transmitter in Yukon, given that it has one major wholesale customer, one major industrial customer and a relatively small percentage of Yukon's retail customers*". UCG submits that this is contrary to the evidentiary record that shows that the lack of cooperation between YEC and YECL prevents the best forecasts from being included in the application. UCG submits that the most accurate up-to-date kWh use per customer should be used to allow for an accurate forecast of load growth.

6. YEC suggests on page 12 of its argument that "*it was not appropriate in these circumstances to pick and choose which forecast items to update*". UCG agrees and questions why a more complete update of sales for 2008 and 2009 based on actual experience to date should not be required prior to finalizing any revenue requirement. UCG submits that the Board should direct YEC to provide a more comprehensive update in order to ensure ratepayers only pay for the costs that they are actually incurring.

7. On page 13 of its argument, YEC states that it "*does not use weather normalization or any regression analyses in its load forecast in part due to the fact that it does not have access to the*

necessary data and in part due to the view that access to such data and analysis would not materially improve upon YEC's existing forecasting methods". UCG submits that YEC would have access to all the consumption data that it would need if it was in a cooperative business relationship with YECL. Given the obvious impact that weather has on the Yukon load forecast and the unpredictable weather fluctuations that can occur from year to year, UCG submits that it only makes sense to have YEC weather normalize its firm and secondary load forecasts as YECL already does. UCG respectfully submits that for a utility, such as YEC, that claims to take on the weather risk, namely the risk that weather will be unusual in a particular year so as to effect the weather sensitive load such that the company may experience higher or lower than normal revenue, it is important to set rates based on normal weather so that the weather risk actually exists and can be quantified.

<u>Revenue Requirement</u>

8. YEC is requesting approval of a revenue requirement of $29.085 million for 2008 and $31.462 million for 2009. Included in these amounts are diesel fuel price forecasts as initially filed in October 2008. UCG submits that YEC "*is not seeking to further update that forecast*" because the volatility of fuel prices could have an adverse impact of the politically-driven assurances that rates are being reduced as a result of added industrial loads. UCG submits that the most recent forecast of diesel fuel prices should be used to establish the costs paid by ratepayers and to set the base upon which any Rider F adjustments would be made. UCG respectfully submits that, as the fluctuating price of diesel fuel is already captured in a deferral account, it is appropriate to capture the most recent, and therefore most (likely to be) accurate forecast so as to minimize the accrual of amounts in the deferral account for future clearance.

9. YEC is seeking approval to include in revenue requirement non-fuel O&M expenses totaling $12.362 million and $13.228 million respectively for 2008 and 2009. Again, YEC states on page 19 of its argument that "*no party filed evidence indicating any component of Yukon Energy's non-fuel O&M expense forecast was unreasonable*". UCG submits that the Board need only refer to the arguments filed in this proceeding to see the significant issues that have been raised with respect to non-fuel O&M. Again, the burden is on the applicant to provide adequate evidence to support the application, and it open to the Board, supported by intervenor submissions, to find that the evidence is lacking.

10. UCG submits that it is inappropriate for YEC to apply $0.463 million of the Faro Dewatering Account balance against the Reserve for Injuries and Damages. The Faro Dewatering deferral account has been used to the benefit of ratepayers in that it has provided YEC with a source of no-cost capital, thereby reducing current revenue requirements through a lower Rate Base than otherwise would occur. UCG is aware that the YUB has allowed for the draw down to provide rate stability to customers, but UCG remains unconvinced that these monies should be used to offset YEC's revenue shortfalls in base rates.

11. YEC states on page 5 of its argument that the Faro Dewatering Account will also be drawn down to offset net revenue losses due to delay in the final connection of Minto mine and Pelly crossing loads to the CSTP ($87,000) and to offset secondary sales revenue losses, if any, arising due to below-average water flows in any year after 2008. UCG submits that a proper cost of service analysis would ensure that these revenue shortfalls are properly identified and recovered from the

ratepayers who cause these costs to be incurred (i.e., industrial and secondary customers), or, at the very least, identify the extent to which some customers may be subsidizing others. UCG respectfully submits that offsetting cost of service and revenue items against amounts held in a deferral account distort the actual costs of the utility insofar as those costs are reflected in base rates. It is UCG's view that to the extent that money in a deferral account is owed to ratepayers it is more appropriate to clear that account through separate riders, so as to avoid distortion of base rates.

