ERCO Worldwide, A division of Superior Plus LP

Submission to Saskatchewan Rate Review Panel

SaskPower 2018 Rate Application

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10-30-2017

Introduction

ERCO Worldwide, A division of Superior Plus LP ("ERCO"), is an electro-chemical company that has a 110-year history of producing chemicals and a storied past of supplying environmentally preferred chlorine dioxide technology to the pulp and paper industry. ERCO has the world's largest installed base of modern chlorine dioxide generators and related technology, and is the second largest producer of sodium chlorate in both North America, and the world.

Among other things, sodium chlorate is an electrochemical precursor to chlorine dioxide production for bleaching in the pulp and paper industry. ERCO operates five sodium chlorate facilities in Canada, one facility in the US, and one facility in Chile.

In addition, ERCO also operates two chlor-alkali facilities one in Saskatoon, Saskatchewan, and one in Port Edwards, Wisconsin. Both facilities have small production capacities relative to competitors and most of the products from the Saskatoon facility are transported in trucks to serve nearby niche markets.

ERCO's Saskatoon facility is the only electrochemical process of its kind in the Province of Saskatchewan and it has a single large discrete electrical point load of 45 MW. It is uniquely equipped to produce both sodium chlorate and chlor-alkali products.

The commercial viability of the Saskatoon plant depends heavily on competitively priced electricity supply. ERCO is very concerned with SaskPower's perennial rate increases and their resulting, substantial negative impact on our company. ERCO implores the Saskatchewan Rate Review Panel to reduce SaskPower's next rate increase to no more than the rate of inflation, and to give direction to SaskPower to reduce its operating expenses, capital spending, and to address its financial outlook.

ERCO as an Employer and Its Product Importance to Industry

ERCO's Saskatoon facility has been in operation since 1962, and currently employs 79 full-time, 3 temporary and 6 to 12 contract positions. The facility produces over 40,000 MT of sodium chlorate which it supplies to several mid-western states, and approximately 42,000 Electrochemical Units (ECU) - or tons of chlorine, and caustic soda, which it supplies to niche markets in Western Canada. The facility also converts a portion of its chlorine product to hydrochloric acid, a key chemical in the hydraulic fracking process. The facility's products are used in many industries, including oil and gas, pulp and paper, agricultural, plastics, water purification, detergents, soaps, ore reduction, steel pickling, and metal cleaning.

ERCO's Saskatoon facility has an $11 million payroll, and pays approximately $700,000 annually in provincial sales and property taxes.

ERCO is a noteworthy and renowned corporate citizen in Saskatoon. Since 2011, ERCO has invested over $35 million in growth capital, and $18 million in maintenance capital to double the capacity of the hydrochloric acid burner, and to refurbish the facility's chlor-alkali electro-chemical cells. The facility has a strong history and track record of ensuring safe & reliable operation of the chemical processes.

ERCO also has an outstanding record of community involvement and charitable contributions. Our employees volunteer directly and routinely in community organizations throughout the city, such as the United Way and participate (including financial support) in several local interest groups such as the Silverwood Heights Community Association, NSBA (North Saskatoon Business Association) and the Saskatoon Chamber of Commerce. We also supply on-going financial support to initiatives such as NotifyNow.

