



# Saskatchewan Rate Review Panel

Report to the Minister Responsible for Crown Investments Corporation of Saskatchewan

Regarding the SaskPower 2016 and 2017 Rate Application  
Effective dates July 1, 2016 and January 1, 2017

Report submitted November 7, 2016



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# Executive Summary

SaskPower submitted an application on May 20, 2016 to apply for a confirmation and finalization of a 5% interim rate increase that took effect on July 1, 2016, and a further 5% increase effective January 1, 2017. These proposed rates reflect a 5% increase to all elements of the rate structure and for all customer classes, with the exception of some power contract rate customers that have different escalation clauses and some time-of-use rates for power and oilfield classes. SaskPower provided a mid-application update on September 13, 2016, which indicated that the company's financial situation has deteriorated from the original application and it is now forecasting less operating net income and return on equity from the original application.

## Mandate

The Saskatchewan Rate Review Panel has been appointed as a Ministerial Advisory Committee to conduct a review and provide an opinion of the fairness and reasonableness of the proposed rate changes to the Minister of the Crown Investments Corporation by November 7, 2016.

As part of the review process, the Panel contracted an independent technical consultant to review the application and the mid-application update, and to provide recommendations that would be consistent with the Panel's Terms of Reference. The Panel encouraged public and industry input into the review and held public meetings to facilitate discussion. The Panel, with the assistance of the consultant, asked a number of information requests and supplementary questions, and had individual discussions with SaskPower staff to clarify specific answers received. All of this information is available on the Panel's website at [www.saskratereview.ca](http://www.saskratereview.ca).

## Recommendations to the Minister:

Following this review and analysis, the Panel makes the following recommendations to the Minister:

1. That the 5% interim rate increase that took effect July 1, 2016 be confirmed and finalized.
2. That the proposed second rate increase be decreased from the proposed 5% to 3.5% effective January 1, 2017.
3. That the Minister encourage SaskPower to undertake a comprehensive public and stakeholder engagement process for its proposed integrated resource supply plan. This review process should include a discussion on the resource plan's implications for future rate increases as well as an evaluation of the costs of intermittent renewable generation.

## Recommendations to SaskPower:

The Panel makes the following recommendations to SaskPower:

1. That SaskPower limit the increase in its Operating, Maintenance and Administration (OM&A) spending, on a per customer basis, to one-half of the increase in Saskatchewan's consumer price index (inflation).
2. That SaskPower prepare public versions of its load forecast, cost of service study, and resource plan as part of future rate applications.
3. That SaskPower include increased stakeholder participation in the next cost of service study review. The scope of this review should include all aspects of a cost of service study methodology in a transparent and inclusive process.
4. That SaskPower, in its next rate application, rebalance rates between customer classes and between demand charges and energy charges based on the average unit costs calculated in SaskPower's cost of service study.

## **Risks and Considerations**

In conducting this review, the Panel has identified several risk factors that may impact future rate applications including: domestic electricity sales, natural gas prices, hydro levels, carbon tax, the provincial economic outlook, collective agreements, weather, and future rate changes.

## **Bill Impacts**

Since there are equal percentage increases for each component of SaskPower's existing rate structure, ratepayers will see approximately the same percentage increases in their bills. A typical SaskPower urban residential customer using 625 kWh in a month will see a monthly bill increase of \$5.05 at July 1, 2016, and an additional \$3.71 at January 1, 2017. A typical SaskPower urban small commercial customer using 14 kW and 2,000 kWh in a month will see a monthly bill increase of \$13.77 at July 1, 2016, and a further \$10.13 at January 1, 2017. A typical SaskPower urban standard commercial customer using 100 kW and 25,000 kWh per month will see a monthly bill increase of \$155.91 at July 1, 2016 and an additional \$114.80 at January 1, 2017. A typical SaskPower large industrial customer using 10,000 kW and 5,760,000 kWh per month will see a monthly bill increase of \$19,992.11 at July 1, 2016 and an additional \$14,703.50 at January 1, 2017. The January 1, 2017 increases have been calculated by the Panel based upon the original application.

