



2018 RATE APPLICATION

Public Meeting: Regina
October 3, 2017

 **SaskPower**
Powering the future[®]



2018 Rate Application

REQUEST: SYSTEM AVERAGE 5% INCREASE
EFFECTIVE MARCH 1, 2018

- ▶ Needed to maintain the health of Saskatchewan's electricity system and transition to cleaner generation sources.
- ▶ Rate increase will enable SaskPower to maintain a solid financial foundation by:
 - Stabilizing the debt ratio around the target upper limit of 75%.
 - Meeting the ROE target of 8.5% in 2018-19.



Rate impacts by customer class

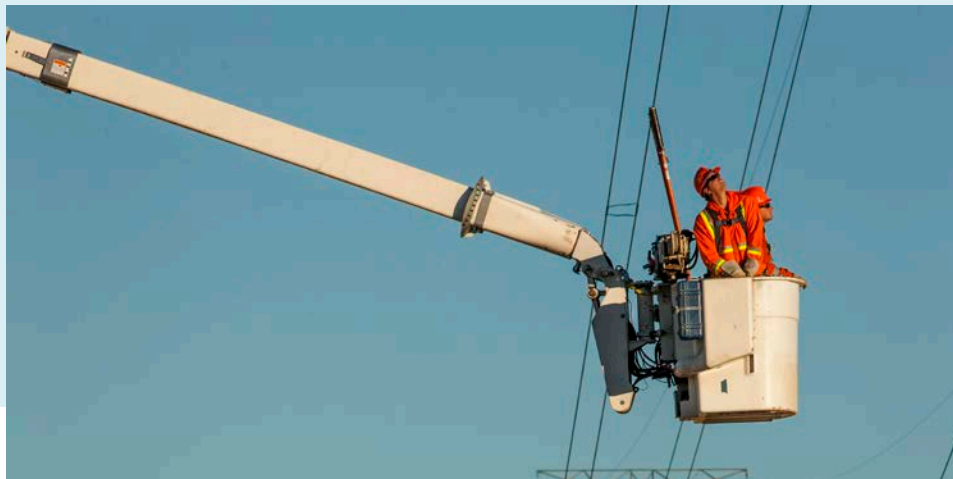
Class of service	Revenue to revenue requirement ratio (current rates)	March 1, 2018 proposed rate change	Monthly increase due to proposed rate change	Revenue to revenue requirement ratio (after rate increase)
	(R/RR ratio)	(%)	(\$)	(R/RR ratio)
Urban residential	0.98	5.1%	6	0.98
Rural residential	0.93	5.1%	9	0.92
Residential	0.97	5.1%	6	0.97
Farm	0.97	5.1%	13	0.97
Urban commercial	1.02	5.1%	32	1.02
Rural commercial	1.01	5.1%	39	1.00
Commercial	1.02	5.1%	33	1.02
Power - published rates	1.02	5.1%	24,995	1.03
Power - contract rates	1.00	4.1%	46,220	0.99
Power	1.02	4.8%	27,937	1.02
Oilfield	1.03	5.1%	79	1.03
Streetlight	0.85	5.1%	25	0.85
Reseller	0.98	5.1%	219,851	0.99

Why is a rate increase needed?

FORECASTED CAPITAL INVESTMENTS OF ABOUT
\$1.4 BILLION PER YEAR

(INCLUDING POWER PURCHASE AGREEMENTS)

- ▶ We're investing in our system to:
 - » Replace and upgrade aging infrastructure.
 - » Meet growing electricity demand.
 - » Meet emissions-related regulatory requirements.



