SaskPower
Powering the future

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Saskatchewan Rate Review Panel
P.O. Box 1301
Saskatoon, Saskatchewan
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RE: Saskatchewan Mining Association (SMA) Submission to the Saskatchewan Rate Review Panel (SRRP), October 30, 2017

SaskPower appreciates the submission from the Saskatchewan Mining Association regarding our 2018 Rate Application. We are grateful for the opportunity to address the recommendations presented.

<u>SMA recommendations to the SRRP</u>

1. *That SaskPower further reduce its OMA costs in the forecast period.*

SMA notes that while SaskPower's operating, maintenance and administration (OM&A) costs have increased in recent years, SMA member companies have had to take significant cost-cutting measures to operating costs during a challenging period of low commodity prices. However, as described 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 eliminated $215 million from its OM&A budgets and eliminated or deferred a further $2.4 billion from its capital budgets. As well, SaskPower's Business Optimization Initiative has a goal to find a further $35 million in savings for 2019-20.

It is important to note two distinct differences between SaskPower and the companies represented by SMA. First, demand for electricity in the province continues to grow. We have set a new peak demand record every year since 2010. Finding additional operational savings is more difficult during periods of growth. Second, SaskPower has a duty to serve the province. Unlike a private company that can curtail or suspend unprofitable operations, SaskPower must meet the province's demand regardless of the impact to profitability. The capital infrastructure required to refurbish or replace the existing system while also accommodating growing demand is driving the need for rate increases.

2. *SaskPower review its forecasting methodology for the Power Class so that forecast power requirements are better aligned with actual sales.*

SaskPower's primary source for its Power class load forecast is through each customer's projection of its load requirements. SaskPower meets with each of its key accounts to record the future expected demand to assist in developing our load forecasts. To ensure the forecasts are reasonable, SaskPower also consults with the Saskatchewan Ministry of the Economy to review mine expansion plans and develops a potash sector energy forecast based on the Ministry of the Economy's potash production forecast. This forecast is used to compare to the individual customer forecasts. Please see SaskPower's response to interrogatory SRRP 105a (round 1) for a summary of SaskPower's forecasting accuracy. Over the past three years, the forecast accuracy of the Power class and total Saskatchewan sales have been within SaskPower's benchmark of 3% each year, as shown below:

Actual vs forecasted electricity sales (in GWh)

	2014			2015			2016-17		
	actual	forecast	variance	actual	forecast	variance	actual	forecast	variance
Power class	8,179	8,234	0.67%	8,698	8,522	-2.03%	9,207	9,221	0.16%
Total Saskatchewan Sales	21,389	21,111	1.30%	21,625	21,758	-0.62%	22,081	22,473	-1.78%

3. *That SaskPower reduce its long-term ROE of 8.5%.*

SaskPower's 8.5% return on equity (ROE) target is in line with other utilities in Canada, including both Crown Corporations and for-profit utilities. Also, the terms of reference lists the ROE target among the items for the Panel to accept as given. SaskPower has not met its ROE target since 2011. SaskPower's recent applications have pursued rate increases that resulted in the Corporation falling short of its ROE target to reduce the impact of a rate increase on ratepayers. This has contributed to our debt ratio climbing from 62.6% in 2011 to over 75% in 2016-17. Meeting our ROE target in 2018-19 will help SaskPower stabilize its debt ratio at the upper threshold of our target range of 60% to 75%.

4. *That SaskPower retain any surplus revenues and not be required to pay dividends to the General Revenue Fund.*

SaskPower is required to follow the direction of its shareholder with respect to the dividend policy. With one exception in 2012 based on 2011 earnings, SaskPower has not paid a dividend since 2008.

5. *That funding for high-cost "clean" power generation required as a result of Federal Government regulations related to climate change be funded outside of the SaskPower Rate Application process.*

The SMA notes that Power class customers should not bear a disproportionate share of "clean" power generation costs. They do not. The costs related to low-emission generation additions are allocated through cost of service methodology in the same way any other cost would be allocated. After our most recent cost of service methodology review that concluded in July 2017, the independent consultant concluded that our company's allocation methodology is fair and representative of the cost to serve each customer. The consultant also specifically commented on our company's treatment of generation costs related to emissions reductions and agreed with SaskPower's treatment of those costs.

6. Carbon price.

SaskPower did not comment on carbon prices or taxes in the application because the Province of Saskatchewan has stated that a carbon tax will not be implemented in this province.

Conclusion

SaskPower appreciates the submission of the SMA. 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.