Importance of Competitive Electricity Costs

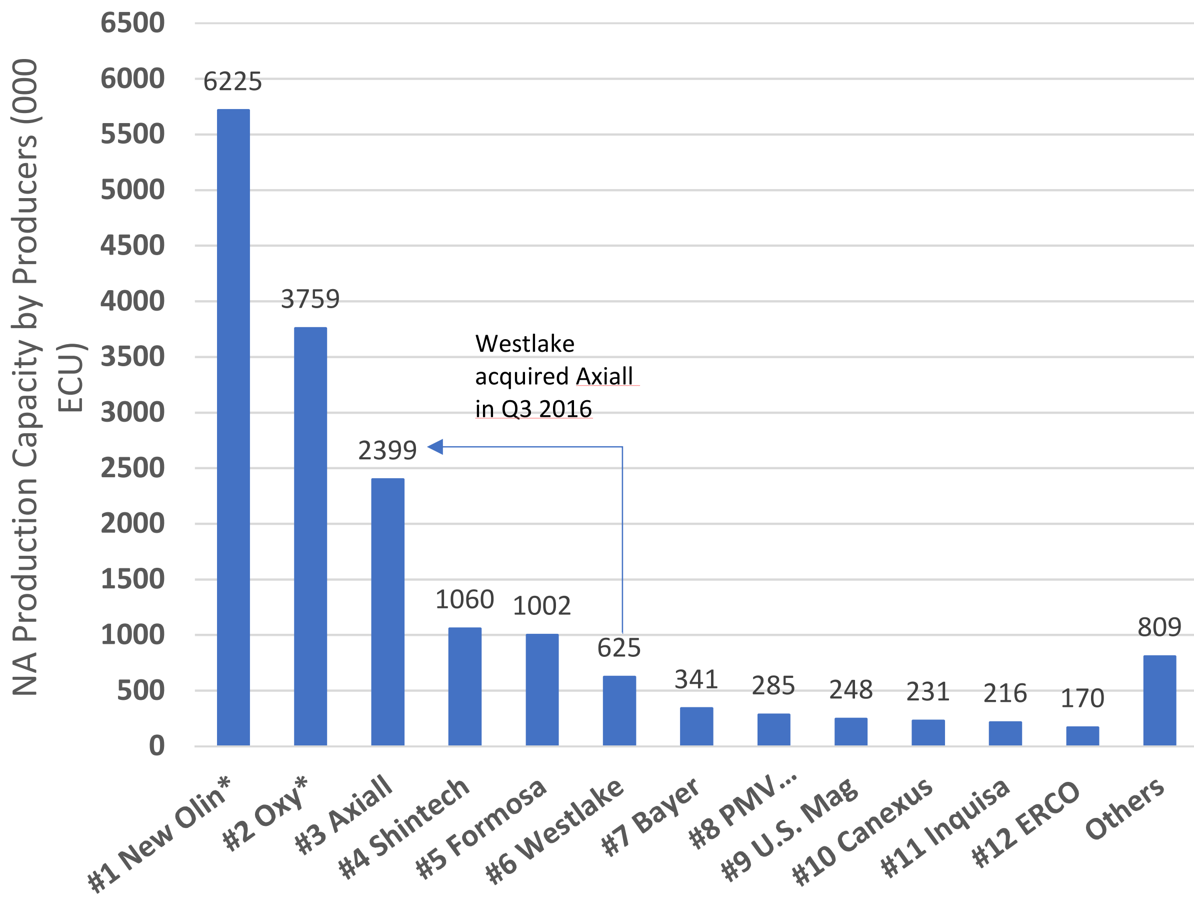
1. *ERCO's electro-chemical processes consume a lot of electricity*

ERCO's Saskatoon facility consumes over 350 GWh of electricity each year, and is one of SaskPower's largest customers. Electrical energy is used as a raw material to convert salt into sodium chlorate and chlor-alkali products. Each tonne of sodium chlorate and chlor-alkali products manufactured consumes about 5,000 and 2,500 kilowatts of electricity respectively. This process is capital intensive, and is generally operated at high load factors in order to minimize operating costs by maximizing the capacity utilization of our electrical assets.

Electricity typically represents approximately 70% of the direct cash cost of our production. Increases in electrical costs erode contribution margins and the competitiveness of our product far more quickly than for other products where electricity is costed and treated as a utility. Apart from electrical costs, freight is the facility's next key cost driver as the majority of the Saskatoon products are exported out of the province. ERCO must control these costs in order to remain not only globally competitive, but also commercially viable.