12. As UCG has already argued, when the Board is deliberating on approval of a 2008 revenue requirement, it should consider actual costs incurred, actual kWh sales and a rate base that includes only capital additions related to projects that the Board has previously reviewed and approved for addition to rate base. YEC should also be directed to ensure that its costs are adequately functionalized (i.e., costs easily identified for each of the generation, transmission and distribution functions) for its various systems at the time of the upcoming Phase 2 filing to allow for specific analysis of the efficiency of YEC's systems.

13. On page 20 of its argument, YEC states that increases in labour expense make up 62% (or $1.244 million per page 3-6 of the Application) of the proposed revenue requirement increase, and that such an increase is reasonable. UCG submits that the increases in labour costs, especially those related to the President, appear high for a depressed and shrinking economy. UCG submits that the Board should disallow any proposed increase in labour costs associated with the increasing salaries of YEC employees (including management personnel) and reduce the increasing consultant costs being incurred to address regulatory oversight and feasibility studies. UCG submits that ratepayers are not getting adequate value for labour costs incurred.

14. UCG submits that the Board should carefully consider the payments being made by ratepayers to members of YEC's Board of Directors given the overlap that still exists with the Board of Directors for YDC. In particular, UCG is concerned with the extra fees paid to the YEC Chair for work that appears to be more politically based than utility based.[1] UCG submits that ratepayers should not be responsible for paying any costs associated with members of the YEC Board of Directors who are also members of the politically-influenced YDC Board of Directors. UCG again calls for the complete separation of these two Boards of Directors to ensure that YEC is governed by utility-based operation priorities.

<u>Rate Base, Depreciation and Amortization</u>

15. YEC states on page 23 of its argument that it is seeking approval of costs for capital works projects brought into service (or forecast to be brought into service in the test years) since the 2005 Required Revenues and Related Matters Application, as well as deferred costs (including deferred costs related to the current application) and working capital forecast to be included in rate base.

16. UCG submits that there is a lack of supporting evidence on the determinative factors of YEC's capital investment plan in maintenance - asset condition, reliability requirements, customer requirements, safety requirements and environmental criteria. Both the Board and other parties

[1] Transcript Volume 2, page 344, line 21 through page 348, line 8

require more information regarding the workings of YEC's planning process including the basis for the "minimum spending level", the prioritization of project/work activities and the residual risk associated with the alternative levels of spending considered by YEC.

17. UCG submits that the Board should find that YEC's evidence as it relates to the factors driving the spending levels has been insufficient.

18. UCG submits that all significant capital projects should be designated by the Yukon government as regulated projects pursuant to Part 3 of the *Public Utilities Act* (or by equivalent government order for review) so that they can be individually reviewed prior to significant investment and construction. In the case of large, time sensitive projects such as the Carmacks-Stewart Transmission Line Project, an ongoing audit process can be implemented to ensure project transparency and to provide ongoing approval as the project develops, while allowing the project to proceed without undue delay.

19. UCG reiterates that any project proposed to be included in a utility's rate base requires a sound rationale that must include a business case analysis (without recourse to government funding in order to offset costs and eliminate impact), an analysis of the natural environmental impact and the alternatives to the project.

20. Depreciation and Amortization Expenses of \$6.391 million for 2008 and \$6.930 million for 2009 include proposed amortization of regulatory costs, including an updated estimated \$1.1 million of hearing costs related to the current application to be amortized \$400,000 per year over the test years with the balance currently estimated at \$300,000 to be amortized in 2010.

21. YEC states on page 24 of its argument that it "*currently has no plans to update its depreciation study*". UCG submits that YEC's internal opinion that there are no "*material issues with the currently approved depreciation rates*"[2] does not provide the Board or other stakeholders with any comfort that current depreciation rates accurately reflect the plant currently in use. UCG submits that YEC is now outside the suggested depreciation study time frame identified by Gannett Fleming so YEC should be directed to conduct a full depreciation study.