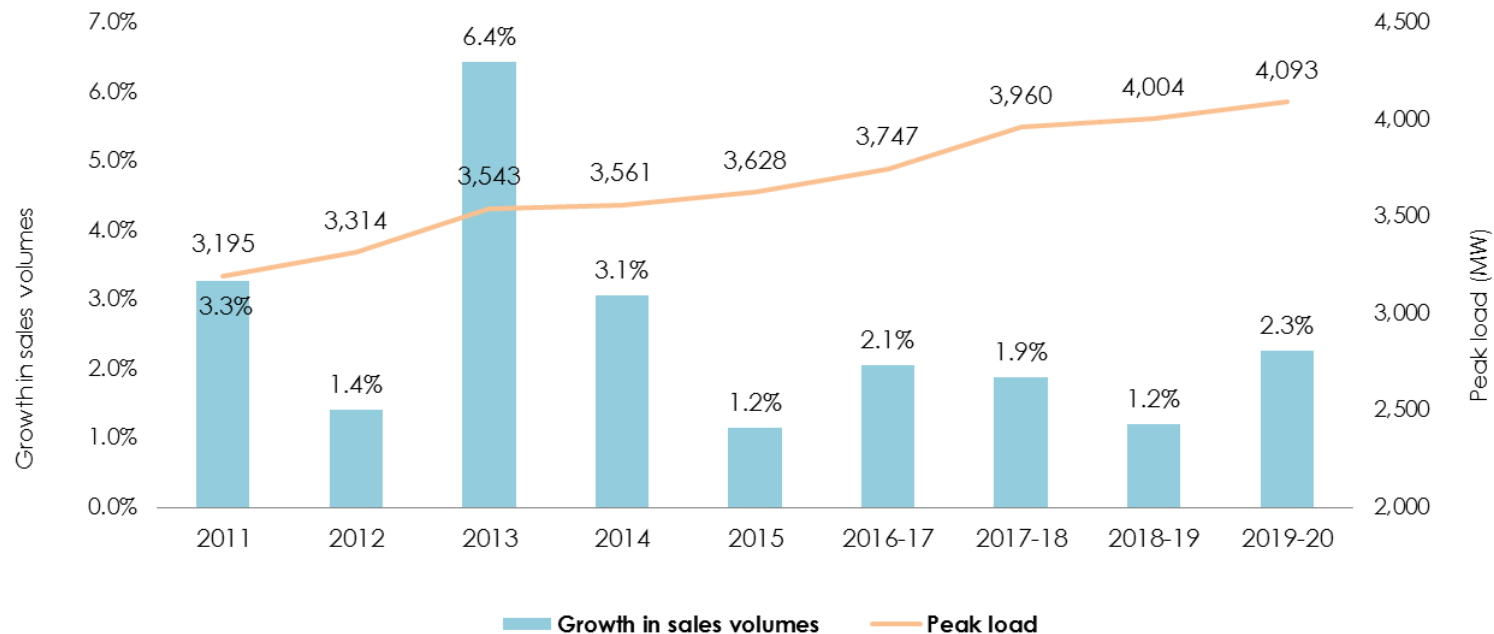
Aging infrastructure

- ▶ Coal generation largely built in 1970s and 1980s (34% of generation capacity).
- ▶ Hydro generation constructed in late 1950s and 1960s, with some as early as 1930s (20% of generation capacity).
- ▶ Nearly 70% of over one million distribution poles were installed prior to 1990 and have a mean average age of 38. The industry recommended average age is 25.
- ▶ Most of transmission system was built between 1950 and 1980.



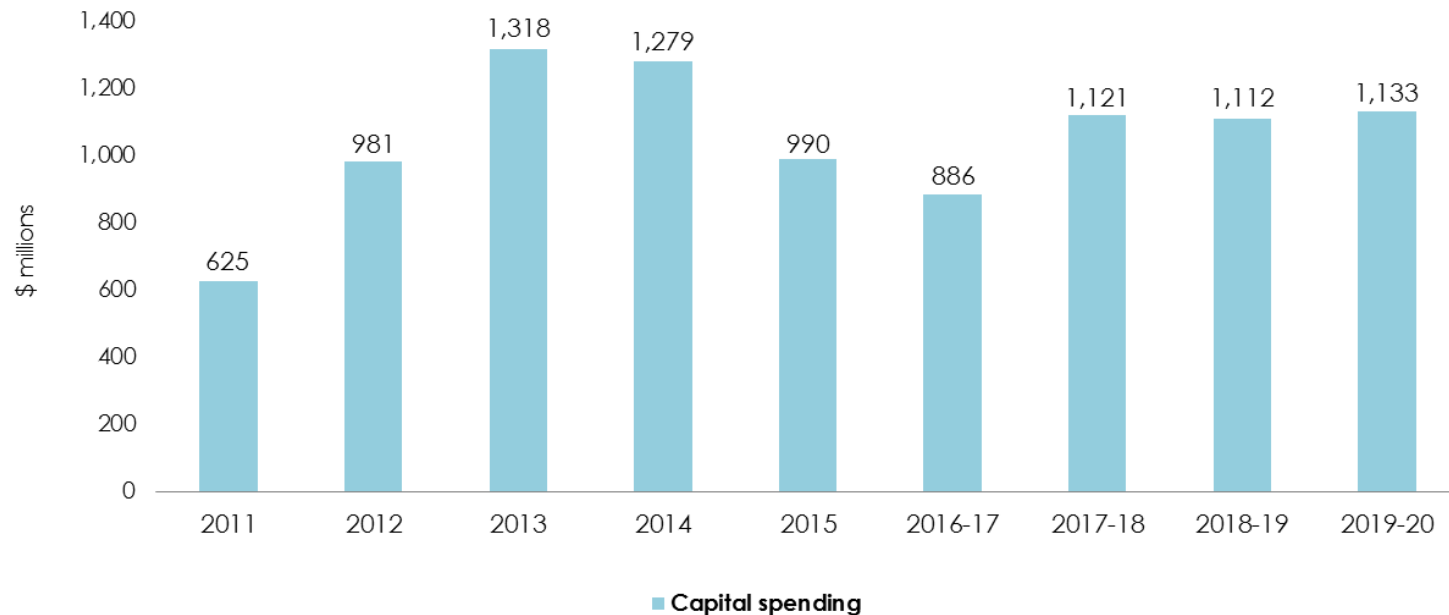
Growing electricity demand

Growth in peak load and sales volumes



- New records set for summer/winter peak demand.
- Forecasted peak demand increase of 2.1% annually over next five years.

