2025 Victoria Avenue
Regina, SK
Canada S4P 0S1
Phone: 1 (888) 757-6937

November 2017

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

RE: Crescent Point Energy Presentation to Saskatchewan Rate Review Panel, October 26, 2017

SaskPower appreciates the submission from Crescent Point Energy regarding our 2018 Rate Application. We are grateful for the opportunity to address the issues presented in the submission.

Return on equity (ROE)
It is important to note that SaskPower's ROE is not paid to the Government of Saskatchewan. Returns are reinvested in the company and help offset debt. SaskPower has not achieved its long-term ROE target of 8.5% since 2011, largely due to a strategy of requesting rate increases that fell short of the ROE target to limit the impact of rate increases on customers.

Since then, our debt ratio has climbed from 62.6% in 2011 to 75.7% in 2016-17. If SaskPower continued to request rate increases that fell short of its ROE target, it would put further pressure on SaskPower's debt ratio, which is already exceeding the upper threshold of the target range of 60-75%.

Efficiency and optimization
As noted in the 2018 Rate Application, SaskPower continues to look for savings and is aggressively reducing its budgets. Over the five-year period from 2015 to 2019-20, SaskPower has eliminated $215 million from its operating, maintenance and administration budgets and eliminated or deferred a further $2.4 billion from its capital budgets.

Meanwhile, SaskPower's new Business Optimization Initiative is reviewing the company from top to bottom and challenging the way we currently do business. The Business Optimization Initiative has a short-term goal to find a further $35 million in savings in 2019-20. These savings are substantial, but the impact of our capital spending to maintain and grow Saskatchewan's electricity system dwarfs the savings. Each $1 billion spent on capital increases expenses by approximately $70 million. SaskPower's savings initiatives will help to contain rate increases, but will not eliminate the need for increases.

Sustaining and growing Saskatchewan's electricity system

As a Crown, our company has a duty to serve the entire province. SaskPower must accommodate growth in demand and new connections to the province's electricity system regardless of the impact on profitability. New generation options and grid infrastructure are substantially more expensive than the assets they are replacing. As a result, the impact of capital investment has a significant impact on SaskPower's expenses.

This period of expansion coincides with the need to invest in infrastructure sustainment to ensure that we are maintaining a reasonable level of reliability despite the additional expense of doing so. In addition to the expansion and refurbishment of the existing system, Federal regulations will eliminate conventional coal as a generation option by 2030. Conventional coal was SaskPower's cheapest baseload source of electricity for decades, and its removal from our company's generation mix also impacts our need for rate increases.

Alberta power rates comparison

Electricity prices in Alberta are currently low due to a depressed demand for electricity as a result of a recession. Prices fluctuate significantly in Alberta. Prior to the recession, based on the 2013 *Hydro Quebec Comparison of Electricity Prices in North America*, rates in Alberta were consistently higher than in Saskatchewan in every category. For example, in the large power category, Calgary and Edmonton's average prices were more than double the average prices in Regina.

AVERAGE PRICES ON APRIL 1, 2013

(in ¢/kWh)[1]

Summary Table (excluding taxes)

RESIDENTIAL SERVICE		GENERAL SERVICE					
		Small Power	Medium Power			Large Power	
Power demand		40 kW	500 kW	1,000 kW	2,500 kW[2]	5,000 kW[2]	50,000 kW[3]
Consumption	1,000 kWh	10,000 kWh	100,000 kWh	400,000 kWh	1,170,000 kWh	3,060,000 kWh	30,600,000 kWh
Load factor		35%	28%	56%	65%	85%	85%
Canadian Cities							
Montréal, QC	6.87	9.05	11.33	7.38	6.26	4.88	4.62
Calgary, AB	14.81	16.93	17.65	15.27	14.40	14.04	14.02
Charlottetown, PE[4]	14.87	15.54	16.28	12.87	12.38	8.53	8.53
Edmonton, AB[5]	13.90	13.25	21.02	17.92	17.37	17.06	13.13
Halifax, NS	15.45	14.85	16.47	12.44	10.66	9.33	9.33
Moncton, NB	11.82	12.46	13.39	10.98	10.62	7.19	6.86
Ottawa, ON	12.39	12.26	12.52	10.59	10.53	10.13	6.20
Regina, SK	13.15	10.82	12.81	9.53	7.81	7.01	5.95
St. John's, NL[6]	12.55	12.58	12.24	9.82	9.35	8.94	3.98
Toronto, ON	12.48	12.40	14.44	11.85	11.34	10.89	10.81
Vancouver, BC	8.91	9.60	9.56	7.23	6.73	6.28	5.06
Winnipeg, MB	7.63	7.48	8.27	5.76	4.86	4.39	3.78

Some industry experts have noted that the low prices in Alberta are unsustainable and are stifling investment in new generation that will be required to not only meet demand when the economy rebounds, but also to achieve the province's 2030 emissions reduction goals. As a result, the provincial government announced a change to the electricity market starting in 2021.

Alberta's electricity market will move away from the energy-only market, where generators pay for the cost of infrastructure through the sale of electricity and take on all the risk. It will transition to a capacity market that sees two revenue streams: revenue from electricity sold, as well as additional revenue from a competitive auction that would cover the costs of building new infrastructure. This new market structure will help encourage investment in new generation but does pass investment risk, and likely increased costs, to rate payers.

Emissions reductions

Crescent Point Energy noted that it can reduce emissions much more effectively than SaskPower and is willing and ready to invest and take on capital risk. SaskPower encourages Crescent Point Energy to discuss options with the Province of Saskatchewan regarding further GHG reductions within its industry.

However, oil industry GHG emissions are outside the scope of SaskPower's 2018 Rate Application and cannot be included as part of a potential Provincial/Federal Equivalency Agreement at this time. The federal regulations target conventional coal generation, and the Equivalency Agreement being negotiated between the province and the federal government is focused only on the electricity sector — the agreement specifically relates to emissions from coal and natural gas generation that support the supply of electricity. Use of external credits (or payments) is not permitted for compliance.

Conclusion

SaskPower appreciates the submission of Crescent Point Energy. 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.