

UTILITIES CONSUMERS' GROUP
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November 24, 2010

Yukon Utilities Board
Box 31728
Whitehorse, Yukon
Y1A 6L3

Attention: Deana Lemke, Executive Secretary

**Re: Yukon Energy Corporation Application to Approve
Alexco Resource Corporation Power Purchase Agreement**

Dear Deana:

Please find enclosed the interrogatories submitted by the Utilities Consumers' Group.

Yours truly,

Roger Rondeau
President, Utilities Consumers' Group

**YUKON ENERGY CORPORATION
APPLICATION TO APPROVE ALEXCO RESOURCE CORPORATION
POWER PURCHASE AGREEMENT**

**Utilities Consumers' Group
Information Request No. 1**

UCG 1

Reference: Application, September 28, 2010 Cover Letter, Page 1

“Alexco intends to develop Mines and Mills (collectively referred to as Mine Facilities) in the Mayo-Keno area as described in Figure C-1, Schedule C of the PPA (the District). Alexco is currently developing the Initial Mine Facilities with the intent in 2010 of commencing milling operations at the Initial Mill Site and mining operations at the Initial Mine Site as defined in the PPA, and is expected to commence service as a Major Industrial Customer (as defined in OIC 1995/90) in October 2010”.

Reference: Proposed PPA - Initial Mine Facilities, Page 10

“Alexco's current estimate of the commissioning of the Initial Mine Facilities is mid-September, 2010. Alexco's current estimate of the actual commercial operation of the Initial Mine Facilities is mid-October, 2010. Alexco will from time to time provide written notice to YEC of Alexco's progress under this Section 3.3 and Alexco's best estimate of the likely Commercial Operation Date and as soon as practical. Alexco will provide written notice to YEC of the Mine Facilities Operation Date for the Initial Mine Site and the Mine Facilities Operation Date for the Initial Mill Site. Alexco will ensure that the Initial Mine Facilities will be able to receive Grid Electricity from YEC at each Point of Delivery on the Mine Facilities Operation Date for that facility and Alexco will receive Grid Electricity from YEC on the Commencement of Delivery for Points of Delivery. YEC will provide written notice to Alexco of the date of the Commencement of Delivery for each Point of Delivery for the Initial Mine Facilities”.

Request:

- a. Please provide an update regarding Alexco's operations including a monthly history of grid electricity use as supplied by YEC.
- b. Please provide a copy of all written notices provided to YEC by Alexco regarding operations dates.
- c. Please provide a copy of all written notices provided to Alexco by YEC regarding the date of the Commencement of Delivery for each Point of Delivery for the Initial Mine Facilities.
- d. Please provide details of any on-site generation available to run any of Alexco's proposed facilities.

UCG 2

Reference: Proposed Power Purchase Agreement

The proposed PPA has been dated September 1, 2010. Section 2.1 – Term indicates that “this Agreement will commence as of the date of this Agreement”.

Request:

- a. Please confirm that the proposed PPA will not be effective until it has been approved by the YUB.
- b. Please explain what provisions are in place to change the effective date of the proposed PPA once YUB approval has been issued.

UCG 3

Reference: Application, September 28, 2010 Cover Letter, Page 4

“The PPA Fixed Charge of \$7,289/month (\$87,468 per annum) assigns to Alexco 85% of YEC 2010 annual owner costs (depreciation and return) related to the defined Transmission Facilities primarily developed in the past to serve industrial customers in the District (i.e. UKHM). YEC’s annual owner costs for the Transmission Facilities for 2010 are derived in Attachment B at \$102,900 (\$8,575 per month).

Reference: Proposed Power Purchase Agreement - Attachment B - YEC Annual Transmission Facilities Costs

In Attachment B, YEC has provided a half page summary of how YEC’s annual Transmission Facilities costs of \$8,575 per month were determined.

Reference: Appendix A to YUB Board Order 2007-5 – Page 5 of 27

“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”.

