



# **YUKON ENERGY 2006 Business Plan**

**December 2005**



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## OVERVIEW/2005 REVIEW

This business plan outlines the goals, strategies and performance measures for Yukon Energy for 2006 and reflects the Corporation's budgeting to achieve those goals. It also gives a summary of our 2005 major initiatives.

The past year was a very busy one for the Corporation. On December 13, 2004, Yukon Energy filed an application with the Yukon Utilities Board for a review of our 2005 required revenues. A week of public hearings took place in April 2005 and the Board rendered its decision in October. Key elements of the decision are as follows:

Yukon Energy asked for	The Yukon Utilities Board ordered
1. No general rate increase	1. Request approved
2. To fund its 2005 short-fall, Yukon Energy asked approval to create an interest earning trust fund (to be called the Income Stabilization Trust Account) and to transfer the balance in the Diesel Contingency Fund and the Faro Mine de-watering deferral account to that IST.	2. IST denied, but Yukon Energy can fund its 2005 revenue shortfall from the Faro Mine de-watering deferral account. Also, the Diesel Contingency Fund remains largely intact.
3. Re-classify the Faro mine rate to normal General Service – Government Rate	3. Request approved
4. The Secondary Sales Rate be set at 70 percent of the price of fuel oil, and the rates be adjusted quarterly to reflect the current price of fuel.	4. The Secondary Sales Rate set at 66.7 percent of the price of fuel oil. The request for a quarterly rate-setting mechanism is approved.
5. Permission to raise the allowed maximum the utilities can spend on new hook-ups. For new general service customers, investment maximums would increase from \$180 per kilowatt of load to \$400 per kilowatt.	5. Request approved.
6. For the purposes of setting rates, the Yukon Utilities board must determine an allowed return on equity (ROE) for Yukon Energy. Yukon Energy proposed a ROE of 9.05 percent.	6. Request approved.
7. Allow \$29.789 million of the Mayo/Dawson Transmission Line costs to be put in rate base.	7. Allowed rate base cost of \$29.046 million
	A financial review of Yukon Energy is necessary. The timing and scope will be determined later.
	Reduce training by \$47,000 and Board of Directors expense by \$102,000.

A great deal of time was also spent in 2005 on a 20-year Resource Plan, which will guide Yukon Energy in making sound strategic and long-term decisions regarding our major assets and infrastructure. The plan, when complete, will consider the current state of Yukon Energy's core assets, how they are being maintained, and will identify the reinvestment needed to ensure their best use. It will assess our long-term (20 year) requirements and identify options for maintenance, life extension and replacement of existing facilities, and construction of new ones.

With strong indications that two new mines will begin operating in the Central Yukon within the next few years, Yukon Energy sought financial support from the Yukon government to do planning and permitting work for a new transmission line from Carmacks to Pelly Crossing. Our hope is that the line would eventually extend to Stuart Crossing. This would allow us to supply the Minto and Western Silver mines with hydro power and to connect our two power grids. Joining the grids would provide more flexibility in terms of power availability and thus would mean long-term benefits to all Yukon ratepayers.

The government provided \$450-thousand in 2005 to cover some initial planning. Yukon Energy expects to go back to the government for more funding in 2006. We believe the total bill for planning and permitting will be about \$3 million. Before committing to building the line, the Yukon Utilities Board will be asked to review the project and provide recommendations to the Executive Council.

Work proceeded in 2005 to address Yukon Energy's ongoing concern about land management. Our goal is to obtain property easements on all lands on which our assets are located. GPS field surveying and mapping was completed in 2005 for Dawson and Faro, and the land tenure for these two communities was catalogued and ranked according to importance to Yukon Energy.

Yukon Energy devoted substantial time in 2005 to assessing future requirements for a customer billing system. A consultant was hired to do a review of billing system options.

Also in 2005, Yukon Energy developed a five-year strategic plan for our information and communications systems, to ensure that we have the necessary tools to run our corporation cost-effectively.

Yukon Energy continued working in 2005 to raise our corporate and community profile, with the creation of new interpretive signage, new brochures and educational material that is being used in local schools.

Yukon Energy is obligated to carry out certain activities each year to fulfill our water licenses. In 2005 we spent more than \$900,000 on various projects required by our Aishihik license, including making improvements to the Aishihik Power Canal and building a boat launch at the north end of Aishihik Lake. As is required under our water license, amendments were filed with the Water Board with regards to these projects. We also filed an updated heritage mitigation plan for the Aishihik area and an amendment regarding our Aishihik Lake control structure, to reflect Canadian Dam Safety guidelines.

Other major capital projects for 2005 included the refurbishing of Whitehorse hydro unit #1 and the completion of the Stewart Crossing three-phase upgrade. This tie-in with the Mayo-Dawson transmission line has allowed Stewart residents to switch to environmentally-friendly hydro power, thus reducing greenhouse gas emissions by 420 tonnes a year. Instrumentation was upgraded at the Whitehorse dam and Yukon Energy also started construction of two staff houses in Mayo.

