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8 November 2017

Mr. Albert Johnston, Chair  
Saskatchewan Rate Review Panel  
P.O. Box 1301,  
Saskatoon, SK, S7K 3N1

Dear Mr. Johnston:

Thank you for the opportunity to speak with the Panel regarding SaskPower's 2018 rate application. Our comments and this letter are supplemental to the submission of the Canadian Association of Petroleum Producers (CAPP) and the Explorers and Producers Association of Canada (EPAC), dated October 30, 2017 (the "CAPP/EPAC Submission").

The CAPP/EPAC submission noted that Canada's oil and gas industry is faced with the twin challenges of low commodity prices and escalating costs associated with numerous policy and regulatory initiatives underway at the federal and provincial levels. These costs will impact the competitiveness of Canadian jurisdictions, including Saskatchewan, in attracting investment, particularly when the United States is on a path to reduce costs.

Our request of the Panel is that you consider any power rate increase against the backdrop of these other escalating costs. We believe it is important for all policy influencers and decision makers to take this full picture into account and be mindful of the cumulative impact on the ability of the province to attract the investment that delivers jobs and revenues to the people of Saskatchewan.

### **Husky in Saskatchewan**

Husky Energy is one of Canada's largest integrated energy companies, with operations in Canada, the United States and the Asia Pacific Region. Our integration is perhaps nowhere more evident than in the Lloydminster region, with our upstream heavy oil production, pipeline network and refining and upgrading assets.

For more than 70 years, Husky has been active in the Lloydminster region and we will remain so for many years to come. Our heavy oil business has been significantly transformed over the past 10 years, with a much greater weighting to thermal production. It is serving Husky well in this lower-for-longer price environment, as thermal production has significantly lower finding and development, operating and sustaining capital costs, while delivering higher recovery rates when compared with

non-thermal production. By way of example, recovery rates for non-thermal are about 10%, while thermal is north of 65%.

Ten years ago, Husky's heavy oil business produced 100,000 bbls/day, of which 80% was non-thermal and was on a high decline. Today, after significant investments in thermal production, the business delivers 150,000 bbls/day, 65% of which is thermal. Husky wants to grow this thermal production further. Our five year plan would see an additional \$5 billion in capital investment in Saskatchewan. This translates to us advancing two new thermal plants per year. Each plant brings 200 to 250 construction jobs and 50 full-time jobs in operations.

#### **Rapidly Changing Policy and Regulatory Environment**

Our commitment to Saskatchewan is driven by our history and people, the infrastructure we have in the Lloydminster region and the high-quality portfolio of opportunities we enjoy in the province. But it is also a response to Saskatchewan's commitment to remain competitive. Saskatchewan has a well-earned reputation as a good place to invest. It will take a concerted effort to retain this advantage in the face of a rapidly changing policy and regulatory environment that will add significant costs to the industry.

We discussed with the Panel the cost implications to our business of a 5% increase to power rates. When viewed together with other costs associated with methane reduction requirements, carbon plans (at the federal and provincial levels), and taxation changes, the risk to Saskatchewan's competitive position is clear. While recognizing that major policies are still in development, we have estimated the cumulative incremental cost over a five year period could be as high as \$300 million, or roughly the equivalent of a new 10,000 bbl/day thermal plant.

All those involved in influencing and making policy need to have this larger picture in mind and the potential implications on the economy of Saskatchewan. Once again, both Viorel and I appreciated the opportunity to speak with the Panel and we are available to you should you wish to discuss any of these matters further.

Yours truly,



Adam Sparkes  
Director, Government Relations

cc: Viorel Munteanu, VP, Thermal Production