



SASKATCHEWAN
**RATE REVIEW
PANEL**

January 20, 2023

Honourable Don Morgan, K. C.
Minister of Crown Investments Corporation
Room 348
2405 Legislative Drive
Regina, SK S4S 0B3

Dear Minister:

In your Minister's order dated the 16th of February 2022, the Saskatchewan Rate Review Panel (Panel) was mandated to conduct a review of the SaskPower proposal for increases in its electricity rates for implementation on September 1, 2022, and April 1, 2023. SaskPower's rate application requested an average increase in rates of 4% effective September 1, 2022, and a further 4% average increase effective April 1, 2023.

In addition, SaskPower proposed in its application to rebalance rates and implement rate design changes that would result in different percentage changes to different customer classes and within customer classes. The proposed rates were designed to limit the increase to any single customer to 15% per rate adjustment.

The Terms of Reference directed that prior to the implementation of a rate change in 2023, SaskPower was required to provide current financial statements and an update on any material changes to business factors vital to the rate application, for the Panel's review by December 1, 2022. Based on the updated information provided by SaskPower, the Panel was to determine the abbreviated review process it requires.

As part of this abbreviated process, the Panel is required to provide SaskPower with the opportunity and reasonable time to review the Panel's updated recommendation on the 2023 rate change prior to its finalization to ensure there are no errors in the data or the interpretation of data.

Under the February 2022 Terms of Reference and your Minister's order, the Panel is mandated to provide a recommendation to confirm or revise the initial 2023 rate change to the Minister of Crown Investments Corporation no later than February 1, 2023.

As background, SaskPower provided a Mid-Application Financial Update for fiscal year 2022-23 on April 25, 2022, which also included preliminary year-end actual results for 2021-22. Although there were some changes in financial forecasts from the original application, SaskPower did not request any revisions to the proposed rate increases. However, the update was based on data collected from March and early April 2022 and natural gas prices have trended significantly upwards since that time.

As highlighted in the Panel's report dated July 8, 2022, several issues emerged during this review that impact the recommendation on rates including:

- **Total Revenue Requirement:** There are several significant factors that impact SaskPower's total revenue requirement including fuel and purchased power (F&PP); operating, maintenance and administration (OM&A); net income; return on equity (ROE); and debt ratio. Total F&PP expense is forecast to increase from \$715 million in 2020-21 to \$952 million in 2023-24, an increase of 33 per cent. OM&A represents 24 per cent of SaskPower's total revenue requirement in 2023-24 and the corporation capped its OM&A annual budget increase at 4.2 per cent in 2022-23 and 3.4 per cent in 2023-24.

SaskPower's initial submission forecasted its rate increases for 2022-23 would generate a net income of \$33 million and an ROE of 1.1%. The current forecast for fiscal year 2022-23 from the December 1st update filing is a financial loss of \$105 million and negative ROE of 3.8%.

For fiscal year 2023-24 the original application forecasted an ROE of 3.8% or net income of \$109 million, less than half of the long-term target of 8.5%. The financial update forecast for 2023-24 fiscal year now forecasts net income of \$23 million or an ROE of 0.8%.

- **Natural Gas Markets:** SaskPower's largest source of electrical generation is natural gas, and the price has been on a steady climb upwards, especially in recent months. The F&PP costs have increased from \$902 million in the original application to \$1.066 billion in the recent filing. This increase of \$164 million is mainly driven by higher natural gas costs.
- **Operating, maintenance and administration (OM&A):** In the initial application, OM&A was forecasted to increase from \$710 million in 2021-22 to \$740 million in 2022-23 and \$765 million in 2023-24. In the revised forecast, OM&A was forecasted to increase to \$782 million in 2022-23, and \$797 million in 2023-24. The increased OM&A expense for 2022-23 is due to increased storm activity costs, increased overhaul (generation plant refurbishment) spending, and federal funding for small modular reactors (SMR) development that did not materialize. The increased OM&A expense for 2023-24 in the revised forecast is due to higher overhaul costs, funding for demand side management initiatives, higher inflationary pressures on materials and supplies, and a competitive labour market.
- **Carbon Tax:** In 2018 the Government of Canada passed the Greenhouse Gas Pollution Pricing Act, which created a carbon charge starting at \$20 per tonne of CO₂ in 2019 and has been increasing by \$10 per year up to the current rate of \$65 per tonne. From 2023-30, the carbon charge will increase by \$15 per tonne per year. The federal carbon charge is forecasted to be \$251 million in 2023-24, up from \$154 million in the original application for fiscal 2022-23. It should be noted that by the end of fiscal 2023-24, the total carbon tax paid to date will be approximately \$800 million – all of which will be paid by ratepayers. The total forecasted carbon tax imposed on SaskPower during the next eight years is expected to be greater than \$3 billion.
- **Competitiveness:** SaskPower's rates have generally been competitive with other thermal generation utilities, but various taxes and the municipal surcharge paid by customers in Saskatchewan make SaskPower less competitive with other thermal generation utilities in western Canadian cities.