## **Competitiveness**

The Panel reviewed Hydro Quebec's Comparison of Electricity Prices in Major Northern American Cities at April 1, 2016. This is a standard reference document used by electric utilities to compare rates and bills with other jurisdictions. A review of this data indicated that SaskPower's average residential rates were higher than the average for the thermal utilities and all utilities average in the survey. SaskPower's average small commercial rates were slightly lower than the average for thermal utilities and slightly higher than all utilities average in the survey. Its standard commercial rates were slightly lower than the thermal utilities average and slightly higher than all utilities average in the survey. Its average large industrial rates were also lower than the average for thermal utilities and for all utilities average in the survey.

Since neighboring jurisdictions are often direct competitors for Saskatchewan, the Panel reviewed information that compared SaskPower's customer classes to those in Calgary and Edmonton. SaskPower is currently more expensive in all customer classes, however, it should be noted that Calgary and Edmonton are deregulated markets and this can affect prices for customers in those areas. As well, the North Dakota Public Service Commission has indicated a rate freeze will be in effect for base electric rates until at least 2018. These situations should be closely monitored to ensure Saskatchewan does not become less competitive due to high energy rates.

## SaskPower's Rationale for the Application

SaskPower's application to the Panel presented the following rationale to support its request for rate increases.

SaskPower is seeking incremental rate increases mainly due to the need to fund capital investments in the province's electrical system. This will allow the company to maintain reliable service for its customers and to meet the growing demand for power. During the last five years, SaskPower has spent over \$6.0 billion on infrastructure growth and renewal, and is forecasting capital investments of \$ 10.9 billion during the ten year period from 2017-18 to 2026-27.<sup>1</sup>

SaskPower's generation, transmission and distribution system is aging. Much of its electrical system was built 30-50 years ago and it is at, or nearing the end, of its productive life. This requires SaskPower to rebuild, replace, or renew its infrastructure over the next forty years. As a result, SaskPower is investing more capital to sustain its existing infrastructure and to ensure it operates efficiently in the future. Capital sustainment investments include generation, transmission and distribution projects that involve renewing or replacing existing infrastructure. This sustainment spending is forecast at \$472 million in 2016-17 and \$408 million in 2017-18. The ten year forecast for sustainment spending is \$4.6 billion from 2017-18 through 2026-27. Expenditures for growth and enhanced reliability of this time period is forecast at \$6.3 billion. SaskPower's latest long-term load forecast predicts an average annual growth rate of 1.54% from 2015-25 or growth of 3,924 GWh's. Most of this growth will come from the residential, power and oilfield customer classes.<sup>2</sup>

SaskPower indicated that demand for power in Saskatchewan continues to grow and peak load records are set annually, which signals the need for new source generation. In January 2016, for example, SaskPower set a new peak load record of 3,640 megawatts (MW).<sup>3</sup> Although the rate of electricity demand growth is expected to decrease relative to the rate experienced over the last five years, SaskPower's generation system will still require significant investment. Major capacity upgrades to its transmission and distribution system are required over the next three years.

SaskPower's rate strategy seeks to cap annual rate increases to 5%.<sup>4</sup> This has been accomplished by the company reducing its targeted Return on Equity (ROE) of 8.5% in the short term to help manage rate pressures for customers. However, this measure places upward pressure on SaskPower's debt ratio. To help improve the company's financial results and to reduce the size of rate increases, SaskPower has focused on reductions to operating, maintenance and administration (OM&A) and capital budgets. In 2015, SaskPower eliminated \$38 million from budgeted OM&A and has proposed another \$53 million reduction over the next three years.<sup>5</sup> Capital spending was \$210 million under budget in 2015, and the company is proposing additional reductions of \$790 million over the next three years through deferrals and project cancellations.<sup>6</sup> SaskPower is also continuing its Business Renewal Program, which has realized gross benefits of \$528 million since 2009. Some of the initiatives of this program include capital restructuring, extending the time between power plant overhauls, and reducing the length of overhauls for its major power plants.

SaskPower's application is based on its May 2016 business plan update. The following table compares the 2015 forecast and actual revenues and revenue requirements to the 2016-17 and 2017-18 test year forecasts.

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SaskPower 10 year capital plan 2017-18 – 2026-27

<sup>2</sup> SRRP R2Q13.