A new capital budgeting and reporting process was used in 2005. A committee now reviews all capital project plans and makes recommendations to the Board of Directors for approval. Projects have detailed descriptions of scope and forecasted costs. The new system allows us to better track capital projects from conception to completion.

There were other improvements in Yukon Energy's internal processes in 2005 as well. We developed and implemented new contracting policies and guidelines that were approved by the board of directors and we re-organized our Purchasing and Contracting departments.

In terms of governance initiatives, Yukon Energy and the Yukon Development Corporation (YDC) implemented a number of measures as part of improvements to our day-to-day business. A new Letter of Expectations was negotiated with the Minister that outlines specific priorities and performance expectations regarding the two corporations. As well, new protocols were established that clearly lay out the role of YDC as the sole shareholder of Yukon Energy. The Minister was also provided with the corporations' business plans and quarterly progress reports.

Yukon Energy and Yukon Development Corporation representatives appeared before the Legislative Assembly's Public Accounts Committee to address questions arising from the Auditor General's Report on the Mayo-Dawson line.

We provided stakeholder input to the Yukon Environmental and Socio-Economic Assessment Board regarding its regulations and board rules.

There were some changes at the board level in 2005. Board member Shirley Abercrombie left because of work commitments and was replaced by Greg Hakonson of Dawson City. The appointment of Board Chair Willard Phelps was extended for another year. Training for board members was a priority in 2005, with members receiving training in corporate governance and financial literacy.

Yukon Energy also invested generously in employee development in 2005, with all sectors of our workforce receiving training opportunities. A financial investment target of 3.5 percent of total payroll costs was allocated for staff training.

Yukon Energy completed and ratified a new three-year collective agreement with our approximately 50 unionized employees.

Safety is a top priority at Yukon Energy. Safety reviews of all our dams were conducted in 2005, the results of which indicate our dams are in good shape. There are some minor improvements that we will look at addressing in the coming months. We also had an

analysis done of our health and safety system. This analysis will help in identifying any weaknesses in our practices and procedures.

Yukon Energy's longstanding dispute with Indian and Northern Affairs Canada (INAC) regarding the interpretation of secondary sales under a flexible term note was resolved in 2005, through a buy-out of the note by the Yukon Development Corporation. This buy-out means the Yukon now has complete ownership of the power assets previously owned by the Northern Canada Power Commission. It also means that Yukon Energy can lock in the benefits of a very favourable financing deal for the long-term benefit of ratepayers.

We are still working towards resolution of two other disputes with INAC, concerning the removal of some contaminated soil at our Whitehorse property, and with respect to costs incurred to renew our Aishihik water license. As well, we are continuing to try to resolve a dispute with Chant Construction regarding the Mayo-Dawson transmission line.

In spite of an unusually busy year, Yukon Energy was able to fulfill almost all our goals and objectives for 2005. In 2006, we commit to continuing our work towards reaching those goals, and achieving some new ones as well, as outlined in this business plan.

## **MANDATE**

Established in 1987, Yukon Energy is a publicly owned electrical utility that operates as a business, at arms length from the Yukon government. We are the main generator and transmitter of electrical energy in the Yukon and we work with our parent company Yukon Development Corporation to provide Yukoners with a sufficient supply of safe, reliable electricity and related energy services.

There are almost 15,000 electricity consumers in the territory. Yukon Energy directly serves about 1,700 of these customers, most of who live in and around Dawson City, Mayo, and Faro. Indirectly, we provide power to many other Yukon communities (including Whitehorse, Carcross, Carmacks, Haines Junction, Ross River and Teslin) through the Yukon Electrical Company Limited. Yukon Electric buys wholesale power from Yukon Energy and sells it to retail customers in the territory.

Yukon Energy has the capacity to generate 116 megawatts of power. Seventy-five megawatts of that are provided by our hydro facilities in Whitehorse, Mayo and Aishihik Lake (40 megawatts at Whitehorse, 30 megawatts at Aishihik and five megawatts at Mayo), 39 megawatts by diesel generators (which we currently only use as back-up) and 0.8 megawatts by two wind turbines located on Haeckel Hill near Whitehorse.

Yukon Energy is regulated by the *Business Corporations Act*, the *Public Utilities Act* and the *Yukon Water Act*.

Our headquarters are located near the Whitehorse Rapids hydro plant in Whitehorse, with community offices in Mayo, Faro and Dawson City.

## **VISION**

Yukon Energy provides reliable and cost-effective energy services for customers throughout the Yukon.

## **MISSION**

Provide a sufficient supply of safe, reliable electricity and related energy services to customers throughout the Yukon, while following sound business practices and demonstrating leadership in protecting the environment.

