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March 23, 2021

Mr. Richard Buchan, Chair
Yukon Utilities Board
Box 31728
Whitehorse, Yukon Y1A 6L3

Dear Mr. Buchan:

Re: Yukon Energy Corporation Rate Schedule 39 Fixed Charge Adjustment for Service to VGC Group Mine Site and Alexco Mine and Mill Sites - Limited Scope Application

In accordance with the approved VGC Power Purchase Agreement ("VGC Group PPA")¹, Yukon Energy requests the Yukon Utilities Board (the "YUB", or "Board") approve an Interim Fixed Charge for electricity purchases on or after April 1, 2021 that adjusts the Rate Schedule 39 Industrial Primary ("Rate Schedule 39") Fixed Charge applicable to the VGC Group mine and the Alexco Resource Corp. ("Alexco") mine and mill.

This application is made pursuant to the Board's direction to YEC in Board Order 2018-04 to submit a limited scope application to amend the firm mine rate within 60 days of the Transmission Facilities Development Operation Date.²

Yukon Energy informed Victoria Gold Corp. and StrataGold Corporation (collectively, the "VGC Group") on March 17, 2021 that the new transmission facility to replace the Mayo to McQuesten substation segment of YEC's 69 kV Mayo to Keno City transmission facilities has been completed and is in service to provide electricity to the VGC Group mine.

¹ The Power Purchase Agreement (PPA) dated November 9, 2017 between YEC, Victoria Gold Corp., and StrataGold Corporation (Victoria Gold Corp. and StrataGold Corporation are collectively, the VGC Group) for transmission connection to the mine site, as approved in Board Order 2018-04.

² Defined as the date provided by YEC to VGC Group to confirm that the Transmission Facilities Development has been completed and is in service to deliver Grid Electricity to the Mine Facilities through the Mine Facilities Spur.

Context and Background

Pursuant to Rate Schedule 39, a Fixed Charge is assigned to industrial customers that use the Mayo-Keno transmission facilities³; the Fixed Charge assigns to these customers an 85% share of annual costs for depreciation and return on rate base related to these transmission facilities. The basis and premise for the Fixed Charge was initially reviewed as part of the Alexco Power Purchase Agreement (Alexco PPA) approved in 2011 by Board Order 2011-01, and confirmed in the VGC Group PPA approved in 2018 by Board Order 2018-04.

The VGC Group PPA directs YEC to construct various facilities related to providing service to the VGC Group mine, including:

- McQuesten Substation;
- Transmission Facilities Development to replace existing Transmission Facilities⁴ and to connect the McQuesten Substation with a substation at either Mayo or Stewart Crossing; and
- Installation of a SVC/Statcom and related equipment at Stewart Crossing.

Section 7.7 (b) of the VGC Group PPA notes that after the Transmission Facilities Development Operation Date, YEC will apply to the YUB to amend the Rate Schedule 39 Fixed Charge based on YEC's adjusted annual costs for depreciation and return on rate base related to the Transmission Facilities plus the SVC/Statcom and YEC's McQuesten Substation Costs. The YUB confirmed this commitment in its Order 2018-04 (Paragraph 57) which directs YEC to submit a limited scope application to amend the firm mine rate within 60 days of the Transmission Facilities Development Operation Date.

YEC in its 2021 GRA application noted at Section 4.4.2 and Appendix 4.3 that new transmission between Mayo and McQuesten Substation was forecast to be completed in late November 2020 /

³ This was established in the 2010 Alexco PPA to ensure that Alexco mine paid its share of costs for transmission facilities maintained in service to serve future industrial customers after the closure of the UKHM mine.

⁴ Defined as the Mayo to McQuesten Substation segment of YEC's 69 kV Mayo to Keno City transmission facilities located north of Mayo, Yukon Territory, or any Transmission Facilities Development. The Transmission Facilities Development is defined as any future transmission facilities developed by YEC to replace existing Transmission Facilities and to connect the McQuesten Substation with a substation at either Mayo or Stewart Crossing.

early December 2020, and the SVC/Statcom at Stewart Crossing is forecast to be completed in November 2021. Since that filing, the Transmission Facilities Development Operation Date was delayed until March 2021. The SVC/ Statcom at Stewart Crossing is still forecast to be completed in late November 2021.

Interim Fixed Charges Effective April 1, 2021

Table 1 provides YEC forecast transmission facilities costs in rate base (net costs after contributions and depreciation) for 2020 and 2021 updated to reflect forecast costs⁵ for Transmission Facilities Development Costs for the new transmission between Mayo and McQuesten Substation. Table 1 breaks out rate base costs and depreciation costs as follows:

- **Existing Transmission Costs** - these costs are reflected in the current Fixed Cost Charge, with amortization as previously reported;
- **YEC's McQuesten Substation Costs** - these are defined in the VCG Group PPA as the costs that VCG Group recovered from YEC, related to YEC substation upgrades to accommodate 138 kV transmission if developed in the future; this work was completed in 2019, and costs are assumed to be amortized over 54 years; and
- **Transmission Facilities Development Costs** - forecast YEC net costs after federal government contributions [75% of eligible costs] for the new transmission between Mayo and McQuesten Substation that was completed in March 2021; costs for these facilities are assumed to be amortized over 65 years.

As described in Table 2, Yukon Energy forecasts that the cost related to Mayo-Keno transmission facilities for the nine months of 2021 [assumes rate change for electricity purchases starting April 1, 2021] will be \$335,186 based on the weighted average cost of capital (WACC) at 4.82% approved for 2018 (Board Order 2019-08), resulting in an interim Fixed Charge (85% of the Transmission Facilities Fixed Cost) effective April 1, 2021 of \$31,656 per month. This Interim Fixed Charge is allocated between VCG Group and Alexco based on forecast sales for 2021.