<sup>3</sup> SaskPower 2016 and 2017 Rate Application, P. 9

<sup>4</sup> Ibid, P. 3

<sup>5</sup> Ibid, P. 3

<sup>6</sup> Ibid, P. 12

## Revenue and Revenue Requirement Comparison (\$ millions)<sup>7</sup>

	2015				2016-17			\$ change over 2015		2017-18			\$ change over 2016/17	
	Forecast	Actual	\$ change	% change	Forecast	actual	% change	Forecast	forecast	Forecast	forecast	% change		
<b>Revenues</b>														
Domestic Electricity Sales	2,154.4	2,127.7	-26.7	-1.2%	2,328.2	200.5	9.4%	2,479.3	151.1	6.5%				
Export Sales	34.9	8.2	-26.7	-76.5%	17.0	8.8	107.3%	20.4	3.4	20.0%				
Net sales from trading	7.5	-1.6	-9.1	-121.3%	1.2	2.8	-175.0%	1.3	0.1	8.3%				
Other	149.3	162.4	13.1	8.8%	134.9	-27.5	-16.9%	138.9	4.0	3.0%				
<b>Sub-total revenues</b>	<b>2,346.1</b>	<b>2,296.7</b>	<b>-49.4</b>	<b>-2.1%</b>	<b>2,481.3</b>	<b>184.6</b>	<b>8.0%</b>	<b>2,639.9</b>	<b>158.6</b>	<b>6.4%</b>				
<b>Expenses</b>														
Fuel and purchased power	678.4	650.4	-28.0	-4.1%	646.6	-3.8	-0.6%	687.3	40.7	6.3%				
OM&A	672.4	634.2	-38.2	-5.7%	682.1	47.9	7.6%	707.7	25.6	3.8%				
Depreciation	460.8	452.4	-8.4	-1.8%	487.2	34.8	7.7%	529.2	42.0	8.6%				
Finance Charges	416.3	361.6	-54.7	-13.1%	418.7	57.1	15.8%	414.2	-4.5	-1.1%				
Taxes	61.3	63.8	2.5	4.1%	68.0	4.2	6.6%	70.6	2.6	3.8%				
Other	17.0	30.7	13.7	80.6%	22.8	-7.9	-25.7%	22.4	-0.4	-1.8%				
<b>Sub-total expenses</b>	<b>2,306.2</b>	<b>2,193.1</b>	<b>-113.1</b>	<b>-4.9%</b>	<b>2,325.4</b>	<b>132.3</b>	<b>6.0%</b>	<b>2,431.4</b>	<b>106.0</b>	<b>4.6%</b>				
<b>Operating Income</b>	<b>39.9</b>	<b>103.6</b>	<b>63.7</b>	<b>159.6%</b>	<b>155.9</b>	<b>52.3</b>	<b>50.5%</b>	<b>208.5</b>	<b>52.6</b>	<b>33.7%</b>				
<b>Total Revenue Requirement</b>	<b>2,346.1</b>	<b>2,296.7</b>	<b>-49.4</b>	<b>-2.1%</b>	<b>2,481.3</b>	<b>184.6</b>	<b>8.0%</b>	<b>2,639.9</b>	<b>158.6</b>	<b>6.4%</b>				

The 2016-17 and 2017-18 test year forecasts indicate the following changes to the 2015 actuals:

- Increased revenues of \$184.6 million in 2016-17 and a further \$158.6 million in 2017-18. Increased revenues are mainly due to higher forecast domestic sales revenues reflecting both the proposed rate increases and load growth.
- A small decrease in fuel and purchased power expense in 2016-17 followed by an increase of \$40.7 million in 2017-18.
- Increased operations and maintenance expense of \$47.9 million in 2016-17 and a further \$25.6 million in 2017-18.
- Depreciation expense increases of \$34.8 million in 2016-17 and a further \$42.0 million in 2017-18.
- Increased finance charges of \$57.1 million in 2016-17 followed by a small decrease in finance charges in 2017-18.
- Operating income higher by \$52.3 million in 2016-17 and a further \$52.6 million in 2017-18 (total of \$104.9 million increase over 2015 actuals).<sup>8</sup>

SaskPower is applying for a confirmation and finalization of a 5% interim rate increase that took effect July 1, 2016 and a further 5% increase effective January 1, 2017. These proposed rates reflect a 5% increase to all elements of the rate structure and for all customer classes, with two exceptions that affect a very small number of customers. These exceptions include some power contract rate customers that have different escalation clauses that govern the rate increased under the contracts; and time-of-use rate for power and oilfield classes that were established with reference to the new on-peak energy charge.