We undertake to:

- Be responsive to our customers and their changing needs and expectations
- Commit to the safety and development of our employees
- Be cost-effective in the utilization and investment of resources, always remembering that we are spending the customer's money and making long-term decisions
- Place priority on the fundamentals; that is, safe and reliable electrical services
- Build enduring relations with Yukon First Nations

- Demonstrate the value of Yukon-based public ownership and management
- Act ethically and honestly treating employees, customers and others with fairness dignity and respect

## **VALUES**

Our actions and activities are guided by our core values:

- Commitment
- Integrity
- Effective Service
- Safety
- Learning, Growth and Development
- Respect
- Teamwork
- Accountability

## MAJOR 2006 INITIATIVES

A great deal of Yukon Energy's time in 2006 will be taken up with completing and implementing our 20 year Resource Plan. The plan will provide essential information about customer sales and demand forecasts and a prioritized list of best options for meeting existing and future customer requirements. It will, for example, outline the possibilities for additional water storage in the Southern Lakes system, which could include raising the water level in Marsh Lake. It will look at whether it makes more economic sense to replace Yukon Energy's aging diesel turbines with new diesels, or to instead adopt other generating options, such as installing a third hydro unit at Aishihik. It will examine choices for supplying Whitehorse with electricity in the event of a failure on the Aishihik transmission line, from which we get most of our winter power.

The plan will also include long term maintenance and capital plans with their associated price tags. Once completed, we will hold public consultation with Yukoners on the range of options under consideration. We will also request that the Yukon Utilities Board conduct a full review of the plan.

Related to this plan is an option for extending our Whitehorse-Aishihik-Faro grid from Carmacks to Stewart Crossing. This would connect Yukon Energy's two grids and give more flexibility in terms of power availability. It would also provide hydro power to new mining customers in the Central Yukon. There are strong indications that both Minto and Western Silver will begin mining operations in the Pelly Crossing area within the next couple of years. With this in mind, Yukon Energy will seek further Yukon government funding (in addition to the \$450-thousand received in 2005) to continue with planning and permitting work on a Carmacks-Stewart extension. We will also work with prospective new mining customers to negotiate supply contracts. This includes not only Minto and Western Silver but also United Keno Hill Mines, Red Mountain, Cash Resources and Yukon Zinc.

In terms of major capital projects, Yukon Energy will spend about \$1.3 million to refurbish the second of our Aishihik hydro units. After 30 years of service, the unit requires a complete overhaul (the first unit at Aishihik was refurbished in 2003).

Also this year, we plan to replace the switchgear at our Mayo hydro plant, at a cost of about \$450,000. The switchgear has been in operation since 1957 – much longer than the normal life for this kind of equipment – and some of the transformers are showing cracks on their insulation due to aging.

As a result of a recent B.C. Hydro asset assessment, we will replace two circuit breakers on our Whitehorse substation. We will also review the assessment to determine what other asset improvements are needed in 2006.

Work will continue in 2006 to obtain easements on land on which our assets are located. In 2005 field surveying and mapping was completed for Dawson and Faro and the land tenure for these two communities was catalogued. In 2006 Yukon Energy hopes to complete the land tenure cataloging for the rest of our system, including Mayo, and will work to obtain approximately 2,000 registered easements.

Yukon Energy will continue the initiative started in 2005 to select and implement a new customer billing system. Currently we outsource our customer billing services from Yukon Electrical Company Limited. However we expect this system will be replaced within the next several years and we are taking this opportunity to consider alternative sources. This could include in-house billing or using another company for customer billing, or it could mean continuing to use Yukon Electrical for this service.

Yukon Energy also plans to develop a structured process in 2006 for new customer connections. This would include a system to ensure all steps are completed, and will provide specific milestones that can be used to measure performance.

Yukon Energy will develop and implement a comprehensive records management system in 2006. A Records Management Advisor will be hired for one year to help develop policies and procedures and will be responsible for organizing our corporate records and library.

In 2005 Yukon Energy drew up a five year strategic plan for our information and communications systems, to ensure that we have the necessary tools to run our corporation cost-effectively. This year we will implement the most critical activities identified in the plan. This includes upgrading our network security systems, implementing an email archiving system and determining whether we should move to a new mobile radio system proposed by the Yukon government.

Yukon Energy recognizes that our employees are our most valuable resource. A large percentage of our workers will be eligible for retirement within the next 10 to 15 years, and when they leave so will their accumulated knowledge and skills. In 2006 Yukon Energy will continue to develop a succession plan to mitigate the impact of retirements and, at the same time, reinvigorate the workforce. We will also continue to make staff training and development a priority in our corporation, with 2.7 percent of total payroll costs going towards training (reduced from 2005 as per a Yukon Utilities Board order).

Yukon Energy is committed to providing our employees with a safe and healthy workplace. We will explore options for implementing a Wellness Program and will continue to promote a healthy and safe work environment through communication, training, policy enforcement and awareness.

In 2005, extensive work was done on a new job classification plan. All union positions were re-classified using an alternative system that is being utilized elsewhere in Canada and abroad. Yukon Energy will work with the union in 2006 to implement this plan. No employees will suffer any loss of pay as a result of this exercise.

Yukon Energy will comply with the 2005 Yukon Utilities Board (YUB) ruling by updating our financial accounts and billing system rates and completing any new filings as per the Board's order. We will meet increases in expenses with increased sales and cost restraint, thus meeting the rate of return allowed by the YUB. We will continue to work with our auditors and financial consultants to implement new accounting guidelines with respect to capital asset accounting. We will also work to provide improved disclosure in our financial statements.