22. While UCG agrees with YEC's argument (page 8) that planning and study costs are "*needed to prudently plan to meet potential new system load requirements and displace near term baseload diesel requirements*", it is not accurate for YEC to propose that these costs "*do not affect forecast 2008 and 2009 revenue requirements*". UCG submits that it is not clear from the evidence that any internal labour (and associated overhead) costs used on these studies has been captured within these deferral accounts thus reducing the revenue requirement for the test years.

23. UCG submits that the \$0.643 million related to the regulatory review of YEC's 2006-2025 Resource Plan, the \$0.243 million related to the regulatory review of the Minto Explorations Power Purchase Agreement, and \$0.185 million related to the regulatory review of the Carmacks-Stewart Transmission Project under Part 3 of the *Public Utilities Act* (referenced at page 25 of YEC's argument) should be evaluated in detail to ensure that adequate costs have been deferred and

[2] UCG-YEC-1-47(b)

should be directly allocated to the capital projects and industrial customers associated with these amounts. UCG submits that these amounts should be treated like any other project-related costs (i.e., directly assigned where possible).

24. YEC is requesting Board approval of mid-year forecast rate base costs of $144.419 million and $150.758 million for 2008 and 2009 respectively, including costs for capital works projects brought into service (or forecast to be brought into service) since the 2005 Required Revenues and Related Matters application. YEC is also adding deferred costs and working capital forecast to the rate base.

25. YEC states on page 28 of its argument that "*costs incurred to engage in regulatory activities are accounted for as capital costs (e.g. for major capital projects such as the CSTP and Mayo B project such costs would be included in project costs), or O&M costs (for e.g. regulatory costs incurred for minor capital projects, on-going water licensing monitoring and reporting, safety regulatory requirements, and other regulatory compliance or permitting activities normally included under administration)*".

26. UCG submits that the approved rate base totals should be reduced by costs that should ultimately be recovered from specific customers and/or customer groups.

Return on Rate Base

27. On page 26 of its argument regarding return on equity, YEC states that "*no material issues were raised by intervenors in cross examination at the hearing regarding the use of this approach or the use of the risk premium previously approved for YEC by the Board in Order 2005-12*". Again, UCG submits that just because an issue is not specifically raised at the oral hearing, it can't be implied that there are no issues related to the return levels proposed by YEC.

28. UCG submits that its argument identifies several factors (contingency funds, large component of firm sales, etc.) that contribute to consideration of a lower risk premium for YEC's return on equity.

Regulatory Cost Issues

29. Included in YEC's argument is a section (starting at page 27) dealing with Board counsel's "*misunderstanding or confusion about the type and magnitude of external consultant costs that had been and will continue to be incurred by YEC outside of YUB rate regulation activities, (i.e. rate case and related costs)*".

30. UCG submits that the InterGroup consultants that are working on this application have had a sole-sourced contract for all regulatory work since NCPC first divided its service area between the Yukon and the Northwest Territories. This is not the first time that this issue has been raised nor is it reasonable for Yukon ratepayers to continue paying the high cost of this consultant when internal or at least Yukon-based expertise (including those associated with the exact same efforts for YECL) could have done the work and saved significant money for ratepayers.

31. UCG submits that the uncooperative nature of the relationship between YEC and YECL results in Yukon ratepayers paying twice for the similar efforts (i.e., assembling general rate application evidence). UCG submits that Yukon-based staff, to the extent possible, should be used for these efforts and YEC's revenue requirement should reflect this for the test years and going forward.