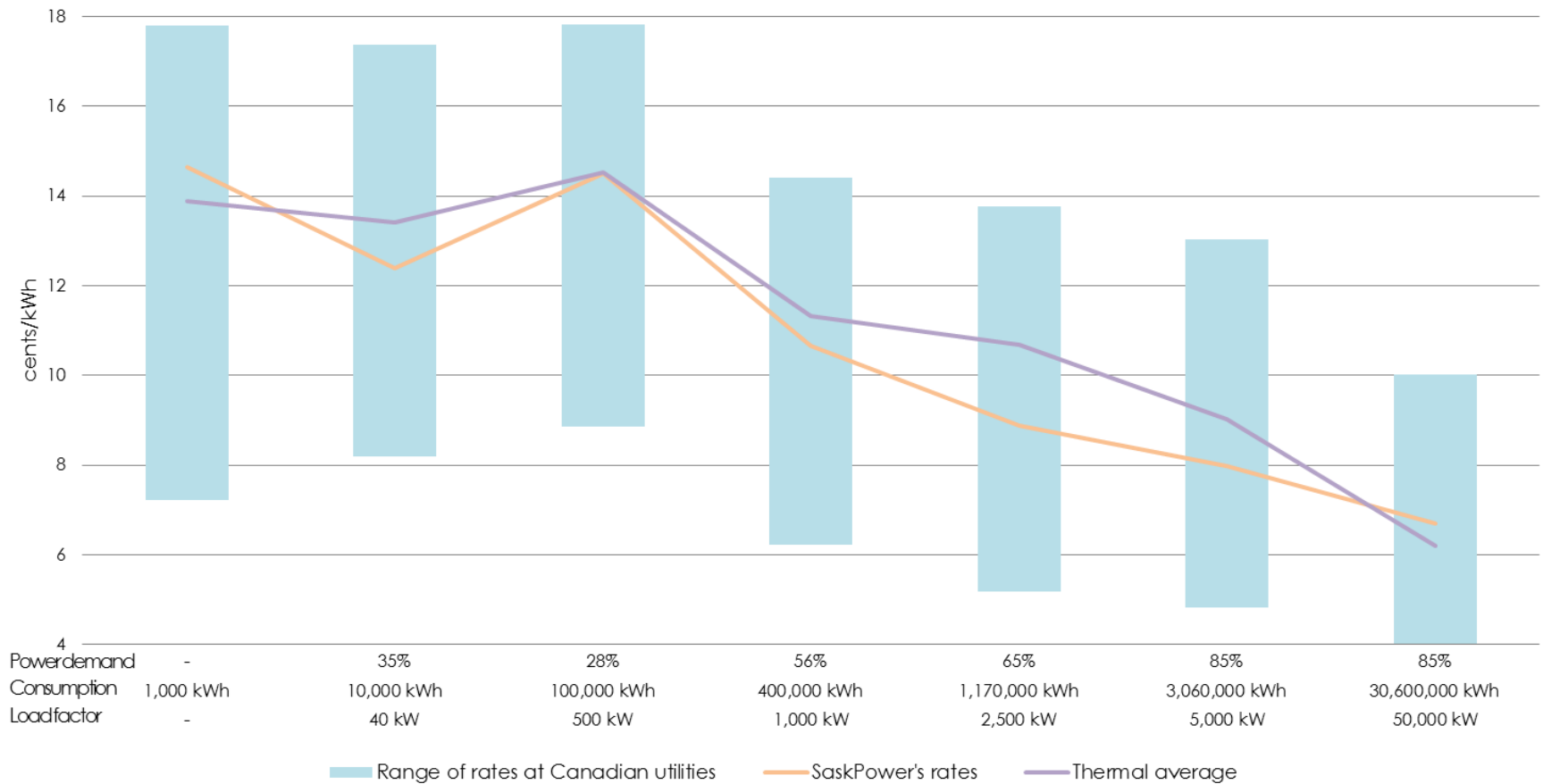
Capital investment



- Since 2011, capital spending has increased significantly (not including power purchase agreements).

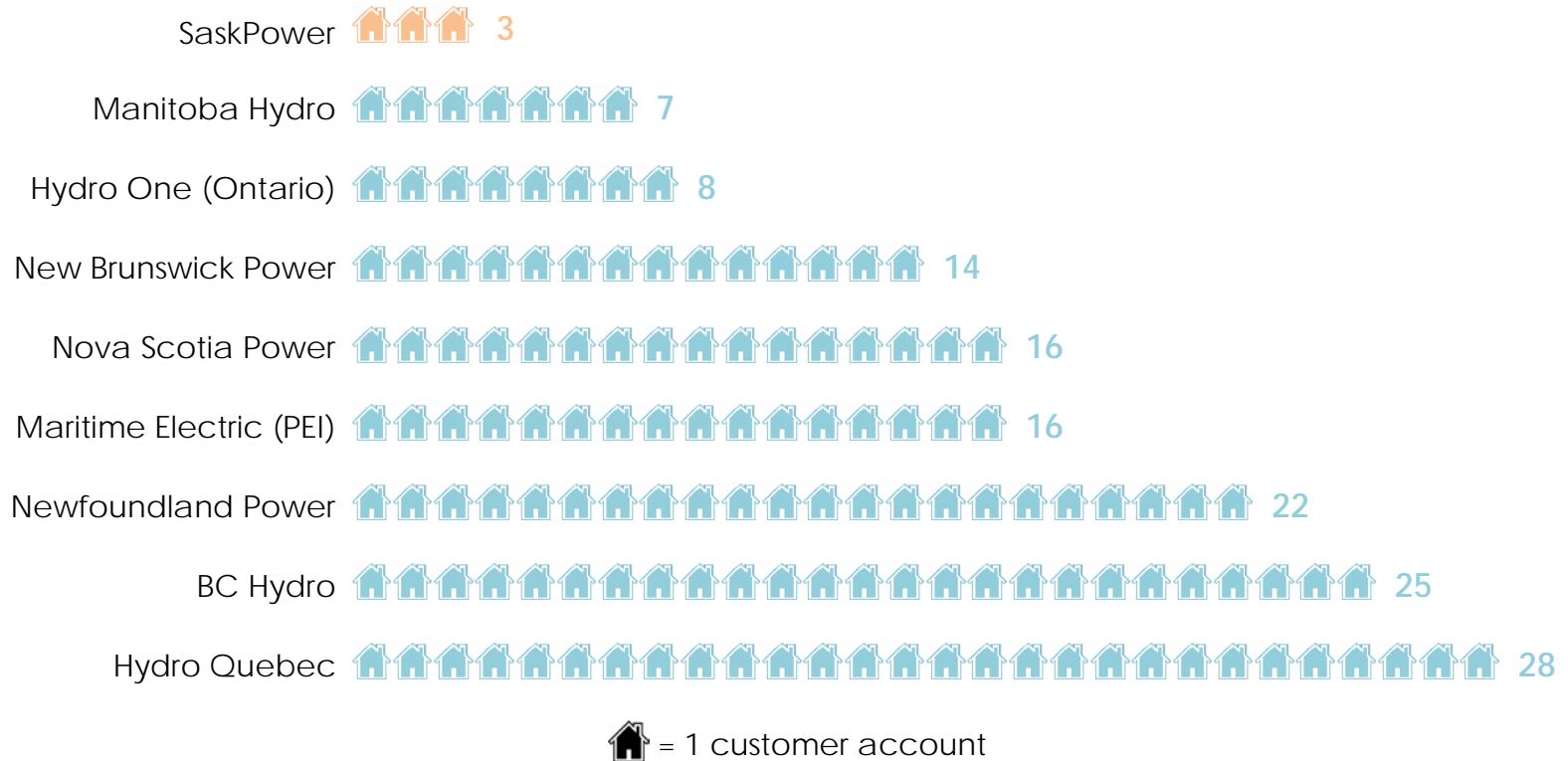
Are SaskPower's rates competitive?