In the Panel's July 8th report to the Minister, it noted several issues that will impact SaskPower's future operations and the rates that customers may expect as decarbonization plans materialize. They were identified under the broad headings of Integrated Resource Planning, Elimination of Coal Generation, Net Zero Grid announcement by the Government of Canada, Zero Emission Vehicles, Decarbonization Plans Costs, Future Load Forecasting, and Rate Design and Rebalancing. These issues remain unaltered.

After careful deliberation of all these issues, the Panel concluded in its July 8th report that the proposed rate increases are fair and reasonable. As a result, the Panel recommended that the proposed 4% rate increase effective September 1, 2022, be approved and that the proposed 4% rate increase effective April 1, 2023, be approved pending a financial review submitted to the Panel no later than December 1, 2022. At the conclusion of the rate review process, the provincial cabinet approved a Saskatchewan Rate Review Panel recommendation that the April 1, 2023, rate increase be implemented pending a financial review submitted to the SRRP.

This financial review was forwarded to the Panel on November 28, 2022. The SaskPower financial review filing is available on the Panel's website www.saskratereview.ca. The financial review compares SaskPower's latest forecast to the initial rate application submission for 2022-23 and 2023-24. In recognition of the shortened review timeline, the financial update report was provided in advance of the meeting to give Panel members an opportunity to review the material and prepare comments or questions for the in-person meeting on December 1, 2022.

The Panel met with officials of SaskPower in Saskatoon on December 1, 2022

The December 1st SaskPower Financial Review filing summary

The financial review compares SaskPower's latest forecast (September 2022) to the forecast submitted in the initial rate filing (February 2022). All forecasts were presented assuming that the system average 4% rate increase effective April 1, 2023, is to be confirmed. The following is an overview of SaskPower filing:

Net income: The original rate application forecasted a net income of \$33 million in 2022-23 and a ROE of 1.1%. In SaskPower's September 2022 forecast, the 2022-23 net income forecast is a loss of \$105 million, a decrease of \$138 million. This is largely due to forecasted increases to fuel and purchased power. Forecasted increases to OM&A and finance charges also contributed to the forecasted net loss, while forecasted increases to Saskatchewan sales and exports helped offset losses in 2022-23.

In 2023-24, forecasted net income decreased from \$109 million in the initial submission to \$23 million in the September 2022 forecast. Forecasted ROE decreased from 3.8% to 0.8%.

Revenue and Load: Overall, SaskPower's 2022-23 load forecast increased slightly from the initial rate application to the September 2022 forecast. The 2022-23 sales volume forecast increased by 1.6% in the September 2022 forecast, leading to increased sales revenue. The sales volume increase was driven by increases in the Oilfield, Commercial and Residential classes, partially offset by decreases in the Power, Farm and Reseller classes.

The 2022-23 export revenue forecast increased significantly in the September 2022 forecast, more than doubling from \$41 million to \$98 million. This is driven by increases to both export volumes and price.

For 2023-24, the load forecast increased as well. Increases in Residential, Oilfield, Power and Commercial classes led to a 2.8% increase to the 2023-24 Saskatchewan sales volume forecast. This was partially offset by decreases in the Farm and Reseller class forecasts. The increased sales volume forecast resulted in an increase in the Saskatchewan sales forecast for 2023-24.

Expense: SaskPower's forecasted 2022-23 expenses increased \$279 million from the initial rate application to the September 2022 forecast. Higher natural gas prices drove up F&PP expense, while higher interest rates resulted in higher finance charges. Major storm activity and increased overhaul costs led to higher OM&A expense for 2022-23.