<sup>7</sup> Summarized from page 21 of the 2016 and 2017 rate application; 2015 forecast figures from page 20 of the 2014, 2015 and 2016 Rate Application.

<sup>8</sup> Consultant's Report, P 2-2

## Mid Application Update

SaskPower provided a mid-application update on September 13, 2016 (based on August 2016 actuals forecasted to fiscal year end), which indicated that the company's financial situation has deteriorated from the original application. SaskPower is now forecasting operating income will be lower at \$83.3 million (a reduction of \$72.6 million). This represents a forecast ROE of 3.8% compared to the original forecast of 6.9%. The main reasons for this forecast drop include:

- Lower revenues of \$31.8 million consisting of:
  - \$21.4 million lower other revenues, primarily as a result of lower customer contributions (\$15.0 million lower) and CO<sub>2</sub> sales (\$4.3 million lower).
  - \$8.2 million lower export revenues made up of both a decrease in forecast export volumes and average export price.
  - \$2.2 million lower Saskatchewan sales revenues consisting of decreases in most customer classes but largely offset by a forecast increase in oilfield customer revenues.
  
- Increased expenses of \$40.8 million consisting of:
  - \$29.3 million increase in fuel and purchase power, primarily due to higher forecast gas expense and coal expense. Natural gas costs are approximately \$1.84/MWh higher than in the original application.
  - \$8.4 million increase in OM&A expenses primarily driven by higher consulting and legal fees (\$5.5 million), increased demand side management (DSM) spending (\$4 million) and increased bad debt expense (\$2.5 million). Reductions in other OM&A accounts offset some of these increases.
  - \$6.9 million increase in depreciation expense as a result of new depreciation rates implemented after SaskPower's annual review of depreciation rates.
  - \$2.8 million increase in corporate capital tax obligation as a result of a forecasted increase in debt and a decrease in the deductible reserve portion of the corporate capital tax calculation.
  - These increases are partially offset by a decrease in finance expense of \$6.6 million that arises primarily due to an increase in forecast capitalized interest.

The mid application also indicated that capital spending is forecast to increase from \$899 million to \$965 million in 2016-17 due to the increase in generation growth and compliance spending regarding the new combined cycle natural gas generation facility near Swift Current. SaskPower also indicated that its debt equity ratio is now forecast to increase to 75.8%.<sup>9</sup>

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<sup>9</sup> Summarized from pages 2 through 9 of the 2016 and 2017 Mid Application Update

## Panel's Recommendations to the Minister

The Saskatchewan Rate Review Panel, following its review and analysis that included meetings with SaskPower management, information requests, several meetings with its technical consultant culminating with receipt of the consultant's independent report, and taking into account public and industry input regarding the application, makes the following recommendations to the Minister:

1. That the 5% interim rate increase that took effect July 1, 2016 be confirmed and finalized.
2. That the proposed second rate increase be decreased from the proposed 5% to 3.5% effective January 1, 2017.
3. That the Minister encourage SaskPower to undertake a comprehensive public and stakeholder engagement process for its proposed integrated resource supply plan. This review process should include a discussion on the resource plan's implications for future rate increases as well as an evaluation of the costs of intermittent renewable generation.

### Confirming the 5% Interim Rate Increase

The Panel directed its consultant to review the 5% interim rate increase that took effect on an interim basis effective July 1, 2016 and determine if it should be confirmed and finalized. During this review the consultant indicated that the Panel should "confirm as reasonable"<sup>10</sup> this rate increase. The Panel now recommends to the Minister that this increase be confirmed and finalized.