We sincerely hope that 2006 is the year we can resolve outstanding issues with the federal government with respect to costs incurred to renew the Aishihik water license, and with Chant Construction regarding the Mayo-Dawson transmission line project.

## **ECONOMIC OUTLOOK**

The national economic outlook for 2006 reflects a continuation of trends seen in 2005. The Canadian inflation rate is forecast to remain within the Bank of Canada target range of two percent.

World crude oil prices are expected to remain in the \$60 USD per barrel range in 2006 resulting in continued high prices for diesel, home heating fuel and gasoline.

It's anticipated that metal prices will remain high for gold, silver, copper, zinc and molybdenum. This should fuel the increase in mineral exploration in the Yukon and prompt some mining developments to move into the environmental permitting phase. While there are no new industrial mining customers expected to request a grid connection in 2006, there are several with potential to connect in 2007, 2008 and 2009.

The Yukon's economy is expected to continue the general trend of slow growth. Overall population levels will likely increase by two to three percent. Much of this growth is expected to be in the Whitehorse area. We anticipate that the increase in population in Whitehorse and the completion of the Whitehorse Canada Games Centre will mean higher than expected sales and peak demand on the Whitehorse grid.

Sales forecasts for 2006 reflect continued residential and commercial growth on both the Whitehorse and Mayo-Dawson hydroelectric grids. Secondary power sales are also expected to remain strong. In the Dawson City area growth in the commercial sales is likely to continue. We anticipate that high gold prices will lead placer miners along the Mayo-Dawson transmission line route to apply for grid power.

The high diesel fuel price is also a factor, as miners who currently use their own diesel generators look for cheaper alternatives. The high price of home heating fuel and the recent Yukon Utilities Board decision approving the use of electric heat on the Mayo-Dawson grid, is also expected to result in a small increase in residential and commercial sales.

## **PLANNING ASSUMPTIONS**

In order to forecast results for the 2006 fiscal year, management makes certain assumptions about major categories of revenues and expenses.

### **Revenues**

Wholesale sales – our largest category of sales representing 80 percent of sales dollars. As in prior years, wholesale sales are based on forecasts provided by Yukon Electrical Company Ltd (YECL). It's expected there will be an increase in 2006 over 2005 of 2.5 percent for primary sales.

Residential/General Service – indicators are static or modest growth in these areas (less than .5 percent growth over 2005 forecasts).

Secondary sales – Expecting similar sales volumes to 2005.

Note that Yukon Energy doesn't expect to achieve its approved maximum ROE in 2006 but instead is anticipated to achieve a ROE of 8.78 percent.

### **Labour**

Management anticipates increases in labour in 2006 due primarily to collective agreement increases (economic increases and job evaluation results) and the addition of new positions. Yukon Energy does not expect to experience any significant staff vacancies during the year. A new CFO will be recruited by the second quarter of 2006.

### **Non-Labour**

Non-labour costs consist generally of travel, consulting, materials, staffing costs, office expenses and donations. Consistent with prior years, budgets for these expenditures are generally based on a review of historical spending, with adjustment for projects related to 2006 goals & objectives.

### **Capital Assets**

Yukon Energy will undertake its largest capital budget in several years, with projects totaling \$9.645 million. This includes core capital spending of \$7.413 million, \$1.020 million on studies, \$750,000 on the Mayo-Dawson claims and \$462,000 on re-licensing. Included in the core capital spending is \$1.3 million to be used for a rewind of Aishihik hydro unit #2. This project has been separately reviewed and approved by the Board. The remaining capital plan was prepared using criteria similar to prior years and represents those projects necessary to maintain and expand the existing system as required.

### **Depreciation**

Depreciation forecast for 2006 includes depreciation calculated using updated rates as approved by the YUB in the Corporation's 2005 revenue requirement application. As well, the 2006 expense does not include a provision for site restoration and removal. Again, this is consistent with the direction of the YUB in decision YUB#2005-12.

**Interest Expense**

This item includes a 2005 dividend/loan-back from YDC of \$3.114 million, interest payable at six percent. Interest on the Flexible Term Note purchased from INAC is calculated based on sales on the WAF grid (excepting Secondary Sales).

**Other related background**

In preparing the 2006 Business Plan, management also took into consideration the following points:

- A production decision will be made regarding both the Western Silver and the United Keno Hill Mine properties by the end of 2006.
- Yukon Energy will complete power supply arrangements with at least one new mine before the end of 2006.
- Yukon Energy's Resource Plan will be completed early in 2006 and ready for public consultation and a detailed review by the Yukon Utilities Board.
- The Yukon Utilities Board plans to undertake a financial review of Yukon Energy during 2006.
- Yukon Energy will implement a new customer billing system before year end
- Yukon Energy will address its office space issues in 2006, within current budgeted amounts
- Yukon Energy will obtain the funds required to bring the Carmacks-Stewart Transmission Line project to a decision point by the end of 2006.
- Yukon Energy will successfully settle the Indian and Northern Affairs Canada oil spill claim and will establish a process for the resolution of the Aishihik fisheries authorization permit and compensation claims.
- In conjunction with Chant Construction, Yukon Energy will establish a process for the resolution of the Mayo-Dawson claims. We will complete a legal review and analysis of both our claims against Chang, and the Chant claims against us, by mid-2006.