The 2023-24 expense forecast increased \$222 million from the initial rate application forecast. As with the 2022-23 forecast, higher natural gas prices and interest rates significantly impacted the 2023-24 expense forecast.

Conclusion: Overall, SaskPower's 2022-23 net income forecast decreased from \$33 million to a net loss of \$105 million, a decrease of \$138 million. Forecasted 2022-23 ROE decreased from 1.1% to a negative 3.8%.

SaskPower's 2023-24 net income forecast decreased from \$109 million to \$23 million, a decrease of \$86 million. Forecasted 2023-24 ROE decreased from 3.8% to 0.8%.

Based on the updated forecast, SaskPower continues to recommend that the April 1, 2023, 4% rate increase be approved as requested.

After due consideration of all the financial review filed together with the in-person meeting presentations and answers to the questions posed and undertakings, the Panel understands the needs for and is in full support of SaskPower's rate request of a 4% increase on April 1, 2023. The Panel also supports continuing the rate rebalancing and rate design changes proposed in the application. The Panel therefore recommends that the 4% rate increase proposed for April 1, 2023, be confirmed.

In so doing, the Panel recognizes the impact this rate increase will have on SaskPower's ratepayers. Affordability issues are high on all governments' agendas today and while rate relief is always a goal or objective, this must be balanced against the financial needs of the corporation ensuring we have a safe, and reliable electricity service today and into the future. A major Crown Corporation forecasting a significant operating loss in the current year is not in the best interest of any of the stakeholders. In this case, SaskPower's forecast net income in 2023-24 fiscal year of \$23 million with the recommended 4% rate increase is marginal at best, as one or two winter or summer storms could very quickly erode that net income and place the corporation in an operating loss. Accordingly, the Panel does not see there is a real financial alternative but to increase rates.

The Panel continues to urge SaskPower to continue to focus on limiting growth in OM&A costs and specifically per customer account costs to less than inflation by finding efficiencies within the corporation and, at the same time, delivering a safe and reliable electricity service. In a news release of November 22, 2022, the Government of Saskatchewan announced that the Saskatchewan Output-Based Performance Standards (OBPS) program meets the requirement for the 2023-30 federal carbon pricing benchmark. While we understand the announcement could have a positive impact for SaskPower's ratepayers, the mechanics of the program are yet to be determined and it is important that the government be sensitive to the cost of the decarbonization plans for ratepayers.

As noted in our full report on the February 2022 SaskPower rate application, the cost to ratepayers of SaskPower decarbonization plan is high as it transitions to net zero in 2035. From a competitive standpoint, when taxes are included, SaskPower’s average rates are higher than the average for thermal utilities for all four rate classes. From our viewpoint, the carbon tax SaskPower ratepayers generate should be returned to SaskPower to assist as an off-set to the high cost of green energy and the decarbonization plan. This approach would lower the rates that consumers would otherwise be required to pay.

For the consumers, the range of the bill impacts will be different for individual customers with most having a material percentage impact on their electricity costs. For a typical urban residential customer (625 kWh), the bill increases from April 1, 2022 (including the September 1st rate increase and January 1, 2023, carbon tax increase) to April 1, 2023, will be approximately \$12 per month (11 per cent). However, the bill the customer pays, which includes taxes and subsidies, is expected to increase by \$14 (11 per cent). Other taxes also result in larger increases on bills. For a typical urban residential customer, the bill on April 1, 2023, is expected to include \$23 in taxes (19 per cent of the total bill).

Full details of the impact on the ratepayers of the rate change are fully detailed in our July 8th report. A comparison of rates of an average residential customer at relevant times is outlined below.

Comparison of Rates at Relevant Times

Date	Monthly Bill Before Taxes	Monthly Bill Including Taxes	Reason for Increase
April 1, 2022	\$112	\$133	
September 1, 2022	\$116	\$140	4% Rate Increase
January 1, 2023	\$119	\$142	Carbon Tax Increase
April 1, 2023	\$124	\$147	Second 4% Rate Increase

Should you require any further information or clarification relative to the foregoing, please do not hesitate to contact me.

Respectfully submitted.



Original signed by

Albert Johnston
Chair, Saskatchewan Rate review Panel

CC Mr. Kent Campbell, President, and CEO, Crown Investments Corporation
CC Mr. Rupen Pandya, President and CEO, SaskPower
CC Mr. Troy King, VP Finance and CFO, SaskPower