Rates

32. On page 3 of its argument, YEC summarizes the retail rates adjustments proposed for all YEC and YECL retail customers including:
    - A new Rider U "Yukon Energy Rate Reduction Rider" for each retail class that is applied to all first block rates (and lighting rates) with variations as required by rate class to prevent any rebalancing of overall rate revenues as between customer classes;
    - Residential class base rate adjustments to promote economy and efficiency within this class;
    - adjustments to include Pelly Crossing in the Hydro rate zone rate schedules and to remove this community from the Small Diesel rate zone rate schedules;
    - Wholesale Rate adjustments concurrent with residential rate class run-out rate adjustments, to increase the Wholesale Rate (Rate Schedule 42) charged to YECL throughout Yukon by 0.011 cents/kW.h6, to maintain revenue neutrality to YECL with respect to base rate revisions; and
    - To adjust, starting in 2009, the rate established for the Energy Reconciliation Adjustment (ERA) provisions of Rate Schedule 42 to 37.37 cents/kWh using the same principles established in the 1996/1997 GRA to reflect the current forecast incremental cost of diesel generation in WAF.
    - Approval to implement Rate Schedule 39 as mandated by OIC 2007/94 (and approved by Board Order 2008-13), to give effect to the Rider F provisions on a basis consistent with this GRA by way of a fixed Rider F of 0.109 c/kW.h and additional variable Rider F as established from time to time.

33. YEC states on page 8 of its argument that "*retail rate reductions as proposed that are focused on first block energy rates ensure that second block runoff rates do not move further away from efficient price signals and will result in rate reduction benefits being materially enhanced for the vast majority of retail customers*". UCG submits that without the proper cost of service analysis of all of the Yukon's electricity rates, it is not possible for the Board to agree or disagree with YEC's analysis. Without adequate cost of service evidence to support proposed rate adjustments, UCG submits that the Board does not have the evidentiary record to support any of the proposed rate-related adjustments submitted by YEC. Ongoing adjustments to rates and riders causes confusion and instability that Yukon ratepayers are looking to avoid.

34. In its Order 2007-5, the Board stated:

    The Yukon regulatory environment is one that prefers a direction of standardized utility practice in regard to rates. Such standardized utility practice includes providing a full COS calculation when designing new rates. The process to complete the necessary studies for the cost of service calculation, prepare the application and obtain regulatory approval for new rates can be protracted. The Board understands that YEC has faced strict time constraints with respect to the CSTP.

YEC acknowledges "[t]he Board alone has the power to set rates and determine COS methods used for rate setting purposes pursuant to its constituent legislation and regulations." However, while YEC recognizes the jurisdiction of the YUB, the timing YEC has requested presented challenges for the Board and Intervenors in establishing and participating in the proceeding. Recognizing the time constraints faced by YEC, the Board has endeavored to meet these timelines; however, as a result, YEC's evidence in some areas is not as complete as the Board would normally expect, in particular, with respect to COS.

The Board agrees with Intervenor concerns regarding the lack of a complete COS study. The Board is of the view that due to the articulating nature of a COS study, rates cannot be developed in isolation. Therefore, the Board reiterates its earlier direction that YEC and YECL must provide a complete COS study and rate design with their next GRA. The COS is to include updated studies on allocators, and will look at the feasibility of direct assigning assets, where applicable to certain rate classes. Further, the Board expects to see justification on the allocation of transmission assets.

In addition, the Board questions the rationale of defining the CSTP project as one of diesel displacement in light of YEC's comments that the project is to serve system requirements. The Board would like to explore the COS evidence in this regard when it is filed in YEC's next GRA.

Therefore, until such time as a decision is rendered in the next GRA, the Board will accept Rate 39 on an interim basis as proposed by YEC. The interim Rate Schedule 39 will be applicable throughout Yukon. Due to the concerns expressed about the sufficiency of the current COS presented by YEC, the Board is not prepared to accept Section 3.5 of the PPA. The Board does not consider that there should be a link between Board approved rates which are deemed fair, just, reasonable and within the public interest (based on accepted COS principles) and the security provisions to protect Yukon ratepayers. The practice in Yukon is to follow cost causation for COS purposes as a fundamental building block to proper rate design. Minto and any other customer can take comfort in knowing that the regulatory environment in Yukon is based on standardized practices.

35. Given the apparent commitment of YEC to work with YECL to assemble cost of service and other Phase 2-related evidence, UCG submits that any adjustments to rates and charges to be applied to the bills of Yukon ratepayers should be deferred until after the Phase 2 evidence has been reviewed and a Board decision issued.

