



YUKON ENERGY 2008 Business Plan

December 2007



TABLE OF CONTENTS

Overview/2007 Review.....	3-4
Mandate.....	5
Vision.....	5
Key Corporate Objectives, Mission & Values.....	6
Major 2008 Initiatives.....	7-8
Economic Outlook.....	9
Planning Assumptions.....	10-11
Key Corporate Strategies and Priorities.....	12-13
Major Capital Projects – 2008.....	14
Financial Plan.....	15-17
Statement of Earnings and Retained Earnings.....	15
Customers, Energy Sales and Revenue Summary.....	16
Balance Sheet.....	17

*Cover photo: Centreline surveying work along the Carmacks-Stewart transmission line route. Photo credit: www.archbould.com

OVERVIEW/2007 REVIEW

This business plan outlines the goals, objectives and strategies for Yukon Energy for 2008 and reflects the Corporation's budgeting to achieve those goals. It also gives a summary of our 2007 major initiatives.

A primary focus in 2007 was receiving approval for our 20-year Resource Plan and the construction of Phase One of a transmission line from Carmacks to Stewart Crossing, with a spur line to the Minto mine. The Yukon Utilities Board (YUB) approved our 20-year Resource Plan in January 2007. That included approval in principle for the new transmission line. Full YUB approval for the first phase of the line (from Carmacks to Pelly Crossing, with a Minto spur) came in the spring, following review of a Power Purchase Agreement between Yukon Energy and the Minto mine, and a further full public Part III review of the transmission line project.

Other major milestones reached in 2007 regarding the Carmacks to Stewart line included the completion of detailed engineering, a final screening report by the Yukon Environmental and Socio-Economic Assessment Board, the conclusion of a project agreement with the Northern Tutchone First Nations, and the awarding of centerline surveying, clearing, project management and line construction contracts.

At the time this business plan was written, Yukon Energy was awaiting the granting of all necessary permits, at which point work can proceed on clearing and line construction. We anticipate this work to begin before the end of 2007, with completion of the line expected in late 2008. The Yukon government has committed up to \$10 million in funding for Stage One of the line and Sherwood Copper will provide a \$7.2 million contribution to the main line.

Another priority for Yukon Energy in 2007 was to find new capacity on our system, and new sources of generation. We proceeded with rebuilding one of our Mirrlees diesel generators in Faro. It will be re-commissioned in the spring of 2008. Two other diesel units, located in Whitehorse, will be rebuilt over the next few years. The work is part of a larger overall plan to improve and upgrade the Whitehorse diesel plant.

Yukon Energy also began the planning for a third hydro turbine at our Aishihik facility. The Yukon government has committed \$5 million dollars towards the cost of the new unit, which we expect to install in 2009. This third turbine at Aishihik will provide seven megawatts of power and will help reduce the need to use costly diesel generation in the future.

Yukon Energy spent time in 2007 looking for new generation options in the Mayo/Dawson area, the Southern Lakes, and the Kusawa region. More detailed study will take place before decisions are made on any of these sites.

In keeping with our commitment of major preventive maintenance, Yukon Energy refurbished our number four hydro unit this year. WH4, known as the Fourth Wheel, is

one of our prime, year round hydro generators and its overhaul was important for continued reliable power to Yukoners.

Yukon Energy is committed to providing our employees with a safe, healthy and informed workplace. In 2007 we implemented a safety strategy that involved educating our staff through the use of guest speakers, newsletters and posters. We moved forward on a number of initiatives for improving internal communications, building teamwork and engaging staff. These initiatives included revamping our staff meetings and enhancing our program for recognizing employee milestones. Yukon Energy also launched our first intranet site. The site offers basic collaboration and document management tools where files can be shared centrally and kept secure by implementing various controls.

Recruitment, retention, and staff training and development remained priorities for Yukon Energy in 2007. Work continued on documenting safe work practices and operational procedures so that when our employees retire (a large percentage of our workers are eligible for retirement within the next 10 years), their accumulated knowledge will not leave with them.

There was little down time for Yukon Energy employees in 2007, and they are to be congratulated for their continued hard work, professionalism and dedication to the company.