## 2006 GOALS & OBJECTIVES

The following goals and objectives represent the major areas of focus for Yukon Energy in 2006. Strategies and performance measures have been developed for each goal and objective, and the necessary capital or operating and maintenance funds have been identified.

The goals and objectives fall into three general categories: Employee Safety, Financial and Corporate, and System Planning and Asset Management.

<b>Performance Measures</b>
Perform GAP analysis
Review "Gap Analysis" & develop corrective actions/timelines
Present assessment report to Senior Management & Joint Health and Safety Committee
Implement corrective actions from GAP

<b>Performance Measures</b>
Meet forecast business plan net income targets, achieve wholesale/retail and secondary sales revenue targets, achieve Operations and Maintenance, and Administration expenditure budgets, and develop a framework of meaningful ratios to track performance and results
Make decision on billing system and implement new system

<b>Performance Measures</b>
Complete resource plan, conduct public consultation, file plan with YUB
YUB approvals for short term work exceeding \$3 million
Remain on schedule for 2006 planned condition assessment work and the southern lakes hydrology
Complete life extension work on one Whitehorse Mirrlees diesel engine and initiate Whitehorse diesel plant building life extension
Develop strategies for meeting requirements, recruit term Records Management Advisor, and develop and implement records management policies and procedures
Initiate easements in Dawson and Faro, complete GPS field surveys (Mao and PT sites) and complete land tenure inventory
Implement formal customer connection process, customer connection KPI's. Ten percent reduction in time for customer connections (Quarter 4 compared to Quarter 1)
Contact utilities regarding sharing standards and materials, select standards and material supply utilities, visit warehouse and review warehousing procedures of utilities, enter into legal agreements for standards and materials, and secure transportation for materials shipped from other utilities' warehouses. Implementation.
Implementation of network reconfiguration and security upgrading, conduct IT security audit, confirm decision to stay or move from existing mobile radio communication system, and complete email and document collaboration implementation
Complete installation of new and replacement servers, complete a review and recommendation of options to move to an electronic document management system, and complete a review of options for migration from our existing financial information system in 2007 or later

## MAJOR CAPITAL PROJECTS – 2006

In determining which capital projects should proceed in 2006, Yukon Energy management used prioritizing categories to assist in their decisions.

- Essential projects or acquisitions are those required to meet government regulations, environmental minimum safety standards or which are essential to maintain operations.
- Necessary projects or acquisitions are those required to maintain facilities and operations in adequate working order to meet anticipated activity levels.
- Justifiable projects or acquisitions are those that improve productivity with a new facility or the upgrade of an existing facility. These expenditures are justified using either a cost benefit analysis and/or a detailed qualitative analysis of customer value.

Based on these criteria, the following major capital projects are slated for 2006:

### Aishihik Rewind – \$1.3 million

This project involves refurbishing the second of our Aishihik hydro units. After 30 years of service, the unit requires a complete overhaul (the first unit at Aishihik was refurbished in 2003).

### Resource Plan – Phase 2 - \$800,000

There is a requirement to submit a Resource Plan to the Yukon Utilities Board for public review and for YUB recommendations regarding our long term plan for meeting capacity, energy and reliability requirements. \$800,000 has been budgeted to cover the cost of that public hearing.

### Mayo Hydro Plant New Switchgear - \$450,000

The switchgear at Yukon Energy's Mayo plant has been in operation since 1957 – much longer than the normal life for this kind of equipment – and some of the transformers are showing cracks on their insulation due to aging. The planning and design work for the new switchgear was done in 2005. Construction will proceed in 2006.

### Mayo Hydro Plant Extension - \$250,000

This work is necessary to allow for the installation of the new switchgear at the Mayo plant. The existing switchgear room in Mayo is too small: the operator doesn't have enough space to perform tasks required in front of the switchgear and has no office area to work on administrative duties.

### Purchase of Crane Truck - \$256,250

Yukon Energy used to own a bucket truck but for several years we have been contracting out a truck and operator. Previous bucket truck usage, however, shows that a vehicle of this type is used enough to justify the purchase. The truck will be used for street lighting and aerial trimming in the districts and can also be used by electrical maintenance crews doing substation work. There is a safety aspect to this as well...at times the districts are manned by a single service person. By using a bucket truck, the line work becomes much safer.

#### Vehicle Purchases - \$369,000

To qualify for replacement, Yukon Energy vehicles must meet two of three requirements: the vehicle must be at least seven years old, it must have at least 160,000 kilometres on the odometer or its repair and maintenance costs must be at least 15 percent of its replacement value. In 2006, Yukon Energy forecasts six vehicles will need to be replaced.