Reference: OIC 2007-94 – Major Industrial Customer Directive – Schedule A

“Demand and Energy charges for the directed changes are to be escalated once each calendar year, starting January 1, 2010, based on the latest percentage increase in the 12 month implicit chain price index for gross domestic product at market prices for Canada as reported by Statistics Canada”.

Request:

- a. Provide a paper copy and a working electronic copy of the cost of service study used to determine YEC’s annual Transmission Facilities costs of \$8,575 per month and that prove that the proposed firm mine rates in Attachment C of the proposed Power Purchase Agreement are sufficient to recover revenue requirement allocated to the industrial rate class and, in particular, Alexco.
- b. Provide details of the functionalization, classification and allocation factors used in the cost of service study used to calculate the firm mine rate proposed to be charged to Alexco.
- c. Provide details of all costs (directly assigned costs, allocated costs, etc.) that are proposed to be recovered through the proposed mine rates charged to Alexco.
- d. Provide details of how the rates proposed to be charged to Alexco and other industrial customers in the Yukon are sufficient to recover the costs of service to the industrial customer class and that those costs have been determined by treating the whole Yukon as a single rate zone (as per OIC 1995/90).
- e. Please explain why the demand and energy charges proposed to be charged to Minto and Alexco (per Attachment C – Firm Mine Rate of the proposed PPA) are still at the levels originally dictated by OIC 2007-94 rather than escalated per OIC directions.
- f. Please explain why Attachment C – Firm Mine Rate of the proposed PPA does not include the last two clauses of OIC 2007-94 Attachment A referring to “Escalation of demand and energy charges” and “Adjustment of fixed charge”.
- g. Provide an amended Rate Schedule 39 showing demand and energy rates escalated per OIC 2007-94 and including the last two clauses of OIC 2007-94 Attachment A. Please provide all details related to the escalation factor used on demand and energy charges.

UCG 4

Reference: Application, September 28, 2010 Cover Letter, Page 4

“Alexco share of forecast load going through Transmission Facilities approximates 98%”.

“The proposed 85% share as agreed in the PPA is based on NEB 1985 NCPC Report finding re: Faro mine which the YUB subsequently retained to set the fixed charge for the Faro Mine under Rate Schedule 39”.

Request:

- a. Please provide a copy of the referenced NEB 1985 NCPC Report.
- b. Please confirm YEC’s understanding that the 138 kV transmission line from Whitehorse to Faro was built as a consequence of an agreement between the Government of Canada and Cyprus Anvil Mining Corporation to build a mining facility at Faro and that, in 1985, the NEB believed that it was doubtful that, in the absence of instructions from the federal government to do so, NCPC would have built the 138 kV transmission line.
- c. Please confirm YEC’s understanding that the criterion used in 1985 by NCPC in assigning assets to specific customers for the purpose of levying special charges was that assets that could reasonably be determined to be for the sole use of a particular customer or particular customer class were charged directly to that customer or class.
- d. Please confirm that when the Cyprus Anvil Mining Corporation mine was operating, CAMC was assigned in excess of 95 percent of the annual costs of the transmission line with the remaining costs being assigned partly to the towns of Faro, Carmacks, and Ross River.
- e. Please confirm YEC’s understanding that no matter what percentage of costs were directly assigned to CAMC, the NEB felt that CAMC should also be assigned its share of the pooled costs.
- f. Please provide details of any study comparable to the analysis supporting the NEB 1985 NCPC Report that has been completed for the Alexco mining facilities.
- g. Please identify the parties that have “deemed” the proposed 85% allocation to Alexco as “reasonable”.

UCG 5

Reference: Application, September 28, 2010 Cover Letter, Page 2

“At the Commercial Operation Date, Yukon Energy will supply power to Alexco under the approved and final Industrial Firm Rate Schedule 39 (Rate Schedule 39) which fixes industrial rates for demand and energy. Under the PPA, Alexco also agrees to pay Capital Costs and Decommissioning Cost for any additional Mine Facilities Spurs YEC agrees to develop to serve Mine Facilities in the future”.