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

We are recognized as one of the best managed utilities in Canada, meeting the needs of our customers with a sustainable, reliable, cost-effective supply of electricity through:

- A passion for safety and environmental stewardship in all our activities;
- Being profitable and financially strong, capable of investing in the future, by expanding and upgrading our generation and transmission infrastructure;
- A well managed, dedicated and highly qualified work force;
- Being operationally and administratively efficient; and
- Maintaining good working relationships with key stakeholders, including government and First Nations.

KEY CORPORATE OBJECTIVES 2008-2010

- Installed generation ahead of capacity requirements (new, rebuilds)
- New governance process in place
- Secure shareholder approvals for major initiatives
- Carmacks-Stewart line built – complete to Minto and Pelly
- Mayo/Dawson claims resolved
- New hydro sites under development
- Third turbine operational at Aishihik

MISSION 2007/2008

Strengthen and grow our core businesses of generation, transmission and distribution in the following ways:

- Develop and implement an effective corporate governance process
- Secure approval and financing for near-term resource plan projects
- Improve organizational capabilities – planning and project management
- Streamline work processes and improve communications with stakeholders
- Strengthen our human resources through an emphasis on employee development, improving teamwork, and implementing strategic workforce initiatives

VALUES

Our actions and activities are guided by our core values:

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

MAJOR 2008 INITIATIVES

In 2007, Yukon Energy underwent a strategic planning exercise to identify the Corporation's priorities for the next few years, along with strategies for meeting those priorities. This business plan reflects the decisions made during the strategic planning process.

A full list of priorities can be found on pages 12-14 of this document. However in summary, the major priorities for 2008 are as follows:

- Carmacks Stewart Transmission Line Project
- Purchase of Minto mine diesels
- Faro and Whitehorse (WD3) diesel generator rebuilds
- Third turbine for Aishihik
- General Rate Application
- Design and licensing of spur line for Western Copper mine
- Planning for new generation – hydro studies
- Various equipment and system improvements/replacements
- Enhance health & safety practices/training
- Employee recruitment/retention

At the time this report was written (December 2007), Yukon Energy was expecting receipt of all outstanding permits for Part One of the Carmacks to Stewart line before Christmas. Brushing work will begin as soon as we have the necessary certificates and permissions. We anticipate line construction to begin in the spring of 2008, with completion planned for the late fall of 2008.

As per our Power Purchase Agreement with Sherwood Copper's Minto mine, Yukon Energy, subject to certain conditions, can buy four diesel generators currently used to power the mine site. The purchase, if it goes ahead, will take place late in 2008, once we have begun delivering electricity to the Minto mine.

We will complete the rebuilding of one of our Faro diesel units and expect it to be re-commissioned by the spring. We will also rebuild one of our Whitehorse Mirrlees diesel generators, with a second Mirrlees to be rebuilt in 2009 and a third in 2010.

Yukon Energy will start work on purchasing and installing a third hydro turbine in the existing Aishihik plant. The Yukon government (through a federal eco-trust fund) has committed \$5 million to this approximately \$8 million project. The additional seven megawatt hydro unit will reduce future costly diesel generation.

The Yukon Utilities Board has recommended that both Yukon Energy and Yukon Electrical Company file a full General Rate Application as soon as possible. We expect to make a two part filing in the fall of 2008: an application for a revenue review (separate from YECL's revenue review application) and a joint YEC/YECL cost of service and rate design filing.

Western Copper has asked us for a grid connection to its planned mining project at the Carmacks Copper mine site. We have set aside money for the socio-economic review, the recommendations that fall out of that review, and the negotiation of a Power Purchase Agreement. We will recover all costs for this work from Western Copper.

As the need for electricity increases in the Yukon, the urgency grows for new hydro generation options. In 2008 we'll continue the work started in 2007 by taking one and possibly a second potential hydro generation project to the feasibility stage.

Although we have a substantial number of special projects on our plate, we must also give a significant amount of care and attention to the maintenance, improvement, or replacement of our existing infrastructure and equipment. Plans for 2008 include replacing our SCADA system, our financial systems software, six of our vehicles, and some of our IT equipment. We will implement an electronic document management system and will develop a disaster recovery and business continuity plan. Work will be done on assessing and upgrading some of our transmission lines and substations, and improvements will be made to our Mayo hydro plant and Wareham dam. We will also upgrade the governor in our WH1 hydro unit and will explore the possibility of a capacity increase for our Aishihik units.

