

## **APPENDIX A:**

# **Letters Regarding the Approval of the Mayo-Dawson City Transmission System Project**



YUKON  
ENERGY



YUKON ENERGY  
CORPORATION  
P.O. Box 5920  
WHITEHORSE  
YUKON Y1A 5L6  
(867) 393-5300

March 18, 2005

Mr. Floyd McCormick  
Clerk to the Standing Committee on Public Accounts  
Yukon Legislative Assembly  
Box 2703  
Whitehorse, Yukon  
Y1A 2C6

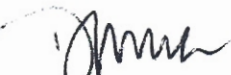
Dear Mr. McCormick

**Re: Public Accounts Committee's Request for Information**

As requested by your email dated February 11, 2005, attached please find the following copies of letters regarding the approval of the Mayo Dawson transmission line project.

1. Letter dated July 27, 2000 from Rob McWilliam, President & CEO, YDC, to Pat Duncan, Minister Responsible for YDC, regarding the Mayo/Dawson Transmission System Project and the role of the YUB.
2. Letter dated August 8, 2000 from Pat Duncan, Minister Responsible for YDC, to Mr. Ray Wells, Chair YDC, regarding approval of the Mayo to Dawson City Transmission System Project.
3. Letter dated August 29, 2000 from Rob McWilliam, President & CEO, YDC, to Brian Morris, Chair, YUB, regarding approval of the Mayo-Dawson City Transmission System Project.

Yours truly

  
David Morrison  
President & CEO

Attachments



306 (S.1)



Our File: 1/0280-20-02  
2/0965-01-01  
2/5590-00

July 27, 2000

**MEMORANDUM**

**TO:** Pat Duncan  
Minister Responsible for Yukon Development Corporation

**RE:** MAYO/DAWSON TRANSMISSION SYSTEM PROJECT AND THE ROLE OF  
THE YUKON UTILITIES BOARD

Further to the recent Cabinet minute on the project, I am writing to clarify the role of the Yukon Utilities Board in relation to the project.

**Situation Analysis**

1. The YUB has jurisdiction with respect to new capital projects only in so far as the Yukon Energy Corporation seeks to recover the costs for such projects from customers (through electrical rates). The normal practice would be for the YUB to review the prudence of project costs as part of a general rate application filed by the Utility. In this case, Yukon Energy will not put the costs into rate base until it is completed, about two years from now. The YUB knows that it will always have the opportunity to question the merits and costs of the project. Until the construction bid is awarded, about six months from now, there is, of course, no project.
2. YEC and YECL have never made a practice of seeking specific approval for capital projects before proceeding with them. The Utilities do outline general capital plans as part of general rate applications that are, in effect, approved by the YUB when rates are established. Occasionally YUB orders can speak to specific investments.
3. In the past, YEC and YECL did present a combined capital resource plan for review by the YUB in 1992 in response to direction by the Government to the YUB to review this matter. The YUB issued a report with recommendations. The recommendation relating to the Mayo to Dawson transmission line has been respected, as has a recommendation that mechanisms be investigated to mitigate market risks associated with a supply option. This has been met through the flexible debt financing arrangement. As it happens, the Yukon Government never accepted or rejected the YUB recommendations at the time or since (although the project now proposed is consistent with them).

Mailing Address: Box 2703 (D-1), Whitehorse, Y.T., Y1A 2C6  
Telephone: (867) 393-5336 Fax: (867) 393-5323

July 27, 2000

**MEMORANDUM**

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Minister Responsible for Yukon Development Corporation