SaskPower's rates within the range of rates of other Canadian utilities
cents/kWh (April 1, 2016)



Customer density

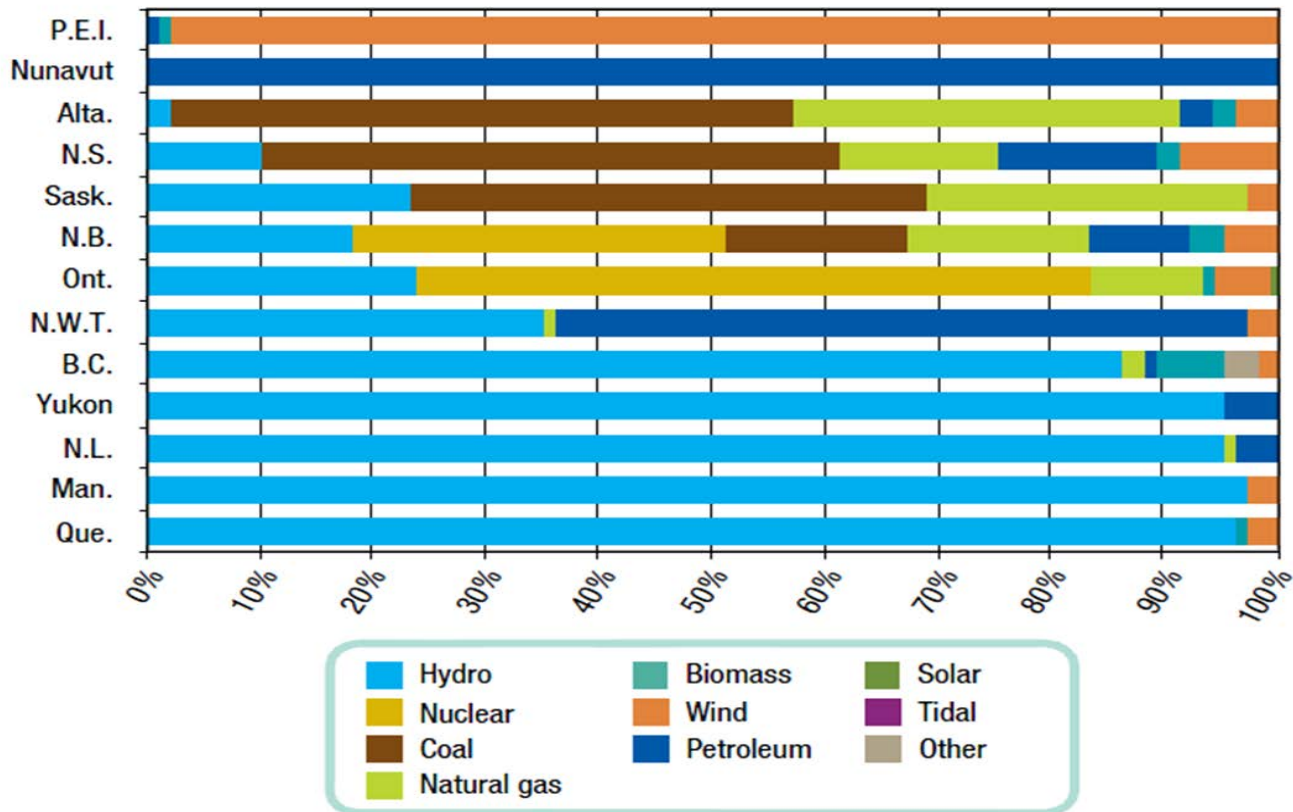
Number of customer accounts per one km of transmission/distribution line



➤ In Saskatchewan there are more than 300 metres of line for every customer account, almost double the next utility on the list.

