

November 2017

Saskatchewan Rate Review Panel
P.O. Box 1301
Saskatoon, Saskatchewan
S7K 3N1

**RE: Meadow Lake Mechanical Pulp Submission to the Saskatchewan Rate Review Panel,
October 16, 2017**

SaskPower appreciates the submission from Meadow Lake Mechanical Pulp regarding our 2018 Rate Application. We are grateful for the opportunity to address the recommendations presented.

“That the March 1, 2018 increase be reduced by at least 50%.” Meadow Lake Mechanical Pulp

Reducing SaskPower’s proposed rate increase by 50% would result in our company falling well short of its long-term return on equity (ROE) target. Meanwhile, SaskPower’s debt ratio would continue to climb further above the upper threshold of its target range of 60% to 75%.

Demand for electricity in Saskatchewan continues to grow. SaskPower’s record peak demand is broken annually. The cost to serve new load and to replace or refurbish major sections of existing, aging infrastructure to maintain a reasonable level of reliability far exceed the cost of inflation.

As a Crown, SaskPower has a duty to serve the entire province. Our company must accommodate growth in demand and new connections to the province’s electricity system regardless of the impact on profitability. Every new generation plant increases SaskPower’s cost to produce power. New transmission and distribution assets also substantially increase the cost to serve customers.

Our company works hard to contain costs where possible, but SaskPower’s ongoing capital investment program is necessary both to accommodate growing demand for power and also to ensure that a reliable and safe supply of power is available for our customers.

“That the Panel provides direction to SaskPower to aggressively review capital expenditures including the setting a “target” percentage for deferral or reduction over the next two years.” Meadow Lake Mechanical Pulp

SaskPower has significantly reduced capital expenditures. As noted in the 2018 Rate Application, over the five-year period from 2015 to 2019-20, our company has eliminated or deferred over \$2.4 billion in capital expenditures. Since the application launch, SaskPower has also deferred the construction of the Tazi Twé Hydroelectric Station.

SaskPower's push for efficiency is not restricted to capital. Over the same five-year period, our company has found a further \$215 million in operating, maintenance and administration savings. As well, a new Business Optimization Initiative is reviewing the company from top to bottom and challenging the way we currently do business. The program's short-term goal is to find an additional \$35 million in savings in 2019-20.

“Only in the event SaskPower is not achieving balanced financial metrics, later in 2018 SaskPower would submit another rate increase application, with this one incorporating the findings of the COSS and which includes addressing any biases in the R/RR between classes of service.” Meadow Lake Mechanical Pulp

SaskPower is already not achieving its financial metric targets. Our company last achieved its ROE target in 2011. Since that year, SaskPower's debt ratio increased from 62.6% to 75.7% in 2016-17, and now exceeds the long term target range of 60%-75%. Any reductions or deferrals of this rate increase request will push our company further away from achieving its financial targets in 2018-19.

Conclusion

SaskPower appreciates the submission of Meadow Lake Mechanical Pulp. Our company values the participation of all stakeholders in the rate review process, and welcomes continuing dialogue as we strive to provide our customers with reliable, sustainable and cost-effective power.