36. YEC jumps to an unsupported conclusion on page 30 of its argument when it states that "*all parties appear to recognize that some rate changes can and should be implemented as part of the current Application without waiting to complete the Phase II application and hearing process, including changes to pass on the firm rate reduction to retail customers, adjustments to bring Pelly Crossing into the hydro rate zone, changes to secondary sales baseline prices and the fixed industrial Rider F (as required to support the firm rate reductions), and likely the changes as proposed to Secondary Sale Rate Schedule 32*". UCG has specifically submitted that no rate changes should be implemented until after Phase 2-related decisions have been issued.

<u>Capital Projects</u>

37. UCG submits that it is important that the Board not simply rely on information provided by the utility, but also look closely at the operations of the utility, to the extent possible, over the past 10 years as well as its projected activities for the two test years when reviewing the proposed Capital expenditures. It is also important that the Board keep in mind the significant difference in resources available to YEC compared to those available to intervenors, both individually and collectively, and recognize that the burden is on YEC as the applicant to support its capital plans, not on intervenors in opposition

38. Regarding Stage 1 of the Carmacks-Stewart Transmission Project (CSTP), YEC states on page 40 of its argument that "*the net capital cost to Yukon Energy of the project being brought into service in 2008 is forecast at $3.744 million (as compared to zero net cost as forecast in the Part 3 hearing). Despite costs increasing beyond the high forecast indicated previously at the Part 3 hearing, the determination was made by Yukon Energy to proceed with the project due to the overall net benefits remaining to ratepayers*". UCG submits that any costs incurred by YEC above costs identified during the Part 3 review should be absorbed by YEC's shareholder since the decision was made at that level to proceed with the project despite he higher costs.

39. At page 45 of its argument, YEC states that "*the Application recognized the need to justify a business case for purchase of the Minto diesel units. Yukon Energy submits that this business case has been confirmed as required, and that the forecast costs for these units as set out in the Application should now be approved by the Board*".

40. UCG submits that the $2.24 million price tag for these units has not been adequately evaluated against other uses of this money to address the "need" that YEC has determined.

41. At page 52 of its argument, YEC states that "*the justification for proceeding with the Aishihik 3rd Turbine project has been confirmed*".

42. UCG submits that there is not enough information on the record to allow the Board to make any definitive recommendations on the Aishihik 3rd turbine project other than it needs more evaluation and detailed engineering work. Given that the project has no value in terms of meeting the peak demand requirement under the proposed new planning criteria, it cannot be seen as a priority project. This project should be evaluated under Part 3 of the *Public Utilities Act*. Pursuant to section 39 of the *Public Utilities Act*, UCG submits that this project should be designated as a regulated energy project. UCG submits that YEC should be encouraged to seek an energy project certificate or energy operation certificate from the Yukon government.

43. Despite a price tag that now exceeds $160 million, YEC states on page 54 of its argument that "*Mayo B has been identified as a potential priority near term hydro generation expansion opportunity that could displace up to 38 GWh/year of baseload diesel generation*".

44. UCG submits that even with the recently announced Green Infrastructure Fund contribution of up to $71 million to the project, Yukoners would still be left with at least $90 million of the cost. While YEC is planning to spend money during the test years on developing the Mayo B project and other large projects, UCG submits that the Board should recognize in its decision its

expectation that major projects will be subject to Part 3 review and consider the question of project-related rate impacts.

45. It should also be recognized that under the current OIC's, the total cost of such projects will be borne entirely by non-industrial customers in the near term, even if those costs are caused by industrial customers, such that the detrimental rate impacts of such massive spending in the context of such a small customer base must be addressed.

46. UCG submits that if one wants to create a culture of conservation, one should not mask the true cost of generation and transmission in the Yukon by determining the cost effectiveness of projects based on third party contributions. No matter where YEC gets the money to complete its capital projects, shifting subsidies from "ratepayers" to "taxpayers" is just a way of hiding the fact that these projects are not economically competitive and are non-optimum choices for supply, requiring significant other justification. UCG questions why anyone would limit themselves to projects that are beyond the long-term needs of the Yukon based on politically-funded direction.