Request:

- a. Please confirm YEC’s understanding that it cannot charge any rate that has not been approved by the YUB.
- b. Assuming that Alexco qualifies as a Major Industrial Customer per OIC 1995/90 prior to the YUB approving an amended Rate Schedule 39, please confirm that, upon becoming a Major Industrial customer, Alexco will be charged the existing Firm Mine Rate originally designed when Minto became a Major Industrial Customer.
- c. Please confirm that once the YUB approves an amended Rate Schedule 39, Alexco will be responsible for all charges based on the amended Rate Schedule 39 retroactively to the date that it qualified as a Major Industrial Customer.
- d. Does the proposed PPA contain any annual Minimum Take or Pay provision and take-or-pay provisions over the life of the proposed PPA?
- e. Provide an explanation of the differences between the proposed Alexco PPA and the Minto PPA.

UCG 6

Reference: Application, September 28, 2010 Cover Letter, Page 3

“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”.

Request:

- a. Please confirm YEC’s understanding that the existing Electric Service Regulations (ESRs) apply to YEC, YECL and to every Customer to which YEC and YECL provide a service connection.
- b. Does YEC consider each service connection a customer?
- c. Does YEC consider multiple points of delivery to the same individual or company as a single service connection?
- d. How many different service connections to the grid does Alexco currently have (i.e., mill, mine, camp, etc.) and how many more do they plan to add?

UCG 7

Reference: Application, September 28, 2010 Cover Letter, Page 2

“The PPA sets out each Party’s rights and obligations with respect to the sale of Grid Electricity by YEC to Alexco for Mine Facilities in the District”.

Request:

Are any of the current facilities operated by Alexco using electrical space heating? Are there any plans to use electric space heating? Please identify and explain.

UCG 8

Reference: Application, September 28, 2010 Cover Letter, Page 5

“Under the Alexco PPA, Capital Costs are to be paid by Alexco for all Mine Facilities Spurs that YEC agrees to develop to provide grid service to the Mine Facilities as well as for YEC’s costs to negotiate and conclude the PPA (and such costs are to be fully paid shortly after Commencement of Delivery to the relevant Mine Facilities)”.

Request:

Please provide details of all costs incurred to date to “negotiate and conclude the PPA” and the expected total costs. Include in the breakdown a separation between the costs related to internal staff and external consultants as well as a breakdown of regulatory costs, administrative overhead, and other costs incurred.

UCG 9

Reference: Application, September 28, 2010 Cover Letter, Page 5

“Under the Alexco PPA, Alexco has agreed to pay the Capital Costs for any Mine Facilities Spurs that YEC develops as required to provide service from the grid to the Initial Mine Facilities and for any other mine facilities that YEC may agree to connect in the future”.

Reference: Application, September 28, 2010 Cover Letter, Page 6

“Capital Costs to be paid by Alexco include all of YEC’s reasonably incurred costs and expenses for the design, engineering, procurement, construction, and commissioning of the Mine Facilities Spurs, as

well as YEC's costs and expenses reasonably incurred to negotiate and conclude the PPA with Alexco".

Request:

Please provide a breakdown of the costs that will be included under "Capital Costs" and identify which of these costs will lower the revenue requirement of all other customers. UCG is particularly interested in the amount of costs currently included in rates charged to other customers (internal staff, consultants, overheads, etc.) that will now be recovered from Alexco.