Fuel mix

Provincial characteristics



Marginal Cost of SaskPower Generation	
Fuel Source	\$ / MWh
Hydro	\$ 5.5
Coal	\$ 26.0
Gas	\$ 33.0
Import	\$ 44.0

Minimizing rate increases

Business Optimization Initiative

- ▶ Restraint and optimization remain top priorities for SaskPower to reduce the size of required rate increases.
- ▶ Intent is to look at company from top to bottom, identifying sustainable process improvements and cost reductions.
- ▶ Savings will be achieved in a number of ways:
 - » Continuing to manage and streamline our workforce;
 - » Prioritizing all requests for new initiative spending; and
 - » Deferring projects to future years where possible.



Budget reductions

OM&A budget reductions (\$ millions)

	Twelve months December 31	Three months March 31	Twelve months March 31	Twelve months March 31	Twelve months March 31	Twelve months March 31	Total
	2015	2016	2016-17	2017-18	2018-19	2019-20	
Original Business Plan	\$ 672	\$ 167	\$ 702	\$ 721	\$ 748	\$ 783	\$ 3,793
2018 Rate Application	\$ 634	\$ 159	\$ 675	\$ 689	\$ 703	\$ 718	\$ 3,578
OM&A budget reduction	\$ 38	\$ 8	\$ 27	\$ 32	\$ 45	\$ 65	\$ 215

Capital budget reductions - including power purchase agreements (\$ millions)

	Twelve months December 31	Three months March 31	Twelve months March 31	Twelve months March 31	Twelve months March 31	Twelve months March 31	Total
	2015	2016	2016-17	2017-18	2018-19	2019-20	
Original Business Plan	\$ 1,200	\$ 256	\$ 1,091	\$ 1,312	\$ 1,859	\$ 2,198	\$ 7,915
2018 Rate Application	\$ 990	\$ 187	\$ 886	\$ 1,121	\$ 1,147	\$ 1,169	\$ 5,500
Capital budget reduction	\$ 210	\$ 69	\$ 205	\$ 191	\$ 712	\$ 1,029	\$ 2,415

- Over the five-year period from 2015:
 - » OM&A budget reductions of \$215 million.
 - » Capital budget reductions / deferrals of \$2.4 billion.

Demand Side Management (DSM)

- ▶ SaskPower's portfolio of energy efficiency & conservation programs has achieved peak savings of 125 MW through energy efficiency and conservation initiatives since the program's inception in 2008.
- ▶ Programs reduce need for new infrastructure while realizing environmental and economic benefits.
- ▶ Programs have saved enough electricity to power over 45,000 homes for a year. Reduction in CO₂ emissions equal to taking 72,000 cars off the road or planting 34 million trees.





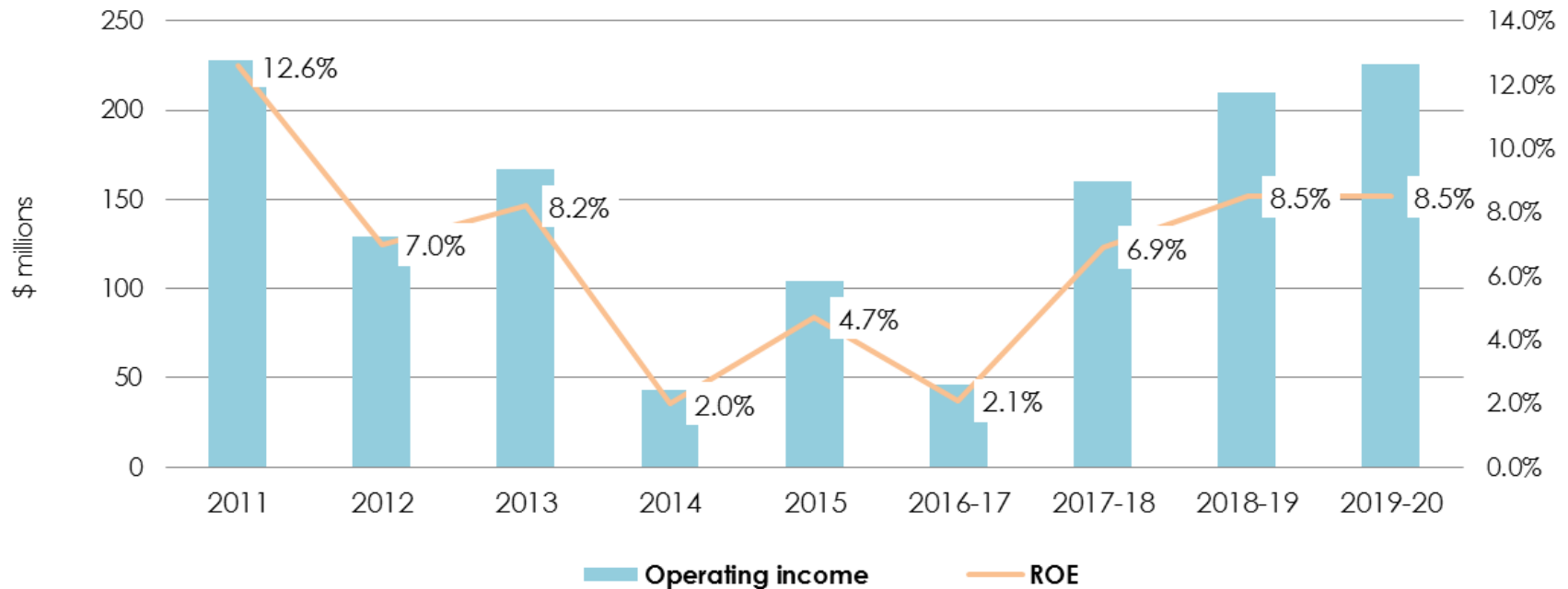
2018 RATE APPLICATION FINANCIAL REQUIREMENTS