REPLY TO YECL FINAL ARGUMENT

47. On page 3 of their argument, YECL states: *YEC's Application and subsequent filings also attempt to portray the overall approach adopted by YEC in the conduct of these proceedings as being "orderly" or structured. However, the actual facts belie this assertion and demonstrate that YEC appears to be lacking in any clear strategy or structure regarding such things as the pursuit of numerous planning studies and the development and implementation of capital projects. In this regard, the role of YEC's 20 Year Resource Plan and the recommendations made by the Board with respect thereto in the YUB's Report to Commissioner in Executive Council dated January 15, 2007 is, at best, uncertain*.

48. In its February 2005 report regarding the Mayo-Dawson transmission line project, the Auditor General's Office states (on page 2): *Like any corporate body, the Corporation is expected to follow good management practices and employ sound project management principles. As a subsidiary of a government corporation, the Corporation operates at arm's length from the Yukon government. It is not subject to the same rules as government departments. However, government corporations and their subsidiaries are still a part of the government program family and subject to the same principles of corporate governance and accountability*.

49. UCG submits that YEC's accountability to follow the Board's recommendations in the report on YEC's 20-Year Resource Plan are clearly spelled out in the Shareholder Letter signed in February 2007 which states that YDC and YEC will: *Continue to advance the 20 Year Resource Plan by incorporating Yukon Utilities Board recommendations and proceeding with identified projects*

including securing regulatory approvals and constructing the Carmacks-Stewart Transmission Line, and completing an assessment to prioritize capacity-related projects.[3]

50. In UCG's opinion, it is obvious that the "assessment" of capacity-related projects has been circumvented by political funding on specific projects and it doesn't appear that YEC has "incorporated" the YUB's recommendations of January 2007. For example:

51. When addressing Load Forecast, Accuracy, and Methodology, the Board states on page 5 of the *YUB's Report to Commissioner in Executive Council dated January 15, 2007 (the* "Report"): *In order to properly test the veracity of the load forecasts and to assist in the testing of adjustments to revenue requirements, the Board suggests that YEC and YECL jointly prepare and file, for information purposes, 2-, 5-, 10-, and 15-year load forecasts by rate class every two years. For rate design and cost-of-service purposes, applications cannot properly proceed without load forecasts, jointly prepared by YEC and YECL, documented at the rate-class level. With YECL providing distribution service to most Yukon residential and commercial customers, YECL input in use patterns and customer growth is essential. The utilities are to solicit input from stakeholders and document within the forecasts all assumptions and consultations used in developing these forecasts. Further, the forecasts should include a narrative discussing the sensitivity of the forecast to alternative fuel supplies (for example, growth in home heating options) and the probabilities of those alternatives proceeding).*

52. When addressing the Industrial Load Forecast, the Board states on page 7 of its Report: *It is recommended that YEC continue to monitor these potential material load additions and, when warranted, make a filing with the Board when new facilities are required to meet these increased loads. Within the filing, YEC should outline the risk of proceeding, the benefits to existing ratepayers, and sensitivities to existing ratepayers if the economic life of the project is shorter than forecast.*

53. When addressing the $3-million capital spending threshold, the Board states on page 28 of its Report: *The Board recommends that the threshold for capital expenditures to be reviewed by the Board be set at $1 million.*

54. When addressing the Aishihik third turbine, the Board states on page 30 of its Report: *It should be noted, however, that the addition of the third turbine under YEC's plan is not a capacity requirement determined by the planning criteria, but rather a requirement driven strictly by economic reasons, namely to offset future diesel generation that is expected to increase under the base-case load forecast. However, should the actual loads turn out higher or lower that the loads under the base-case forecast, the optimal timing of the third turbine would move earlier or later than 2013. Therefore, to minimize the uncertainty around timing of the third turbine, the final decision to proceed with this project should be made closer to the date when economic reasons*

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[3] Yukon Development Corporation and Yukon Energy Corporation: Shareholder Letter of Expectations 2007-2008 between the Corporations and the Minister responsible for February 20, 2007 (Publicly available, copy attached)

indicate that the turbine is needed. Therefore, the Board recommends that this project not proceed until that time unless YEC can justify an earlier in-service date.

