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November 2017

Saskatchewan Rate Review Panel
P.O. Box 1301
Saskatoon, Saskatchewan
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RE: Canadian Association of Petroleum Producers (CAPP) and the Explorers and Producers Association of Canada (EPAC) Submission to the Saskatchewan Rate Review Panel, October 30, 2017

SaskPower appreciates the submission from CAPP and EPAC regarding our 2018 Rate Application. We are grateful for the opportunity to address the recommendations presented.

"CAPP/EPAC recommends that the SRRP evaluate the fairness of SaskPower's requested increase based on the total returns to the shareholder – not based on the requested return on equity in isolation." (CAPP/EPAC)

The discussion concerning SaskPower's payment of fees, taxes and royalties to the Province of Saskatchewan are outside of the scope of this review. SaskPower does not have any control over water rental fees, corporate capital tax, coal royalties, nor their relative competitiveness to other provinces.

Meanwhile, it is important to note that SaskPower's return on equity (ROE) is not returned to the shareholder. Our company currently does not pay a dividend. In fact, SaskPower has not paid a dividend since 2008 — with one special exception in 2012 based on 2011 earnings. Instead, SaskPower's ROE has been reinvested in the company and has helped to offset debt that would otherwise be required to maintain and grow SaskPower's electricity system. Our company's debt ratio is currently above the upper threshold of its debt ratio target range of 60 to 75%, and without any returns would have undoubtedly been higher.

"CAPP/EPAC urges the SRRP to recommend SaskPower thoroughly examine the cost of all aspects of the preferred supply plan with a view to minimizing the cost of this plan." (CAPP/EPAC)

SaskPower has and will continue to examine the cost of all aspects of meeting future generation supply requirements. Our company's generation supply plan is flexible and able to adjust to changing circumstances if necessary. If load growth decreases, SaskPower will adjust its plan accordingly. SaskPower recently demonstrated this diligence when it deferred development of the Tazi Twé Hydroelectric Project in northern Saskatchewan due to changing load forecasts. From 2015 to 2019-20, SaskPower has cancelled or deferred $2.4 billion in capital projects and will continue to evaluate its plans with the same level of scrutiny.

"CAPP/EPAC suggests the SRRP recommend that SaskPower thoroughly examine the cost of each component of the preferred supply plan in terms of the incremental cost of GHG reductions." (CAPP/EPAC)

There is no doubt that unless prices change considerably between now and 2030, the cost to achieve SaskPower's emissions reduction goals will impact rates. However, the analysis provided in the CAPP/ECAP submission is incomplete. Comparing the variable fuel cost of coal generation to the all-in cost of wind generation ignores the fixed cost of coal generation and assumes no further investment would be needed to continue to run the coal fleet. As well, wind generation is intermittent and will not match the generation characteristics of baseload coal generation. Due to this and many other reasons, the estimated cost of GHG reductions of $78/tonne cited by CAPP/EPAC is seen as an inaccurate representation of the actual cost.

Further, conventional coal generation is no longer an option. Replacing conventional coal is not a choice, but rather a requirement by 2030 due to federal emissions regulations. SaskPower will pursue the plan that keeps costs as low as possible while ensuring that sufficient baseload power is in place and emission reduction targets are met. SaskPower's generation supply plan is flexible and can adapt to changing conditions.

"CAPP/EPAC urges the SRRP to recommend that SaskPower thoroughly examine the cost of wind versus natural gas generation by fully recognizing differences in the financing costs." (CAPP/EPAC)

"CAPP/EPAC requests that SaskPower review its preferred supply plan with the view of minimizing the cost of meeting stated GHG reduction goals by maximizing the use of natural gas-fired generation in the supply plan, subject to meeting its stated GHG reduction goals." (CAPP/EPAC)

"CAPP/EPAC requests that in developing its preferred supply plan that SaskPower include only investments necessary to meet its GHG reduction commitment and avoid additional expenditures required solely to meet the capacity goal." (CAPP/EPAC)

SaskPower is committed to meeting our emissions reduction goals in a cost-effective way. Our company is continuing to work with the Saskatchewan Ministry of Environment and Environment & Climate Change Canada (ECCC) to set carbon dioxide (CO_2) emissions levels which would form the basis for a CO_2 reductions Equivalency Agreement (EA) between the Province of Saskatchewan and Government of Canada. The EA will require the adoption of provincial regulations that have equivalent outcomes to the federal coal-fired regulations, but will allow flexibility on how those outcomes are achieved. The EA would allow Saskatchewan to achieve or surpass emissions targets as set by the federal government in a more cost-effective way than would have been strictly prescribed under the federal regulations.

The EA is expected to allow SaskPower to run coal plants beyond the deadlines outlined by federal emissions regulations as long as other, equivalent emissions reductions efforts are in place that result in an equal or more aggressive emissions reduction strategy. Adding wind and other renewable generation options could allow SaskPower to extend the lives of coal plants while achieving emissions reductions that satisfy the EA in a more cost-effective way compared to natural gas and wind alone. SaskPower's plan is flexible and is subject to regular re-evaluation to ensure that it continues to be the best plan for SaskPower and rate payers.

Conclusion

SaskPower appreciates the submission of CAPP/EPAC. 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.