#### Dam Upgrades - \$240,000

Yukon Energy will carry out some relatively minor upgrades to our Whitehorse, Aishihik and Mayo dams, as a result of recommendations from the 2005 Dam Safety Reports. We will also install additional instrumentation on the Whitehorse dam to allow for better monitoring.

#### Aishihik Control Structure Upgrades - \$217,000

The Aishihik Control structure was identified as having several dam safety deficiencies during the 2000 dam safety review. In 2006 we will continue the work started last year to address these deficiencies, which includes replacing the gates, insulating the left upstream wing wall to reduce frost heaving and adding riprap where needed.

#### Mayo Hydro to Diesel Plant Fibre Optic Cable - \$180,000

Communications service to the Mayo hydro plant is supplied by NorthwesTel on a buried copper line. This line has been problematic in the past: very often in wet weather (spring run-off). The problems are such that SCADA control of the plant is not possible. This results in additional operator callout to do plant checks, as well as increased maintenance costs as Yukon Energy sends electrical staff to ensure the problem is not in our equipment. To address this issue, we will install a fibre optic cable along the distribution line from the Mayo hydro sub to the diesel plant. The fibre optic will also connect the Mayo office to the hydro – diesel plant segment. This is similar to the cable installed between the Dawson Diesel and Callison substations in 2004.

#### Infrastructure Plan Generation Follow-up Work - \$170,000 and Substation Follow-up Work - \$150,000

In 2003-04, Yukon Energy had an assessment done of our core assets, including generators, transmission lines and transmission substations. The report looked at what could be done to ensure our assets reach their expected lives, or to extend their lives. In 2006 we will continue with the upgrading work started last year to address various issues identified in the assessment.

#### Little Salmon PT Substation - \$160,000

The existing substation is at the end of its life. The existing sub location is half way up a mountain and vehicle access is difficult. The new substation will be located a few spans down the line to a more accessible location.

#### Construction AH1 And AH2 Hydro Protection Upgrade - \$160,200

The existing generator protection is out of date for both our Aishihik units. The relays don't have remote communication capabilities, nor State of Event memory for data and fault analysis. A few of the relays no longer work and the wiring is in poor shape. Installing new microprocessor relays will provide the ability to do much better fault analysis.

#### Mayo Alternate Power Source - \$150,000

This project is necessary to ensure the dam safety requirements are met and that we are in accordance with our Emergency Preparedness Plan. The work involves using the station service transformer at the substation as backup to the other Mayo facilities. By use of transfer switches and cable this alternate source can be run to the hydro plant, and via the same equipment the hydro plant can act as the alternate supply to the substation.

#### Financial Systems Software Upgrade - \$150,000

Yukon Energy currently uses a software package called J.D.Edwards to keep track of our financial information. However the version we now use is becoming outdated. If we don't update to a current version we will be unable to receive software support. Upgrades also improve functionality. The process of upgrading software is standard for all software products.

#### Customer Billing System Replacement - \$150,000

Currently Yukon Energy's customer billing serviced is contracted to a third party (Atco). The software/hardware that Atco uses is essentially obsolete and will be replaced by a new package in the near future. The usage charges are expected to increase dramatically at that time. We will continue an initiative started in 2005 to select and implement a new customer billing system, possibly by using another third party or by doing it in-house.

#### L170 Line Assessment - \$140,000

Some of our transmission lines are getting older and are in need of repair. L-171 supplies our winter generation from the Aishihik plant. In 2006 we will continue the work started in 2005 to replace poles, cross-arms and insulators on this line, thus improving reliability to the system.

#### PCB Testing/Disposal/Replacement - \$119,600

Yukon Energy is undertaking a PCB testing program aimed at meeting or exceeding the Federal PCB regulations by 2007. All electrical equipment that exceeds the federal regulations will be taken out of service and disposed of in an approved manner. We estimate 32 transformers will require replacing, at a replacement cost of \$3,000 per unit.

#### Land Management and Easement Project - \$100,000

This is a continuation of a project started last year to obtain easements on land on which our assets are located. In 2005 field surveying and mapping was done for Dawson and Faro and the land tenure for these two communities was catalogued. In 2006 Yukon Energy hopes to complete the land tenure cataloging for the rest of our system, including Mayo, and will work to obtain approximately 2,000 registered easements.

**Yukon Energy Corporation**  
**Statement of Earnings**  
(\$000s)

	2004	Forecast 2005	Business Plan 2006
<b>Revenues</b>	25,006	26,413	27,020
<b>Operating expenses</b>			
Operations, maintenance & administration	9,160	10,237	10,369
Depreciation	5,816	4,707	4,754
Amortization	581	1,206 (2)	1,195
Insurance	984	910	915
Other taxes	245	250	250
Fuel	210	113	50
Purchased Power	45	48	44
Total	<u>17,041</u>	<u>17,471</u>	<u>17,577</u>
<b>Operating income</b>	7,965	8,942	9,443
<b>Other income</b>			
Allowed for Funds Used During Construction	(115)	(17)	(93)
Other (income) expense	(42)	713 (1)	(25)
Total	<u>(157)</u>	<u>696</u>	<u>(118)</u>
<b>Other expenses</b>			
Interest expense	<u>2,926</u>	<u>4,502</u>	<u>4,691</u>
Total	<u>2,926</u>	<u>4,502</u>	<u>4,691</u>
<b>Net earnings</b>	<u>5,196</u>	<u>3,744</u>	<u>4,870</u>
Return on utility equity - actual	8.73%	8.91%	8.78%
Return on utility equity - allowed	9.14%	9.05%	9.05%