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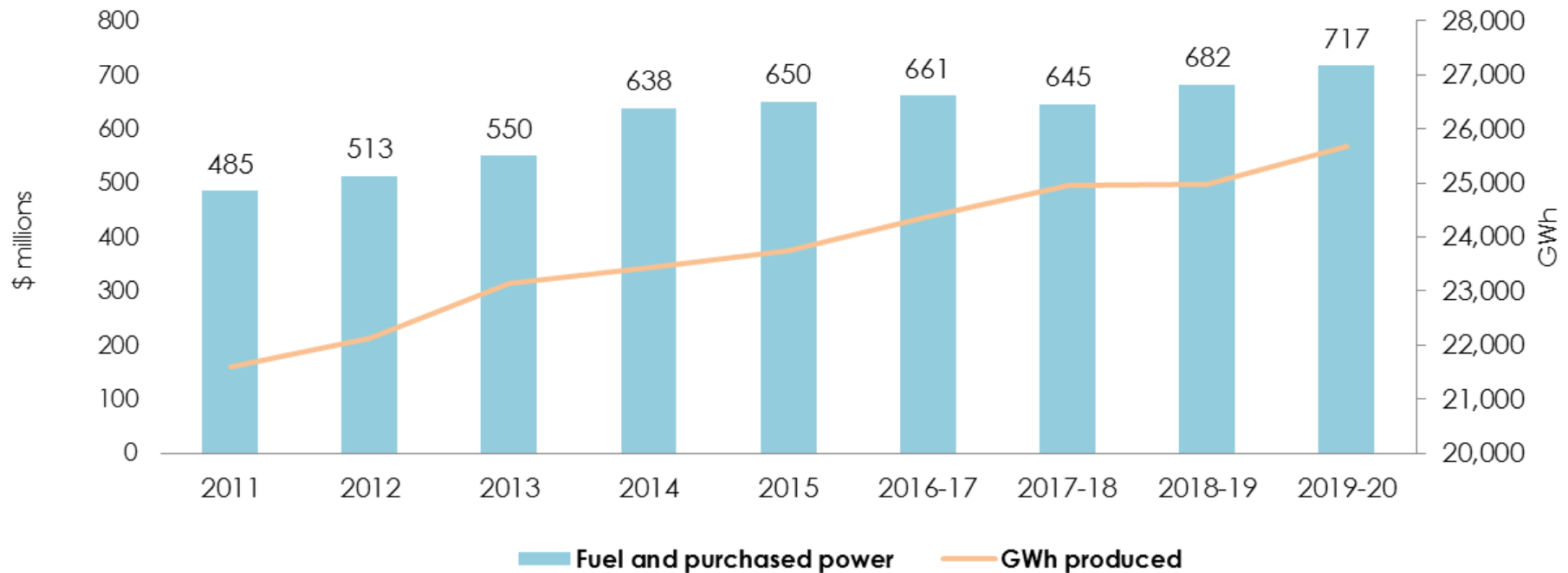
Operating income and ROE

Operating income and return on equity (ROE)



- Operating income of \$159.9M in 2017-18 and \$209.7M in 2018-19.
- Return to targeted ROE of 8.5% in 2018-19.

Fuel and purchased power



- Net F&PP expenses were \$661 million in 2016-17, and are forecast to decrease to \$645 million in 2017-18.
- Moving forward, 2018-19 and 2019-20 are expected to see increases to \$682 million and \$717 million respectively.

