

Management Discussion & Analysis

Core Business and Strategy

Our business is the generation, transmission and distribution of electrical energy to most of Yukon. We strive for energy production that is cost-effective, sustainable, clean and reliable. Our primary source of power comes from our legacy hydro assets and our goal is to minimize the use of non-renewable sources due to higher variable cost and environmental impacts.

As an isolated grid, any event that constrains hydro and wind generation in the short term is addressed with thermal generation. To help mitigate the longer term risk of expensive thermal generation, we have an approved electricity conservation/efficiency (Demand Side Management) program to manage demand-side growth. As well, we regularly model the projected supply-demand balance of the system over the short-term to plan optimum system operations and over the medium-term to cost effectively meet demand. In the longer term, Yukon Energy plans for future supply projects to meet system growth. In the meantime, we have standby LNG and diesel units available to power the territory when the hydro assets are at capacity or are not available.

Capability to deliver results

In order to deliver on our strategic goals and achieve planned results, Yukon Energy maximizes the use of available resources while considering risks and impacts to stakeholders. These resources include leadership, labour force, working capital, systems and processes, other aspects of liquidity, and capital resources.

We continue to develop human resources policies to adapt to our seasoned work force.

We monitor and forecast our cash and financial strength on an on-going basis, including current and future projections. We expect to require cash to finance our capital projects in 2017 and are in the process of securing these resources.

Through established policies and procedures Yukon Energy maintains a capital structure ratio of 60 percent debt and 40 percent equity.

We continually monitor and evaluate the condition of our assets, and allocate a material portion of our capital budget for maintenance of these assets, thereby ensuring reliability of service to our customers.

We make it a priority to maintain and improve our key relationships with Yukoners including the Yukon government, Yukon Development Corporation, local First Nations, stakeholders, and our primary banker, TD Bank.

Results

Net income for the 2016 fiscal year was \$8.0 million, \$0.34 million more than the previous year. The increase in net income was primarily due to an increase in amounts transferred to the deferral account balances.

Revenue from sale of power was \$40.0 million; \$1.0 million lower than the prior year primarily due to a decrease in wholesale power sales.

The regulated rate of return on equity for 2016 is 8.67 percent, up from 8.14 percent the prior year.

Outlook

Net income for 2017 is forecast to increase by \$6.9M due to an increase in the sale of power as well as additional revenues resulting from increased rates. Projected revenue from power sales is \$49.6 million.

The forecast return for 2017 is 8.82 percent, equal to the Return on Equity that we are applying for in our 2017 GRA.

Yukon Energy is planning for a General Rate Application (GRA) in 2017. The GRA will give us the opportunity to adjust rates and get approval for new capital builds.

Risk Management

Yukon Energy is exposed to numerous risks in providing service to our customers. Risk impacts include safety, environmental, financial, reliability, reputation, long-term and short-term load/resource balance, market prices, stakeholder

relationships and funding. These risks can range in scale from minor to catastrophic. Yukon Energy endeavors to manage all the risks we face on a cost effective basis, taking in to account the potential reward to be gained in return for the acceptance of the risk. We have an enterprise risk management framework that provides the basis for consistently applying risk management practices.

Key strategies by impact area:

- Safety risk is managed through a well-developed health and safety program that meets or exceeds established standards for the industry.
- System reliability risk is managed through long-term planning, asset maintenance and replacement programs and emergency response programs.
- Key asset (dams and spillways) is managed through a comprehensive dam safety management system that complies with guidance from the Canadian Dam Association.
- Environmental risk is managed through our environmental management system, regulatory oversight, mandatory work procedures and site specific environmental risk management strategies.
- First Nation traditional territory risk is managed through active engagement with all local First Nations.
- Financial risks are managed through active oversight of financial results, and extensive budgetary planning and board consultations. Yukon Energy also has the authority from the regulator to employ a number of regulatory accounts that smooth financial impacts over time, thereby mitigating short term rate impacts for customers.

Key Performance Drivers

There are several performance drivers and key performance indicators that are critical to the successful implementation of our strategy and achievement of our goals. Below is an outline of three of our most important performance drivers.

1. Return on equity (ROE): in the process of regulating and setting rates for Yukon Energy, the Yukon Utilities Board must ensure that the rates are sufficient to allow us to provide reliable electric service, meet our financial obligations, comply with government policy and achieve a reasonable ROE.
2. Workforce: a stable workforce is crucial for delivering services required to achieve our business objectives. We regularly monitor our vacancy and turnover rate to ensure that our staffing is at appropriate levels. We set our human resources policies to recruit and retain a competent work force, provide opportunities for professional development and perform succession planning.
3. Reliability of service: reliability of service is one our most important objectives. Improving reliability requires a long-term investment strategy and commitment. Trends in recent performance measures are compared against past results. Senior management reviews performance indicators and takes action when actual performance deviates from forecast.