### Revising the Second Rate Increase

SaskPower has financial needs for capital renewal and new infrastructure, is currently experiencing lower customer growth and demand, and is facing increased generation costs and OM&A. The public, including industrial customers, have expressed their strong concern with respect to the 10% increase within a six month period. This increase significantly exceeds inflation and will create competitiveness issues with our neighboring provinces and U.S. states.

It is the Panel's view that this is being felt by stakeholders as rate shock.

The Panel recognizes that SaskPower needs to make capital investments in its infrastructure to maintain safe and reliable power to Saskatchewan residents. SaskPower's 10 year capital plan includes approximately \$1.1 billion of annual capital spending of which approximately 40% is related to replacing or refurbishing existing infrastructure. Most of the other spending relates to growth and compliance spending to address new generation requirements and the transition to new sources of generation to reduce greenhouse gas emissions. The interest expense and depreciation expense associated with this capital plan is expected to add another \$77 million each year to SaskPower's revenue requirement. The implication to ratepayers is that average annual rate increase of approximately 3% will be required to maintain capital spending. In addition to these financial pressures, inflation is expected to increase fuel prices and OM&A spending. The latest figures provided by SaskPower indicate that the corporation is now forecasting its debt to equity ratio to rise above the 60-75% target range in 2016-17 and 2017-18 test years. Deterioration in this ratio may lead to increased borrowing costs in the future for the corporation.

These issues are further compounded by the current state of the Saskatchewan and Canadian economy and significant rate increases place financial pressure on people and businesses, and may discourage industry investment. The Panel has heard from many stakeholders that the pace of rate increases is being felt across all customer classes and that these increases are eroding industry competitiveness. There have been considerable public comments that are not in favour of the rate increase and the Panel has heard from stakeholders including the Saskatoon Chamber of Commerce, Saskatchewan Industrial Energy Consumers Association, Canadian Association of Petroleum Producers, and the Meadow Lake Pulp Mill. There have been four main themes that have emerged from public and industry discussion:

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<sup>10</sup> Consultant's Report, (executive summary)



- Concern over two rate increases in a six month period, including the large cumulative rate increase and the trajectory of rate increases that this represents.
- Concern over rate increases compared to inflation and how this will affect low income households and businesses, particularly personal affordability and cost of living for households and competitive advantages for businesses.
- Concern over the accuracy and reasonableness of SaskPower's operating forecasts and budgets, in particular stakeholders commented on the accuracy of forecast fuel and purchased power expenses and increases in OM&A spending.
- Concern over the magnitude and justification for SaskPower's planned capital program.<sup>11</sup>

As part of its review process, the Panel directed its technical consultant to review a number of scenarios that adjusted the implementation date of the next rate increase (from January 1, 2017 to April 1, 2017) and the magnitude of the second rate increase. These scenarios were then reviewed and analyzed on how they would impact both SaskPower and its ratepayers. The scenarios are detailed in Section 7-8 of the consultant's report.

Some of the significant factors that the Panel considered in reviewing these scenarios included: SaskPower's bills for residential customers are becoming higher than the average for thermal utilities in Canada; SaskPower's debt ratio will increase to 75.8% in 2016-17 (even with the requested rate increase); SaskPower is forecasting a substantially lower ROE; a 1% change in the requested rate increase would reduce net income by approximately \$22 million<sup>12</sup>; and that a rate increase of 5%, the second in six months, represents rate shock to SaskPower's ratepayers.

Based upon this information, the Panel is recommending that the proposed second rate increase be reduced from 5% to 3.5%, which will soften the impact to ratepayers and provide time to adjust to these significant increases. The Panel recognizes that this will have an impact on SaskPower's ability to achieve its long term target ROE in the test years, but it has balanced that impact with consideration for bill impacts on customers and the effects on competitiveness.

## Public Review Process

SaskPower's electrical generation has evolved over the years and now includes a mix of coal, natural gas, wind, and purchased power. Much of its baseload power generating facilities and transmission lines were constructed 30-50 years ago and a plan is being developed to replace and or refurbish this infrastructure. New federal regulations are eliminating conventional coal-fired plants (which provided approximately 47% of Saskatchewan's energy needs in 2015) as an option for the future. SaskPower has also indicated that there is increasing demand for power in the province.