**RE: MAYO/DAWSON TRANSMISSION SYSTEM PROJECT AND THE ROLE OF  
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4. Nothing in the *Yukon Public Utilities Act* requires or mandates the prior review or approval of capital projects. This situation is similar to Manitoba. However, it is important to note that electric utilities in B.C. must seek public utility board approvals (through certificates) before proceeding with construction of capital projects. Questions may arise in this regard because of the different requirements in that province. The technical advisors to the YUB are the B.C. Utilities Commission.
5. The *Public Utilities Act* does allow the Yukon Government, through Cabinet, to direct that an 'energy project' be reviewed by the YUB, however, a transmission line does not qualify as an energy project as defined in the legislation. This provision was intended so Government could have a technical review of complex new supply projects, such as a major hydro-electric dam, natural gas plant, or smelter or refinery. Furthermore, approval by the Minister of the project pursuant to the *Yukon Development Corporation Act* would make such a review redundant.
6. The YUB may, on its own election, or on a request from an intervenor (such as the Utilities Consumers' Group) request information, initiate an investigation under the Act (generally in response to a complaint), or propose to proceed with a public hearing (under the Act, the Minister of Justice must authorize a public hearing as the Government must fund it).
7. Because the Yukon Development Corporation will be protecting ratepayers from any negative adverse effects on electrical rates (through a capital contribution and flexible financing) and the overall merits of the project, Yukon Energy Corporation believes the risk of a YUB intervention or problematic decision to be low and manageable. It is also a YEC 'risk' and responsibility to handle.

Plans for dealing with the YUB

Yukon Energy will deal with the YUB in an open and proactive manner. Steps to be taken include:

- advance meeting of the President of Yukon Energy with the YUB Chair (Brian Morris) to review the project (before public announcement)
- contact with B.C. Utilities Commission advisor to the YUB to review the project and how Yukon Energy is respecting the YUB and the *Public Utilities Act* and possibly including the 1992 capital resource plan recommendations (before the public announcement)

July 27, 2000

**MEMORANDUM**

**TO: Pat Duncan**

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**RE: MAYO/DAWSON TRANSMISSION SYSTEM PROJECT AND THE ROLE OF  
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- information letter to the YUB on or about the public announcement

As part of the communication plan Yukon Energy will also brief Intervenors on the project. This could reduce likelihood of requests to the YUB to investigate or hold hearings on the project.

Should you have any further questions or concerns, please call me 393-5335.



**Rob McWilliam**  
President & Chief Executive Officer

/dm

c Ray Wells, Chair, Yukon Development Corporation







Office of the Minister  
Box 2703, Whitehorse, Yukon Y1A 2C6

1705-01-01

*Aug 8 PM*  
July 28, 2000

Mr. Ray Wells  
Chair  
Yukon Development Corporation  
P.O. Box 2703 (D-1)  
Whitehorse, Yukon Y1A 2C6

Dear Mr. Wells:

**Re: Mayo to Dawson City Transmission System Project**

In my capacity as the Minister Responsible for the Yukon Development Corporation and on behalf of the Yukon Government, I am approving the Mayo to Dawson City transmission system project as presented by the Yukon Development Corporation. With this authorization, the Yukon Development Corporation may approve the project in accordance with section 3. (2), Yukon Development Corporation Regulation.

I commend the Board for working so diligently to develop a feasible energy infrastructure investment that is in the best interests of Yukon ratepayers and the public.

Sincerely,

Pat Duncan  
Premier and Minister Responsible for Yukon Development Corporation





YUKON ENERGY



File: 2/5590-00

YUKON ENERGY CORPORATION  
P.O. Box 5920  
WHITEHORSE  
YUKON Y1A 5L6  
(867) 393-5300

FAXED  
2000/08/29  
SM

August 29, 2000

Mr. Brian Morris, Chairman  
Yukon Utilities Board  
P.O. Box 6070  
#19, 10014 - 1<sup>st</sup> Avenue  
Whitehorse, YT Y1A 5L7

*Brian*  
Dear Mr. Morris

**Re: Mayo-Dawson City Transmission System Project**

After extensive review, Yukon Energy Corporation ("Yukon Energy"), in accordance with project development plans approved by the boards of directors of the Yukon Energy Corporation and the Yukon Development Corporation, has decided to proceed with the Mayo-Dawson City Transmission System Project (the "Project"), subject to satisfactory completion of the contract tendering and related issues. The Yukon Government, through the Minister Responsible for Yukon Development Corporation ("Yukon Development"), has approved the Project.

Based on these approvals, the Project will now move to the next major steps relating to tender/award. Yukon Energy's goal is to complete the pre-qualification process, public tender and contract award steps within the next six months in order to enable the Project to be commissioned by the end of 2002. The contract award step will, of course, determine whether or not the Project actually proceeds at this time.

I would like to provide you with further background information on the Project.