**Explanatory Notes:**

(1) - 2005 Other (income) expense includes interest income (\$96) less write off of disallowed costs on the Mayo to Dawson City Transmission System project per Yukon Utilities Board decision.  
(2) - 2005 Amortization includes write off of disallowed rate case expenses (\$201)

**Yukon Energy Corporation**  
**Summary of Customers, Energy Sales and Revenues**  
(\$000s)

	2004	Forecast 2005	Business Plan 2006
<b>Residential</b>			
Customers	1,311	1,336	1,323
Sales in MWh	10,199	10,160	10,271
MWh sales per customer	7.8	7.6	7.8
Revenue (\$000s)	1,213	1,213	1,223
Cents per KWh	11.90	11.94	11.91
<b>General Service</b>			
Customers	446	450	453
Sales in MWh	14,016	18,318	17,805
MWh sales per customer	31.4	40.8	39.3
Revenue (\$000s)	1,928	2,457	2,420
Cents per KWh	13.76	13.41	13.59
<b>Industrial</b>			
Sales in MWh	247	0	0
Revenue (\$000s)	17	0	0
Cents per KWh	7.00	7.00	7.00
<b>Street lights</b>			
Sales in MWh	257	256	256
Revenue (\$000s)	66	66	66
Cents per KWh	25.62	25.62	25.82
<b>Space lights</b>			
Sales in MWh	12	14	15
Revenue (\$000s)	3	3	3
Cents per KWh	21.52	21.45	20.58
<b>Total Company - Firm Retail</b>			
Customers	1,757	1,786	1,776
Sales in MWh	24,731	28,748	28,346
Revenue (\$000s)	3,227	3,739	3,711
Cents per KWh	13.05	13.01	13.09
<b>Wholesale sales</b>			
Sales in MWh	235,982	237,419	241,862
Revenue (\$000s)	16,141	16,239	16,543
Cents per KWh	6.84	6.84	6.84
<b>Total Company - Firm</b>			
Sales in MWh	260,713	266,167	270,208
Revenue (\$000s)	19,368	19,979	20,254
Cents per KWh	7.43	7.51	7.50
<b>Secondary</b>			
Sales in MWh	16,517	18,933	20,550
Revenue (\$000s)	369	767	849
Cents per KWh	2.23	4.05	4.13
<b>Total Company</b>			
Sales in MWh	277,230	285,100	290,758
Revenue (\$000s)	19,737	20,745	21,103
Cents per KWh	7.12	7.28	7.26
Rider J	5,167	5,245	5,391
Total Sales of Power	24,904	25,990	26,494
Other Revenues	102	131	137
Faro Mine Trust transfer		292	389 (1)
Total Revenues	25,006	26,413	27,020

**Explanatory Notes**

(1) - The 2006 Business Plan amount was approved by YEC's Board of Directors prior to final approval of 2005 Revenue Requirement. Under the terms of this final approval, the draw on the Faro Mine Trust cannot exceed the approved 2005 amount (\$292).

**Yukon Energy Corporation**  
**Balance Sheet**  
(\$000s)

	2004	Forecast 2005	Business Plan 2006
<b>Current assets</b>			
Cash and cash equivalents	1,719	1,675	3,709
Accounts receivable	4,483	3,969	4,163
Fuel, materials and supplies	2,651	2,091	2,405
Prepaid expenses	838	184	181
<b>Total</b>	<b>9,691</b>	<b>7,919</b>	<b>10,458</b>
<b>Reserve for Uninsured Losses</b>	<b>797</b>	<b>61</b>	<b>123</b>
<b>Funds Held in Trust</b>	<b>772</b>	<b>788</b>	<b>828</b>
<b>Fixed assets</b>			
Property, plant and equipment, cost	211,090	217,702	224,765
Accumulated depreciation	(64,652)	(69,568)	(74,535)
Contributions for extensions, net	(13,371)	(13,972)	(15,099)
<b>Total</b>	<b>133,067</b>	<b>134,162</b>	<b>135,131</b>
<b>Deferred charges</b>	<b>6,843</b>	<b>7,327</b>	<b>7,897</b>
<b>Total assets</b>	<b>151,170</b>	<b>150,257</b>	<b>154,437</b>
<b>Current liabilities</b>			
Accounts payable and accrued	4,092	1,819	1,816
Current portion of long-term debt	1,340	1,451	2,302
<b>Total</b>	<b>5,432</b>	<b>3,270</b>	<b>4,118</b>
<b>Miscellaneous liabilities</b>			
Trust liability	772	788	828
Regulatory Liabilities	2,811	1,775	1,290
<b>Long-term debt</b>			
Long Term debt - parent			
- advances	3,649	6,443	10,274
- term note	27,313	27,313	26,510
- Mayo/Dawson Project note	16,957	16,507	16,057
- flexible term note	-	27,413	26,914
Long-term debt other	36,837	8,398	7,798
<b>Total</b>	<b>84,756</b>	<b>86,074</b>	<b>87,553</b>
<b>Total liabilities</b>	<b>93,771</b>	<b>91,907</b>	<b>93,789</b>
<b>Shareholder's Equity</b>			
Common shares	39,000	39,000	39,000
Retained earnings	18,399	19,350	21,648
<b>Total</b>	<b>57,399</b>	<b>58,350</b>	<b>60,648</b>
<b>Total liabilities and shareholder's equity</b>	<b>151,170</b>	<b>150,257</b>	<b>154,437</b>