Due to our abundant coal deposits and expertise in coal production, Saskatchewan has been a global leader in developing clean coal technology, but the costs involved may preclude this as an economical future supply option. SaskPower is making a commitment to increase its natural gas facilities, but the price for natural gas is market driven and fluctuates according to global demand. SaskPower is also committed to increasing its green portfolio with wind and solar power, but these options are currently more expensive to generate electricity than most other fuel sources. As well, these energy sources produce power on an intermittent basis, which means they must be backed up by other generation sources that can be counted on to meet our needs every hour every day.

SaskPower is currently in the early stages of developing a new integrated resource plan to address these issues. This plan must include measures to meet this forecast increase in the system peak from 3,705 MW in 2016 to 4,200 MW in 2025;<sup>13</sup> the decision to retire or retrofit with carbon capture technology approximately 1,100 MW of existing conventional coal generation by 2029; and how the corporation plans to increase renewable energy capacity to up to 50% of total generation capacity by 2030.

SaskPower is also currently undertaking a renewable generation integration study to determine what steps will be required to

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<sup>11</sup> Consultant's Report, P. 15-14

<sup>12</sup> Page 39 of the 2016 and 2017 rate application.

<sup>13</sup> SRRP R2Q34

increase levels of renewable generation in the province.<sup>14</sup> There are significant costs to integrate renewable energy into the existing system including maintaining adequate generation sources to supply electrical energy during periods of low wind and solar generation; maintaining incremental automatic generation control units to compensate for quick up and down changes in renewable generation; operating gas, coal and hydro units at non-optimal efficiency points to accommodate wind and solar generation; and incremental wear and tear on units providing automatic generation control. The Panel believes that understanding the true costs of renewable generation is a key component of future energy development, and the implications on future rate increases for all ratepayers.

All SaskPower customers and the residents of Saskatchewan should become more actively engaged in the discussion regarding our future energy needs, how these needs will be met, and the costs associated with meeting those needs. Since these are such important issues for all Saskatchewan people, the Panel believes that SaskPower should undertake a public and industry engagement process to discuss its resource plan, the costs of renewable generation integration, and the implications for future rate increases, prior to SaskPower board finalization and approval.

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<sup>14</sup> SRRP Q63

## Panel's Recommendations to SaskPower

The Panel offers the following recommendations to SaskPower arising from its deliberations during this review:

1. That SaskPower limit the increase in its Operating, Maintenance and Administration (OM&A) spending, on a per customer basis, to one-half of the increase in Saskatchewan's consumer price index (inflation).
2. That SaskPower prepare public versions of its load forecast, cost of service study and resource plan as part of future rate applications.
3. That SaskPower include increased stakeholder participation in the next cost of service study review. The scope of this review should include all the aspects of a cost of service study methodology in a transparent and inclusive process.
4. That SaskPower, in its next rate application, rebalance rates between customer classes and between demand charges and energy charges based on the average unit costs calculated in SaskPower's cost of service study.

## OM&A Expenses

The Panel recognizes that its recommendation to the Minister to reduce the 2017 rate increase will require SaskPower to administer further restraint measures to meet its net operating income forecast. Many factors that drive rising costs are beyond SaskPower's control in the cost categories of fuel and purchase power, depreciation expense, finance and interest expense, the changing regulatory environment, and the overall provincial economy. However, one of the areas that SaskPower has significant control over is its own OM&A spending.

OM&A is the largest component of its revenue requirement (approximately 28%). OM&A expenses include salaries and wage expense, materials and supplies, external contractor services, and other expenses such as training and travel. The following table shows actual and forecast OM&A per customer from 2010 through 2017-18 forecasts:

### Actual and Forecast Operations, Maintenance and Administration Expense per Customer (\$/customer)<sup>15</sup>

	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Average Annual 2010-2015	Forecast 2016/17	Forecast 2017/18
Total OM&A (\$ millions)	512	577	616	618	656	634		682	708
percent change		12.7%	6.8%	0.3%	6.1%	-3.4%	4.4%	7.6%	3.8%
Total Customer Accounts	473,007	481,985	490,611	500,879	511,941	520,315		527,389	534,658
percent change		1.9%	1.8%	2.1%	2.2%	1.6%	1.9%	1.4%	1.4%
OM&A/customer (\$/customer)	1,082.4	1,197.1	1,255.6	1,233.8	1,281.4	1,218.5		1,293.2	1,324.2
percent change		10.6%	4.9%	-1.7%	3.9%	-4.9%	2.4%	6.1%	2.4%