Health and Safety is always a priority for Yukon Energy. In 2008 we will work towards enhancing safety training and practices, and documenting our safety standards. Another area of crucial importance for us is employee recruitment and retention. With the large number of special projects underway, we recognize the importance of having adequate staff to do the work required of them. We will examine options for adding assistance on both a contract and permanent basis, and will also look at the possibility of expanding our apprenticeship program.

Yukon Energy will continue our work of seeing a new governance model put in place. We also hope that 2008 will be the year that our longstanding claims against Chant Construction are settled. There has been some movement towards the resolution of claims and we remain hopeful that this issue will be settled within the next several months.

ECONOMIC OUTLOOK

The Yukon's economy in 2007 has been characterized as follows:

- Stable employment and population;
- High levels of mineral exploration (supported by continuing high mineral prices);
and
- Low interest rates and high energy prices.

For 2008, certain sectors such as manufacturing and tourism are expected to see growth hampered by a strong Canadian dollar and a weakened U.S. economy. Recent turmoil in the asset-backed commercial paper market will dampen credit and spending in a number of areas, but is not expected to have a significant effect on 2008 growth numbers.

Canadian Gross Domestic Product is expected to grow by 2.3 percent in 2008.

PLANNING ASSUMPTIONS

Revenues

Wholesale Sales – our largest category of sales representing 80 percent of sales dollars. As in prior years, wholesales sales are initially based on forecasts provided by Yukon Electrical Company Limited (YECL) then adjusted through analysis by YEC. It is expected there will be an increase in 2008 over 2007 of 2.0 percent for primary sales.

Residential/General Service – indicators are for modest growth of approximately two percent (dependent upon the amount of water treatment pumping activity to take place at ARM).

Secondary Sales are expected to achieve volumes of approximately 23 GWh (comparable to 2007) since there are no new customers and sales are forecast based on trends of the past two years.

Industrial Sales are forecast for the last quarter of 2008 with a provision of eight GWh being sold to Sherwood Copper. These sales will be dependent upon whether the Carmacks-Stewart Transmission Line Project meets its in-service date of September 2008.

Labour

Management has prepared the forecast based on increases from collective bargaining and performance increments. As well, the following new positions have been approved since the 2007 Business Plan:

	<u>FTE</u>
Vice President, Operations & Engineering	1.00
Manager, Environmental Assessment & Licensing	1.00
Documentation Specialist (4 year term)	<u>1.00</u>
	<u>3.00</u>

Both the Manager, Environmental Assessment & Licensing and the Documentation Specialist have been staffed. The VP position is currently vacant.

As part of the 2008 business planning process, Management has identified the need for two additional positions: 1) Financial Administrator (two year term) – additional work load in the group over the next two years related to Phase I and II rate applications and financial system conversion; and 2) Records Management Analyst (permanent full time) – staff required to implement record retention policy and document management system, as required by legislation and good business practice.

Available economic forecasts and anecdotal industry information that labour markets for utilities will continue to be very tight for 2008. Accordingly, management has forecast a 5.0 percent (3 FTE position) vacancy rate to allow for unstaffed positions.

Non-Labour

Non-labour costs consist generally of travel, fees and memberships, consulting and contracting, materials and supplies, and office expenses. Management's approach to budgeting in these areas consists of a review of historical spending, with adjustment for changes in known factors (e.g. cyclical maintenance activities).

Cash Flow/Long Term Debt

Management has an aggressive capital plan for 2008, including the construction of Stage I of the Carmacks-Stewart Transmission Line Project which will effectively deplete the cash reserves of the Corporation. New debt will be required to fund this work. Once the business plan is approved, discussions with Yukon Development Corporation will take place to resolve how new debt will be placed to ensure the capital and maintenance programs are delivered and the financial structure of YEC and its parent are maintained.