⁵ The final costs reflect the costs known to YEC at the time of filing. Any adjustments, if required, will be reflected in the required year end reconciliation for the Fixed Charge or the compliance filing for 2021 GRA.

Table 1: YEC Year-End Transmission Facilities Fixed Costs in Rate Base: 2020-2021

		2020 Actual	2021 forecast
<u>Existing Transmission net costs - based on Attachment B from VG PPA proceeding</u>			
1	Year End Net Cost	2,244,721	2,244,721
2	Annual Depreciation	37,222	37,222
3	Accumulated Depreciation	646,100	683,322
4=1-3	Year End Net Book Value	1,598,621	1,561,399
5	Mid-Year Rate Base		1,580,010
6=2/12m*9m	<i>Depreciation [9 months]</i>		27,917
7=5/12m*9m	<i>Rate Base [9 months]</i>		1,185,008
<u>Total New Transmission Facilities Fixed Costs</u>			
YEC's McQuesten Substation Costs*			
8	Year End Net Cost [net of contributions]	930,563	930,563
9	Annual Depreciation	17,233	17,233
10	Accumulated Depreciation	28,422	45,655
11=8-10	Year End Net Book Value	902,141	884,908
12	Mid-Year Rate Base		893,525
13=9/12m*9m	<i>Depreciation [9 months]</i>		12,924
14=12/12m*9m	<i>Rate Base [9 months]</i>		670,143
Transmission Facilities Development - March 2021**			
15	Year End Cost		15,496,101
16	Year End Contributions		-11,020,605
17=15+16	Year End Net Cost		4,475,495
18	<i>Depreciation [9 months] ***</i>		44,863
19	Accumulated Depreciation		44,863
20=17-19	Year End Net Book Value		4,430,632
21=20/12m*9m	<i>Rate Base [9 months] ***</i>		3,322,974
SVC/Statcom Costs - December 2021**			
22	Year End Cost		12,768,881
23	Year End Contributions		-9,118,194
24=22+23	Year End Net Cost		3,650,687
25	Annual Depreciation		0
26	Accumulated Depreciation		0
27=24-26	Year End Net Book Value		3,650,687
28	Mid-Year Rate Base		NA
<u>Total New Transmission Facilities Fixed Costs</u>			
29=14+21+28	Rate Base [9 months]		3,993,118
30=13+18+25	Depreciation [9 months]		57,787

* VGC Group PPA Section 7.7 (b) notes Fixed Charge will include YEC's McQuesten Substation Costs. As per section 6 (d) YEC's McQuesten Substation Costs after VGC Group contributions at \$930,563.

**Transmission Facilities added to rate base in March 2021; SVC/Statcom expected in December 2021.

*** Depreciation and Rate Base assume March 2021 in service date [9 months impact].

Table 2: Adjusted Rate Schedule 39 Fixed Charge Calculation: Interim April 1, 2021

	<u>2021</u>	
Existing Transmission Facilities		
Rate Base [9 months]	\$1,185,008	Table 1, Line 7
Average Cost of Capital (approved 2018 GRA)	<u>4.82%</u>	
Return on Rate Base	\$57,094	
Depreciation [9 months]	<u>\$27,917</u>	Table 1, Line 6
Subtotal existing facilities [9 months]	<u>\$85,010</u>	
New Transmission Facilities [net of contributions]		
Rate Base [9 months]	\$3,993,118	Table 1, Line 29
Average Cost of Capital (approved 2018 GRA)	<u>4.82%</u>	
Return on Rate Base	<u>\$192,388</u>	
Depreciation [9 months]	<u>\$57,787</u>	Table 1, Line 30
Subtotal new facilities	<u>\$250,176</u>	
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Total Transmission Facilities Fixed Cost	<u>\$335,186</u>	
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Fixed Charge at 85% of annual costs	<u>\$284,908</u>	
Fixed Charge per month [9 months]	\$31,656	
Major Industrial Use of Transmission Facilities	Sales, MW.h	
Victoria Gold	43,143	
Alexco	24,061	
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Monthly Fixed Charges, \$/month	<u>01-Apr-21</u>	
Victoria Gold	\$20,322.6	
Alexco	<u>\$11,333.9</u>	
Total	<u>\$31,656.4</u>	

Updated Rate Schedule 39 – Industrial Primary

Appendix 1 to this Application provides the proposed Rate Schedule 39 to be effective April 1, 2021 with the updated Interim Fixed Charge for the VGC Group mine and Alexco mine and mill. The only changes proposed to the existing Rate Schedule 39 are the changes to the Fixed Charge for these two Major Industrial Customers, including the following paragraph which provides ability to adjust the Interim Fixed Charges between VGC Group and Alexco based on actual loads:

Within 60 days of calendar year end, YEC will adjust Fixed Charges for Alexco and VGC Group based on each mine's actual share of the Major Industrial Customer MWh load on the Mayo to McQuesten segment of YEC's Mayo to Keno City transmission facilities.

This amendment makes the rate schedule compliant with YUB Order 2018-04.

Future Adjustments to Fixed Charges

Future adjustments will be required to Rate Schedule 39 Fixed Charge for the VCG Group mine and the Alexco mine and mill to reflect the following:

- The interim Fixed Charge effective April 1, 2021 is based on the approved WACC for 2018 at 4.82%. Update will be required when the 2021 GRA is finalized;
- The SVC/Statcom at Stewart Crossing is forecast to be completed in November 2021.

When SVC/Statcom at Stewart Crossing is completed and final costs are known, YEC will file a limited scope application, within 60 days of completion date, to update the Rate Schedule 39 Fixed Charge as required for these items.

If you have any questions regarding the above, please call.

Yours truly,



Ed Mollard
Vice President Finance & CFO