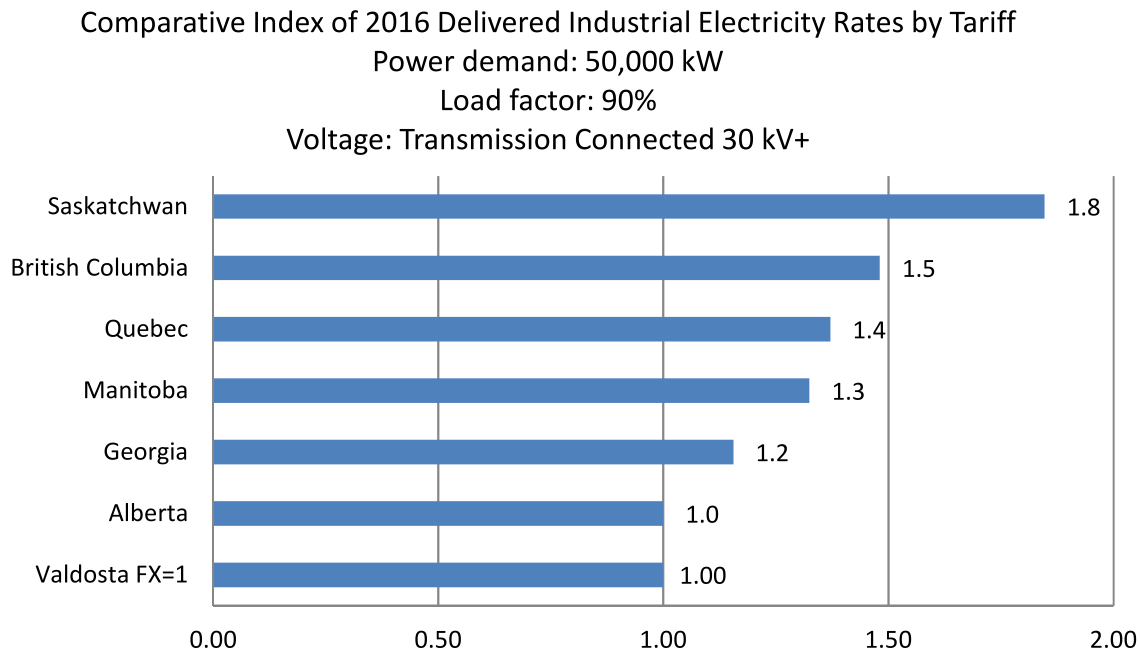
2. *Our competitors are located in other jurisdictions throughout North America, they are larger producers, and have access to far lower and competitive electricity rates*

ERCO's chlor-alkali production ranks 12th among all North American producers. Due to our small size and lack of economies of scale, ERCO must operate the facility at high and constant rates to normalize our cash flows and amortize our investment.



Significant quantities of competing chlor-alkali products are produced in the US Gulf coast where producers are consolidating and have access to low electricity rates. Even our Canadian competitor has access to lower electricity rates in the west coast than our Saskatoon facility. We have already seen evidence of products infiltration in our markets, and anticipate that its impact will only increase in the near future.

In fact, our Saskatoon facility's electricity rates compare poorly when measured against all other ERCO facilities. Indeed, the current SaskPower rate is 20% higher than that of the second highest ERCO facility, and 80% higher than that of the lowest ERCO facility.



Sources:
https://www.bchydro.com/about/planning_regulatory/tariff_filings/electric-tariff.html
https://www.aeso.ca/rules-standards-and-tariff/tariff/; Average pool price CAD$18.3/MWh, transmission, retailing and pool trading charges included
http://www.saskpower.com/accounts-and-services/power-rates/
https://www.hydro.mb.ca/regulatory_affairs/energy_rates/electricity/historical.shtml
http://www.hydroquebec.com/majorcustomers/rates/large-power-rates/rate-l/
https://georgiapower.com/business/prices-rates/business-tariffs.cshtml; Average real time pricing of US$27.2/MWh
Exchange rate = 1.325

Continuing non-competitive electricity rates like these have the very real potential to strand our assets at Saskatoon, to eliminate new investment, and to affect ERCO's ability to remain competitive in the marketplace.

ERCO urges the Rate Review Panel to cut the rate increase to no more than the rate of inflation, and to recommend aggressive reduction in SaskPower's OM&A costs and capital spending

ERCO's business plan hinges on competitive and stable electrical costs. Rising electrical costs are crippling to our business, particularly during a low commodity price cycle when competitive pressures do not allow us to pass on rate increases to our customers. In order to compete for future capital expenditures internally, and to remain competitive, ERCO's Saskatoon facility must continually strive to lower operating costs through improved efficiencies, and acquire competitively priced electricity. ERCO is tremendously concerned that we have no practical way to mitigate costs under the current rate structure which is unfavorable compared to those of our sister locations and competitors. This has placed undue hardship on our company – particularly during a critical time in which we are fighting to maintain our competitive position in a shrinking market.

In order to avoid having large industrials like ERCO leave the electric system, and thereby further increasing costs to core consumers, ERCO pleads for the Rate Review Panel to cut the rate increase to no more than the rate of inflation, and to recommend aggressive reduction in SaskPower's OM&A costs and capital spending to minimize its need to sustain 5% annual increases.

ERCO closed one of the sodium chlorate lines, and exited the Cal Hypo business under similar conditions in the past at Saskatoon, and can no longer afford to continue down the current path without suffering further substantial cutbacks in the form of reduced production and headcounts. In fact, without a satisfactory resolution of the rate application that allows ERCO to stabilize electrical costs going forward:

- ERCO will not invest new capital to the plant and;
- ERCO will consider closing the facility and moving its production elsewhere.

Thank you for your time and consideration.