UCG 10

Reference: Application, September 28, 2010 Cover Letter, Page 6 / Proposed PPA, Pages 14-15

"Section 5.1(a) - The first YEC invoice for 50% of the estimated Capital Costs (as set out in this section) relating to the Initial Mine Facilities Spurs and negotiation of the PPA is to be provided within 30 days of execution and delivery of the Agreement;

Section 5.1(b) - The second and final YEC invoice for Capital Costs for the Initial Mine Facilities Spurs is to be provided by YEC to Alexco within 30 days of YEC's notice that the Initial Mine Facilities Spurs are commissioned and available to provide Grid Electricity to the Initial Mine Facilities pursuant to the Agreement;

Section 5.1(c) – YEC will invoice Alexco for the Capital Costs related to negotiation and conclusion of the PPA that exceed the related amount invoiced under section 5.1(a), as and when such costs are incurred and invoiced to or paid by YEC"

Request:

Please provide copies of each of the referenced invoices and confirmation that Alexco has paid each invoice as required in the proposed PPA.

UCG 11

Reference: Application, September 28, 2010 Cover Letter, Page 7

"Negotiation of a PPA with an industrial customer whereby the customer agrees to pay the full costs of the spur line dedicated solely to provide service to that site (as well as the full costs to negotiate and conclude the Agreement) provides the necessary assurance and protection for ratepayers that any cost risks related to these specific transmission facilities will not be shouldered by ratepayers in the future".

Request:

Please identify those parts of the proposed PPA that guarantee that Yukoners (as either electricity ratepayers or as tax payers) will not have to pay for any costs associated with spur line facilities to Alexco.

UCG 12

Reference: Application, September 28, 2010 Cover Letter, Page 7

"Pursuant to Part 11 of the Alexco PPA, Alexco will be responsible for all Decommissioning Costs incurred by YEC. Decommissioning Costs to be fully paid by Alexco include the following costs defined in section 1.1(o) of the PPA: All decommissioning and other costs to be incurred by YEC and agreed to be recovered from Alexco (including without limitation, costs to take down and remove facilities and costs to restore any property under applicable law, less credits for recovery sales of any materials removed and sold) reasonably required to remove such parts of the Mine Facilities Spurs to be decommissioned".

Request:

Given that the proposed PPA is between YEC, Alexco Keno Hill Mining Corp., Elsa Reclamation & Development Company and Alexco Resource Corp., please identify those parts of the proposed PPA that clearly sets out the liability of each party and ensures that enough monies will be collected to guarantee that Yukoners (as either electricity ratepayers or as tax payers) will not have to pay for any costs associated with decommissioning.

UCG 13

Reference: Proposed PPA, Page 1

Agreement between YEC, Alexco Keno Hill Mining Corp., Elsa Reclamation & Development Company and Alexco Resource Corp.

Request:

- a. While one party (Elsa Reclamation) is a “Yukon Territory corporation” and another (Alexco Resource Corp.) is “extra-provincially registered in the Yukon Territory”, do any of the parties to the proposed PPA (other than YEC) operate or intend to operate permanent offices within the Yukon?
- b. Please confirm that each of the Alexco affiliates is liable for all aspects of the proposed PPA.

UCG 14

Reference: Proposed PPA, Page 1

“Alexco is developing the Initial Mine Facilities with the intent of commencing milling operations at the Initial Mill Site and mining operations at the Initial Mine Site in 2010, and of developing other Mines and Mills in the District in the future.

Request:

Please provide a copy of the mining / milling operations feasibility study and / or business case analysis relied upon by YEC to proceed with the proposed PPA.

UCG 15

Reference: Proposed PPA – Definitions and Interpretation, Page 6

“(rr) *Major Industrial Customer*” means a customer of YEC, or of any other regulated electric utility in the Yukon Territory, engaged in manufacturing, processing, or mining whose electrical service is interconnected with electrical service provided to any other customer of such electric utilities and whose peak Electric Demand exceeds 1,000 kW or any future replacement definition or replacement service capacity threshold applicable to manufacturing, processing or mining activities of Alexco, as approved by the YUB”.