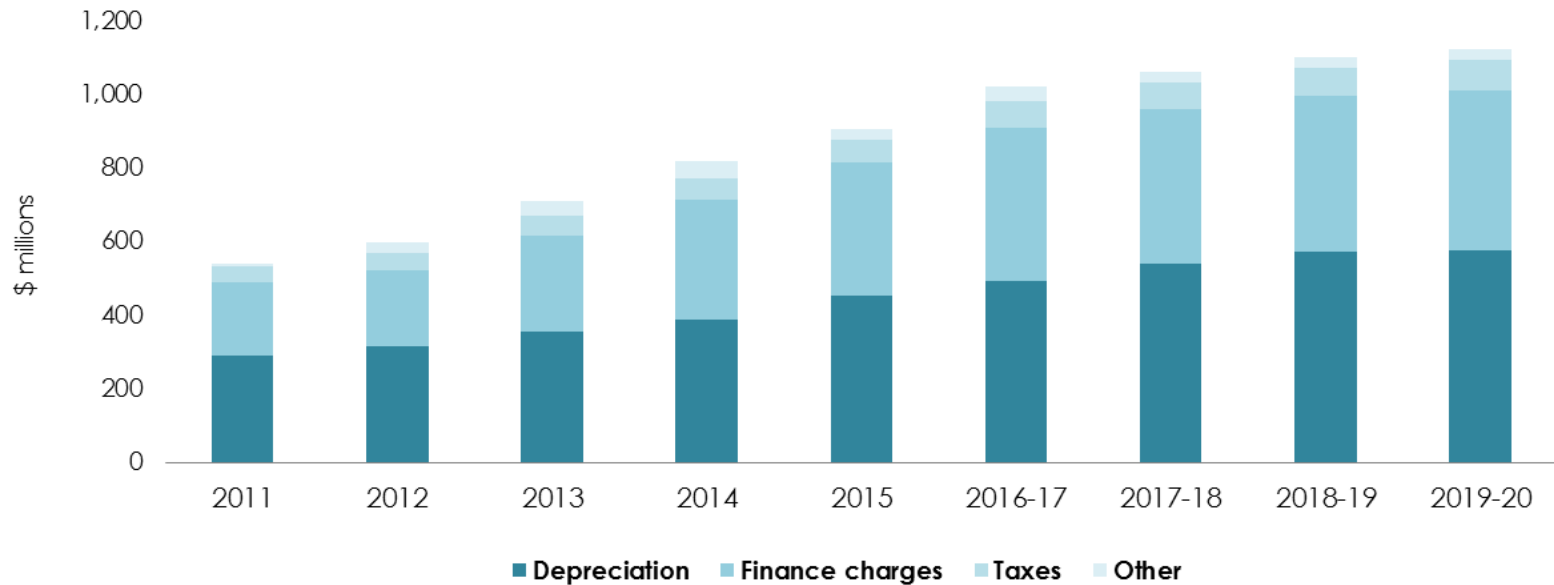
OM&A

OM&A per customer account growth rate

	Actual Twelve months 2016-17	Forecast Twelve months 2017-18	Forecast Twelve months 2018-19	Forecast Twelve months 2019-20
OM&A (in \$ millions)	\$ 674.8	\$ 689.1	\$ 703.2	\$ 718.2
Customer accounts	528,248	537,825	546,126	553,959
OM&A per customer account	1,277	1,281	1,288	1,296
Growth rate		0.3%	0.5%	0.7%
Inflation rate assumption		2.0%	2.0%	2.0%
Half the rate of inflation		1.0%	1.0%	1.0%
Growth rate compared to half the rate of inflation		-0.7%	-0.5%	-0.3%

- Growth in OM&A to customer account limited to half the inflation rate assumption over the next three years.
- OM&A climbs at a rate of approximately 2.1% annually over the next three years.

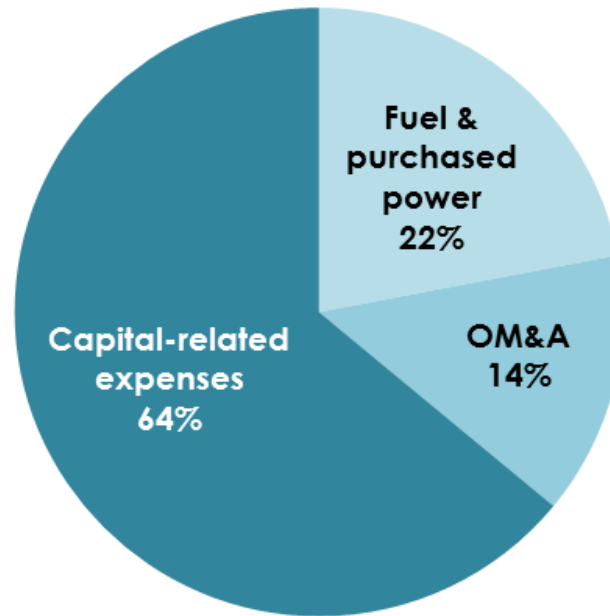
Capital-related expenses



- Capital-related expenses are driven by SaskPower's capital spending.
- Since 2011, capital-related expenses have almost doubled.

What's driving SaskPower's costs?

Increase in SaskPower's cost drivers 2013 - 2018-19



Total expense growth: \$610 million (32% increase)

- Capital-related expenses have increased by \$393 million since 2013, representing 64% of the total increase in expenses.

Capital investment

<i>(in millions)</i>	Actual	Actual	Forecast	Forecast	Forecast
	Twelve months 2015	Twelve months 2016-17	Twelve months 2017-18	Twelve months 2018-19	Twelve months 2019-20
Capital sustainment investment					
Generation	\$ 188	\$ 166	\$ 169	\$ 139	\$ 139
Transmission	50	67	106	90	92
Distribution	32	76	68	82	83
Other	117	106	82	70	73
Total sustainment investment	387	415	425	381	387
Growth & compliance investment					
Generation	174	179	319	287	288
Transmission	164	119	167	173	177
Distribution	80	21	18	25	25
Customer connects	170	130	134	132	135
Total growth & compliance investment	588	449	637	617	625
Total strategic & other investments	15	22	59	114	121
Total capital spending	\$ 990	\$ 886	\$ 1,121	\$ 1,112	\$ 1,133