Other related background

In preparing the 2008 Business Plan, management also took into consideration the following points:

- Updated issues from strategic planning;
- Resource plan-related activities: 1) Diesel asset refurbishment; 2) commence planning and engineering for AH3 hydro expansion; and 3) construction completed on Stage 1 of the Carmacks-Stewart Transmission Project.
- Defend MD Claims.
- Complete a Phase I and II general rate application before the Yukon Utilities Board
- Replacement of the Customer Billing System by mid 2008
- Select and begin implementation of replacement financial system
- Begin planning for Stage II of CSTP and Western Copper Spur, to the extent funding is available.
- Complete work on asset condition assessments.

KEY CORPORATE STRATEGIES AND PRIORITIES

The following strategies and priorities represent the areas of focus for Yukon Energy in 2008. These priorities fall into six categories: infrastructure development, operational efficiency, health and safety, human resources, business processes, and governance.

1. Infrastructure Development

A. System and Customer Growth

- Complete construction of Carmacks Stewart Transmission Line Project (Stage 1)
- Aishihik #3
- New hydro initiatives: preliminary studies, available options
- Western Copper spur: engineering design, environmental/YESAB
- Options for future development of new capacity
- Partnerships for financing and development of new projects

2. Operational Efficiency

A. Enhance capacity/energy output of existing assets

- Assess replacement of runners at Aishihik and Whitehorse
- Mayo maximum storage
- Whitehorse downstream icing options
- Transformer replacements
- Demand Side Management

B. Enhance system reliability

- Whitehorse diesel plant enhancements
- Mayo condition assessment and plant improvements
- Develop disaster recovery plan
- Condition assessment Carmacks-Faro transmission line
- Longer term assessment of communication needs

3. Health & Safety

- Assess new regulations
- Documentation of safety standards
- Orientation for new staff/contractors
- Enhance training
- Assess core certification implementation

4. Human Resources

- Develop new recruitment strategies
- Expand apprenticeship program
- Branding/wellness program

5. Business Process

- Re-engineer Maintenance and Capital Planning & Project coordination
- Annual asset review
- Assess and select new electronic document management system
- Assess and select new financial management software (J.D. Edwards)

- Re-engineer monthly supervisors meetings
- Vista operational/planning system

6. Governance

- Industrial customer policy
- Enhance First Nations relationships/partnerships
- New governance process

MAJOR CAPITAL PROJECTS – 2008

Generation:

- Minto Diesel Units - \$2,240,000
- Construction of Aishihik Third Turbine - \$1,500,000
- Faro Mirrlees Diesel Generator (FD1) Rebuild - \$800,000
- Whitehorse Mirrlees Diesel Generator (WD3) Rebuild - \$1,550,000
- Mirrlees Electrical Upgrades - \$225,000
- Mirrlees Cooling System Replacement - \$150,000
- Mirrlees Auxiliary Systems Replacement - \$150,000
- Mayo Hydro Plant New Switchgear Phase 1 - \$150,000
- Whitehorse Hydro Unit 1 Governor Upgrade – \$125,000

Transmission/Distribution:

- Little Salmon PT Substation - \$200,000
- Whitehorse-Aishihik-Faro Transmission Upgrades - \$175,000
- Mayo to Keno Transmission Line Upgrades - \$100,000
- Land Management and Easement Project - \$100,000

Feasibility:

- Western Copper Grid Connection YESAA and Power Purchase Agreement - \$1,000,000 *Note: this money will be fully recovered from Western Copper.*
- Hydro Storage & Generation Feasibility Study - \$1,000,000
- Takhini-Carmacks and Faro Line (L170) Assessment Phase 2 - \$260,000
- Aishihik Runner Up-Rate Study - \$110,000

Rate Case:

- GRA Phase 1 Revenue Review - \$500,000
- GRA Phase 1 Cost of Service Study and Rate Design - \$300,000

General Plant and Equipment:

- Vehicle Purchases - \$380,450
- SCADA Replacement - \$268,000
- Financial Systems Software Replacement (JDE) - \$225,000
- Electronic Document Management - \$200,000
- Disaster Recovery & Business Continuity Plan - \$150,000
- Server Replacements - \$102,000
- Main Office Sprinkler System - \$100,000

Dam Safety:

- Wareham Dam Core Raise & Improvements - \$150,000