**Yukon Energy Corporation**  
**Statement of Retained Earnings**  
(\$000s)

	2004	Forecast 2005	Business Plan 2006
Balance at beginning of year	16,853	18,399	19,892 (1)
Prior Period Adjustment (note 1)		-	-
Revised Opening Balance	<u>16,853</u>	<u>18,399</u>	<u>19,892</u>
 Add:			
Net earnings	5,196	3,744	4,870
	<u>22,049</u>	<u>22,143</u>	<u>24,762</u>
 Less:			
Common dividends	3,650	2,793	3,114
Balance at end of year	<u>18,399</u>	<u>19,350</u>	<u>21,648</u>

**Explanatory Note**

(1) - Opening 2006 retained earnings does not agree to closing 2005 retained earnings because the 2006 business plan was prepared using a different version of the 2005 forecast. Certain items, for example, the write off of certain costs by order of the YUB were not known at the time of business plan preparation but are reflected in the 2005 forecasts provided here. The 2006 business plan presented here is exactly as approved by the Yukon Energy Board of Directors.

**YUKON ENERGY CORPORATION**  
**Expenditures on Property, Plant and Equipment**  
**(\$000s)**

	<b>2006</b>
<b>Distribution</b>	
Land Management & Easement Project	\$100,000
Distribution Improvements	\$100,000
PCB Testing/Disposal/Replacement 2006	\$119,600
PT Substations	\$150,000
Customer Extensions	\$475,000
Projects under \$50,000	\$95,000
Customer Contributions	(\$475,000)
<b>Total Distribution</b>	<b>\$564,600</b>
<b>Generation</b>	
Underground Fuel Piping Removal/Replacement	\$60,000
Breaker Cell Replacement	\$60,000
Callison Synch Condenser PLC Upgrade	\$65,000
Portable Diesel Genset	\$80,000
Whse Shore Log Boom Replacement	\$100,000
Mayo Alternate Power Source	\$150,000
Construction AH1 & AH2 Protection Upgrade	\$160,200
Infrastructure Plan Generation Follow-up Work	\$170,000
Mayo Hydro Plant new switchgear Phase I & II	\$450,000
Resource Plan Phase 2	\$800,000
Dam Safety activities	\$317,000
Relicensing Activities	\$462,000
Generator Rewind AH2	\$1,300,000
Projects under \$50,000	\$156,600
<b>Total Generation</b>	<b>\$4,330,800</b>
<b>Generation - Plant &amp; Equipment</b>	
Battery system replacement Faro Substation	\$50,000
Electrical Maintenance Upgrades	\$50,000
Diesel Plant Seismic Work	\$55,000
Plant Drawing Upgrades	\$75,000
Mayo Hydro to Diesel Plant Fibre Optic Cable	\$180,000
Mayo Hydro Plant Extension	\$250,000
Projects under \$50,000	\$208,300
Fiber to Whitehorse Plant Downtown	\$50,000
Communications Network Improvements	\$50,000
Server Replacements	\$60,000
PC/Laptop Replacement	\$75,000
Financial Systems Software Upgrade (JDE)	\$150,000
Customer Billing System Replacement	\$150,000
Mayo Cold Storage Warehouse	\$50,000
Security Risk Management	\$50,000
Whitehorse Office Building 3rd Floor Cooling	\$60,000
Mayo Lake Trash Rack Improvements	\$60,000
Projects under \$50,000	\$225,000
<b>Total Generation Plant &amp; Equipment</b>	<b>\$1,848,300</b>
<b>Transmission</b>	
L174 Protection Coordination	\$50,000
Callison 125 VDC Upgrade	\$54,000
L-171 Aishihik River Crossing	\$55,000
Elsa Line Upgrade	\$75,000
Purchase of Crane Truck	\$256,250
Vehicle Purchases 2006-2010	\$369,000
Infrastructure Plan Substation Follow-up Work	\$150,000
WAF Transmission Upgrades	\$150,000
L170 Line Assessment	\$140,000
Little Salmon PT Substation	\$160,000
Projects under \$50,000	\$92,000
<b>Total Transmission</b>	<b>\$1,551,250</b>
<b>Total Capital Expenditures</b>	<b>\$8,294,950</b>