Capital investment

Sustainment

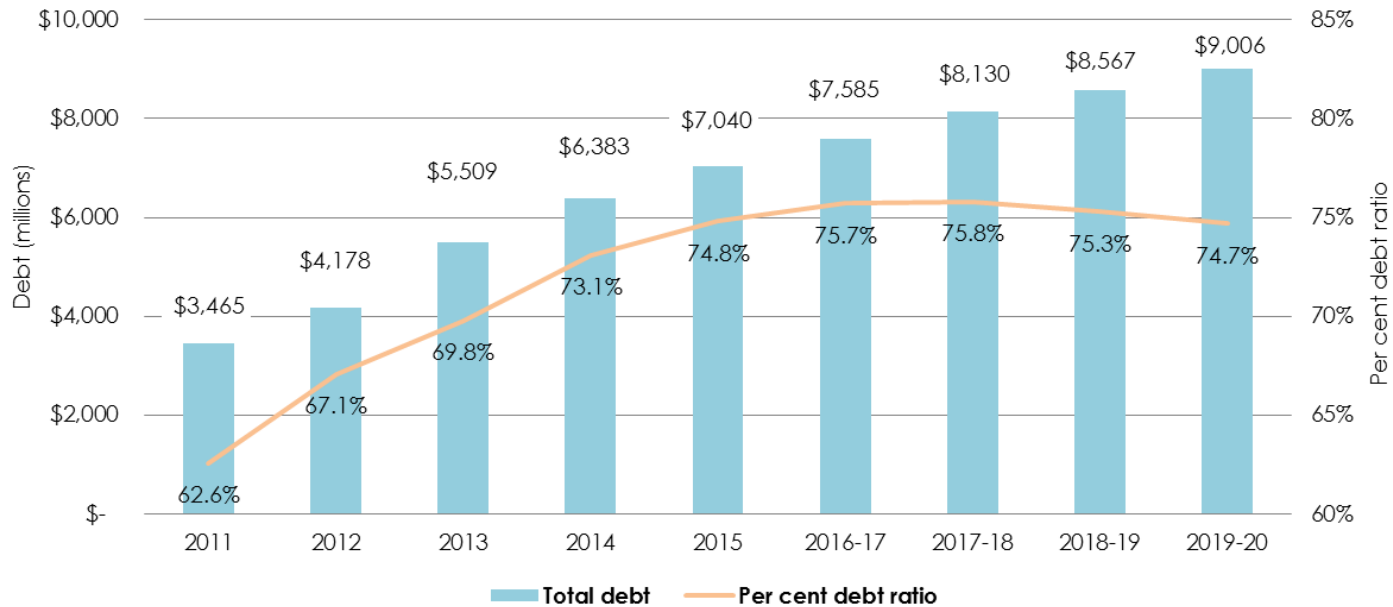
- ▶ Transmission Wood Pole Remediation Program (\$320M over next 5 years)
- ▶ Circuit breaker and relay replacements (\$38M over next 5 years)
- ▶ Rural Rebuild and Improvement Program (\$104M over next 5 years)
- ▶ Distribution Wood Pole Remediation Program (\$150M over next 5 years)
- ▶ Island Falls Hydroelectric Station Dam Rehab Project (\$45M – complete in 2021)
- ▶ E.B. Campbell Hydroelectric Station life extension (\$300M – complete in 2025)

Growth and compliance

- ▶ Kennedy to Tantallon Transmission Line (\$113M – in-service in 2017)
- ▶ Chinook Power Station (\$680.5M – in-service in 2019)
- ▶ Pasqua to Swift Current Transmission Line (\$223M – in-service in 2019)
- ▶ Auburnton to Kennedy Transmission Line (\$61M – in-service in 2021)

Debt and debt ratio

SaskPower debt levels



- SaskPower's debt has increased significantly since 2011.
- The debt ratio is outside of the target range and is forecasted to remain there until 2019-20.

Debt and debt ratio

Utility Company	Ownership Type	Debt Ratio	Adjusted Debt Ratio	Free Cash Flow	Cash Flow / Debt	Interest Coverage Ratio (EBIT)	Interest Coverage Ratio (EBITDA)
New Brunswick Power	Government	96.0%	119.9%	79.2%	3.7%	1.3	2.4
Manitoba Hydro	Government	86.1%	88.5%	33.3%	5.8%	1.5	2.1
B.C. Hydro	Government	80.0%	108.5%	46.0%	5.9%	1.9	3.3
SaskPower	Government	75.7%	75.7%	63.7%	8.1%	1.3	2.5
Hydro Quebec	Government	69.3%	73.8%	159.1%	12.4%	2.6	3.6
Newfoundland & Lab Hydro	Government	56.1%	51.5%	54.9%	11.8%	1.6	2.6
Hydro One	Government	52.6%	61.1%	99.7%	14.9%	3.0	4.7
Enmax	Government	40.0%	40.3%	145.6%	30.3%	3.6	6.4
Epcor Utilities	Government	39.4%	39.4%	94.6%	27.3%	4.1	5.7
Ontario Power Generation	Government	33.7%	51.8%	100.1%	32.0%	3.1	7.3
Nova Scotia Power Inc.	Investor	67.6%	68.1%	175.1%	23.4%	2.5	4.0
Fortis Inc	Investor	60.6%	61.9%	91.4%	8.4%	2.2	3.7
ATCO (Canadian Utilities)	Investor	56.4%	56.4%	123.7%	20.2%	4.5	6.0
TransAlta	Investor	46.5%	46.5%	196.3%	18.3%	1.4	4.0
Capital Power	Investor	33.0%	33.0%	130.2%	26.2%	4.6	7.4

* For years ended in 2016 and 2017

Summary

- ▶ The rate increase is required to maintain electricity system reliability and the financial health of SaskPower by:
 - ▶▶ Funding capital investments that support electricity system renewal and growth.
 - ▶▶ Assisting with the transition to cleaner generation sources.
 - ▶▶ Stabilizing the debt ratio around the target limit of 75%.
 - ▶▶ Meeting the ROE target of 8.5% in 2018-19.



IT TAKES POWER TO GROW

Are there any questions?