SaskPower is forecasting its total OM&A for 2016-17 to increase by \$48.m or 7.6% over 2015 actuals. OM&A per customer is forecast to increase by 6.1% over 2015 actuals. Further increases are forecast for 2017-18 including a 3.8% increase in total OM&A over 2016-17 forecasts; and OM&A per customer is forecast to increase by 2.4% over 2016-17 forecasts.<sup>16</sup>

The Panel is recommending that these increases be limited to half of the increases in Saskatchewan's consumer price index during the same period based upon SaskPower's past ability to restrain its OM&A costs. After the Crown Investments Corporation directed SaskPower to implement OM&A savings in 2015, SaskPower was able to decrease its OM&A costs from \$656 million in 2014 to \$634 million the following year. These reductions occurred in the following areas:

<sup>15</sup> SRRP Q68

<sup>16</sup> Consultants Report, P. 7-2

- Salary rollbacks (\$4.0 million);
- Short-term incentive reductions (\$2.5 million);
- Reduced full-time equivalent (FTE) positions (\$3.2 million);
- Training and travel reductions (\$3.7 million);
- Consulting and advertising reductions (\$1.8 million); and
- Plant overhaul deferral (\$3.0 million)<sup>17</sup>.

Based upon this experience, and as customer count increases and costs are spread over a larger base, the Panel believes that limiting OM&A costs on a per customer basis in the future to half of inflation is a reasonable stretch target to achieve on a go-forward basis. Current forecasts for the test years indicate increases greater than inflation and the Panel's view is that SaskPower needs to find ways to curtail expenses to achieve this target over the two year period.

## Public Documentation

The Panel thanks SaskPower for responding to their information requests in a timely manner, however, there were reports that were initially provided to the Panel on a confidential basis. To facilitate transparency, SaskPower made redactions and alterations to remove confidential information. Although the Panel recognizes there is a need for confidentiality in certain documentation, SaskPower should strive to develop public versions of certain key documents. These documents include SaskPower's load forecast, cost-of-service study, and resource plans. These public documents should be made available in future rate applications.

## Cost of Service Study

SaskPower reviews its Cost of Service (COS) model every five years using an external consultant.<sup>18</sup> The last COS study took place in 2012-13 and involved a technical consultant reviewing SaskPower's methodology and surveying other Canadian utilities on their approach. After a draft report was prepared in 2012, SaskPower conducted a stakeholder meeting in Regina, which was attended by Panel members as well as representatives from the industrial, commercial and oilfield sectors, and the public. Stakeholders were invited to submit written questions, which were responded to by the consultant. The report resulted in SaskPower changing from one coincident peak (in the winter known as 1-CP) to the winter and summer coincident peak (2-CP) method for allocating demand classified costs to customer classes based upon the contribution of each respective customer class to the average of both SaskPower's winter and summer season peaks. The 2-CP peaks are calculated based on the average of SaskPower's top three winter and summer hourly peaks each year. Since this time, SaskPower has not made any other COS methodology changes. It plans to begin its next COS review in April 2017 with an anticipated completion date of March 2018 in order that it can be implemented for a possible 2019 rate application.

Based upon public input, the Panel is recommending that SaskPower provide stakeholders with the opportunity to provide meaningful input into the next COS methodologies review. This would include an issue identification process at the start of the review, the opportunity to review and ask questions about preliminary results before the report is drafted, and the ability to review and comment on a draft report before it is finalized. Participants should be able to test the reasonableness of SaskPower's proposed methods through publicly-available customer class level data, which is used as inputs for COS allocation purposes including the demand component of the CP load factor.<sup>19</sup>