**OVERVIEW OF PROJECT**

As you know, the Project will use surplus hydro power from Yukon Energy's existing Mayo system to replace high cost diesel generation in Yukon Energy's Dawson City system. All Yukon ratepayers can benefit from any future system cost savings resulting from the Project, in accordance with the rate equalization directives set out in Order-in-Council 1995/90.

The new transmission line will be built with few exceptions along the existing highway corridor, running 223 km from the Mayo Hydro Generating Station to a new substation in the Callison subdivision in Dawson City.

August 29, 2000  
Mr. Brian Morris, Chairman  
Yukon Utilities Board  
Re: Mayo-Dawson City Transmission System Project  
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Diesel generated electricity will continue to be maintained as a back-up source in Dawson City.

#### **FEASIBILITY ASSESSMENTS AND ROUTE SELECTION**

The initial feasibility and environmental impact assessment for this project was undertaken in 1991/92. Even though the project did not proceed in 1992, in light of load and other conditions at that time, the right-of-way was protected in the final land claims agreements of the Nacho Nyak Dun (NND) and Tr'ondëk Hwëch'in (TH) First Nations (1994 and 1998). A licence of occupation for the power line right-of-way was formally granted in 1998.

The Project was reassessed by Yukon Energy in 1998 in light of current conditions, including current loads and load growth in Dawson City. The recent feasibility assessments used different system alternatives as well as new economic, interest rate and load forecasts. BC Hydro conducted an independent peer review of this feasibility work, followed by preliminary engineering work in 1999/early 2000 to ensure the Project could address technical, customer, and economic requirements and risks.

Consistent with provisions of the TH and NND Yukon First Nation Final Agreements, a benefits agreement related to the Project has also been negotiated with the NND and TH First Nations. These agreements are currently at the AIP stage with final legal drafting in progress.

#### **YUKON DEVELOPMENT COMMITMENTS**

Based on the recent reassessments and preliminary engineering work described above, the boards of directors of Yukon Energy and Yukon Development approved development of the Project, subject to final approval from the Yukon Government, with the following financing arrangements to be provided by Yukon Development:

- A regulated 60:40 debt to equity ratio for the investment.
- Flexible debt financing provided by Yukon Development to ensure that ratepayers are not adversely affected in any year of the Project, i.e., interest payments by Yukon Energy to Yukon Development would be reduced as required in any year so as to ensure that Yukon ratepayers are not paying more than they would otherwise have paid if the transmission line had not been built and Dawson City had continued to be served solely by diesel generation.
- A \$4 million up-front non-repayable capital contribution by Yukon Development to accelerate the benefits to ratepayers from the Project.

August 29, 2000  
Mr. Brian Morris, Chairman  
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### CONCLUDING COMMENTS

In summary, Yukon Energy sees the Project as an important long-term infrastructure initiative that supports reliable, cost-effective and accessible electricity. It will reduce Yukon's current use of diesel fuel by almost 50 percent and facilitate the use of existing surplus hydro generation. Based on these facts, the Project is expected to provide long-term electricity system cost savings that will benefit all Yukon ratepayers.

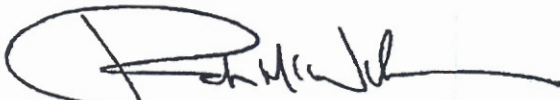
Based on the above commitments by Yukon Development on behalf of the Yukon Government, it is important to note that the Project will also not have any short or long-term adverse impacts on Yukon ratepayers. In essence, market and cost impact risks related to the Project are being borne by Yukon Development.

In accordance with the *Public Utilities Act*, and past practice of the electrical utilities in Yukon, capital projects are normally reviewed by the Yukon Utilities Board only in conjunction with its review of periodic general rate applications. Although a capital project such as this would only have the potential to affect rates after it has been brought into service, which in this instance will not occur for at least another two years, we again reiterate that the mechanism of flexible debt financing for the Project will ensure that there will be no adverse rate impacts for Yukoners from the Project.

In closing, I would like to emphasize that Yukon Energy is continuing to proceed one step at a time with the Project. Final commitments are still contingent on satisfactory completion of the contract tendering and award steps.

I will continue to keep you informed of our progress on the Project. If it would be useful, I would also be happy to arrange for more detailed briefings to be provided to your staff or advisors.

Yours very truly,



Rob McWilliam  
President & Chief Executive Officer

/dm