55. When addressing Alternatives to proposed projects – Independent Power Producers, the Board states on page 36 of its Report: *The Board is of the view that developing an IPP policy has merit. Given that YEC is looking at capacity additions and energy for diesel displacement, the Board is of the view that this is an appropriate time to develop a policy. The Board agrees with the views of UCG, YCS and the City of Whitehorse, and recommends that YEC, in consultation with stakeholders, begin the process to develop an IPP policy.*

56. When addressing Demand-Side Management, the Board states on page 43 of its Report: *In summary, given the insufficient information and the unknown benefits and costs of possible DSM programs in this proceeding, the Board recommends that the Government of Yukon consider commissioning an independent group to study the potential for DSM initiatives in the Yukon and make recommendations. The types of DSM programs, the expected amounts of load reduction or load shifting that could be expected from DSM in the YEC and YECL systems, the implementation costs, and who should be responsible for implementation and continued administration of DSM programs should be part of this study.*

57. When addressing the Assessment of Long-Term Planning, the Board states on page 49 of its Report: *On a go-forward basis, YEC should attach probabilities to the industrial development scenarios. This would assist the Board in comparative analysis when future resource plans are filed or when applications under Part 3 of the Public Utilities Act are submitted. As recommended in the Load Forecast section, when YEC proposes a new facility, YEC is to outline the risk of proceeding, the benefits to existing ratepayers, and sensitivities to existing ratepayers if the economic life of the project is shorter than forecast.*

58. When addressing YEC contracting policies and project management, the Board states on page 51 of its Report: *The Board recommends that YEC adhere to all outstanding recommendation as outlined in the Auditor General's Mayo-Dawson City Transmission System Project Report. In addition, in any subsequent major project, YEC should detail how it has adhered to the direction in the Auditor General's report.*

59. UCG submits that the Board should be holding YEC more accountable to its responsibilities and should take this opportunity to reinforce its directions to and expectations of YEC in these areas.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 5th DAY OF JUNE, 2009

SHAREHOLDER LETTER OF EXPECTATIONS 2007 - 2008

Between

The Minister Responsible for the Yukon Development Corporation

And

The Yukon Development Corporation & Yukon Energy Corporation

PURPOSE

The Minister and the Corporations signed updated Protocols as required by the Corporate Governance Act effective March 31, 2007. In conjunction with the Protocols the purpose of this Letter is to confirm the shared understanding of the Minister, and the Yukon Development Corporation and Yukon Energy Corporation regarding specific strategic priorities and performance expectations.

This Letter will cover the period up to, and including, March 31, 2008 at which time new Protocols and a new Letter of Expectations will be completed. The Letter and the Protocols will be reviewed and amended by March 31st annually.

Specific Initiatives to Meet Shareholder Guidelines

The Corporations will:

- Continue to resolve outstanding claims in relation to the Mayo Dawson Transmission Line Project through appropriate legal mechanisms.

- Work with Energy, Mines & Resources to complete the revision of the corporate governance structure for approval by the Minister and Cabinet.

- Work with Energy, Mines & Resources and Yukon Electrical Company Ltd. as appropriate to implement the Cabinet decision on the Rate Stabilization Fund.

- Continue to advance the 20 Year Resource Plan by incorporating Yukon Utilities Board recommendations and proceeding with identified projects including securing regulatory approvals and constructing the Carmacks-Stewart Transmission Line, and completing an assessment to prioritize capacity-related projects.

- Work with EMR in the development of a Yukon Energy Framework Strategy

A/Chair, Yukon Development Corporation

Feb 15, 2007
Date

A/Chair, Yukon Energy Corporation

Feb 15, 2007
Date

Minister Responsible for
The Yukon Development Corporation and
The Yukon Energy Corporation

FEB. 20, 2007
Date