Reference: OIC 1995/90 – Rate Policy Directive

“*major industrial customer* means a customer engaged in manufacturing, processing, or mining, whose peak demand for electricity exceeds 1 MW, but it does not include an isolated industrial customer”

Request:

Please explain the need to vary the definition of Major Industrial Customer used in the proposed PPA from that legislated for use in the Yukon for rate setting purposes.

UCG 16

Reference: Proposed PPA – Alexco Forecasts, Page 11

“Alexco will provide to YEC annual written forecasts ("Alexco Forecasts") of the Grid Electricity requirements of the Mine Facilities at the Points of Delivery for each of the succeeding five calendar years, so as to allow YEC to forecast the future Electric Demand and Electric Energy loads on its facilities”.

Request:

- a) Please describe the reporting, if any, to the YUB that will be undertaken with respect to these forecasts.
- b) Please outline how the additional costs associated with this forecasting exchange will be directly recovered from Alexco and not other ratepayers.

UCG 17

Reference: Proposed PPA – Alexco Standards for Usage of Electricity, Page 14

“Alexco will regulate its electrical load so that the Power Factor for the Mine Facilities at any Point of Delivery is maintained within a reasonable operating range as agreed to by the Parties from time to time, acting reasonably. Alexco will operate its equipment and use the Grid Electricity at the Mine Facilities so as not to endanger any of YEC's plant or equipment or cause any unacceptable fluctuations of YEC's electrical system”.

Request:

- a. How many electrical motors will Alexco be using?
- b. How many of these have energy saving controls (i.e., speed control mechanisms) allowing ramp-down when not so much energy is needed or during peak loads)?
- c. How many electrical pumps will Alexco be using?
- d. How many of these have energy saving controls (i.e., speed control mechanisms) allowing ramp-down when not so much energy is needed or during peak loads?
- e. Does Alexco plan on using any electrical digging machines or pumps in the mine?
- f. Provide an analysis of the generation available from Mayo facilities and the use of that generation at each customer class assuming Alexco's current energy requirements.
- g. If and when Alexco requests to increase their energy requirements above what is now available from the Mayo generation facilities, how will they pay their share of the costs of generation and transmission facilities needed to serve them?

UCG 18

Reference: Proposed PPA – Alexco Power Bill, Page 15

“Alexco will pay YEC the amount set out in each Alexco Power Bill within 15 Business Days of the date of delivery of the Alexco Power Bill to Alexco”.

Request:

Please explain how this provision differs from the ESR provision for payment “by the date indicated on the bill”. Please indicate how much time other customers are given to pay their bill.

UCG 19

Reference: Proposed PPA – Accrued Decommissioning Fund, Page 21

“YEC will deposit the Decommissioning Cost Payment for any Mine Facilities Spur into the Accrued Decommissioning Fund, and invest the Accrued Decommissioning Fund at 6.5% interest per annum to fund YEC's regulated rate base during the Term under this Part 11”.

Request:

Please provide details of the calculation of the referenced "6.5% interest per annum to fund YEC's regulated rate base".

UCG 20

Reference: Proposed PPA – Assignment, Page 26

"Neither Party may assign this Agreement without the prior written consent of the other Party, such consent not to be unreasonably withheld".

Request:

Please confirm that the YUB must approve of any assignment of the proposed PPA.

UCG 21

Reference: Proposed PPA, Attachment C - Peak Shaving Credit Option

"For customers with an established Winter Contract Load in good standing, a Peak Shaving Credit in each billing month equal to 50% of the Demand Charge times the Peak Shaved Load".

- a. Please describe how Alexco would qualify for this credit and specifically which winter seasons it would qualify.
- b. Please describe how the proposed Peak Shaving Credit for Alexco allows for sufficient recovery of that portion of YEC's revenue requirement allocated to the industrial rate class for this service.
- c. Please provide a paper copy and a working electronic copy of the cost of service study used to determine that the proposed peak shaving rate is sufficient to recover that portion of YEC's revenue requirement allocated to the industrial rate class for this service.