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<sup>17</sup> SRRP Q91

<sup>18</sup> SEICA Q3

<sup>19</sup> Consultant's Report, P. 10-12

## Rate Rebalancing

In addition to increased public dialogue on the COS review, the Panel is also recommending that SaskPower rebalance rates between customer classes and also between demand charges and energy charges based on the average unit costs calculated in the COS study. In this application, SaskPower is proposing equal percentage increase to all components of the rate structure, with certain limited exceptions. The following table outlines the class revenue to revenue requirement ratios following the requested rate increases:

### Class Revenue to Revenue Requirement Ratios Following Requested Rate Increases<sup>20</sup>

	<u>R/RR Ratio after rate increases</u>
Urban Residential	1.00
Rural Residential	0.93
Total Residential	<b>0.98</b>
Farms	0.98
Urban Commercial	1.03
Rural Commercial	1.02
Total Commercial	<b>1.03</b>
Power - published rates	1.01
Power - contract rates	0.99
Total Power	<b>1.00</b>
Oilfields	1.01
Streetlights	0.96
Reseller	0.98

The resulting revenue to revenue requirement ratios (as measured by the COS study) fall within the 0.95 and 1.05 target range identified in the Minister's terms of reference. The only exception is the rural residential class at 0.93. SaskPower has explained to the Panel that it intends to pursue rate structure simplification as part of its next rate application.

The Panel has noted that the proposed demand charges for certain customer classes are substantially lower than the average unit costs of demand calculated in the COS study. This is especially evident for the farm customer class, which recovers approximately 5% of the unit demand costs calculated in the COS study; and the demand charges for the commercial class, which recovers on average 29% of the calculated unit cost of demand.<sup>21</sup> This would appear to indicate that the rate increase should be weighted toward the demand component of the rate structure for these customers with a resulting lower percentage increase to the energy charge. The Panel has also noted that for time-of-use rates, SaskPower's rates include a 1 cent/kWh differential between off-peak and on-peak periods, which may not be enough incentive to encourage usage of this program.

Due to these issues, the Panel recommends that in the next rate application SaskPower rebalance rates between customer classes and between demand and energy charges based on the average unit costs calculated in the COS study.

<sup>20</sup> SaskPower 2016 and 2017 Rate Application, page 4

<sup>21</sup> Consultant's Report, P. 11-4

## Risks and Considerations

The following should not be considered a complete analysis of all the risks that SaskPower is subject to, but the Panel has considered a number of potential risks and considerations in making these recommendations. These risks may appear at a future date and have an impact on the ratepayer, the corporation and the public. All stakeholders should be aware of these risks and considerations as they may have an impact on future rate applications.

### Main Financial Risks

The main financial risks SaskPower identified in this application include domestic electricity sales, natural gas prices and hydro levels.

**SaskPower Business Plan Sensitivity Analysis<sup>22</sup>**

	2016-17 Forecast	2017-18 Forecast	Sensitivity Analysis	Net Income Impact (\$ millions)
<b>Revenue</b>				
Rate Increase (%)	10.0%	0.0%	1% change in rate increase	22
Domestic Sales Growth (%)	3.7%	1.8%	100 GWh change in Power Class 100 GWh change in Residential Class	4 9
<b>Fuel and Purchased Power</b>				
Natural Gas Price (\$/GJ)	3.79	4.25	\$1/GJ in natural gas price	16
Hydro Generation (GWh)	3,068.0	3,634.0	10% change in hydro generation	13
<b>Capital</b>				
Capital Spending (\$ millions)	899.0	952.0	\$100 million change in capital budget	7
Short-term interest rates	0.8%	1.0%	1% change in short-term interest rates	11
Long-term interest rates	3.1%	3.9%	1% change in long-term interest rates	4

SaskPower has noted that a \$1/GJ increase in natural gas prices would reduce its net income by approximately \$16 million annually. A 10% decrease in hydro generation would reduce SaskPower's net income by approximately \$13 million. A 1% increase in short-term interest rates would reduce SaskPower's net income by approximately \$11 million. As well, a \$100 million reduction in capital spending would increase SaskPower's net income by \$7 million.<sup>23</sup> Ratepayers should be aware that these factors, many of which are outside of SaskPower's control, can have an impact on future rates.

### Carbon Tax

The federal government recently announced a new carbon tax that would set a minimum price on carbon of \$50/tonne by 2022. The floor price will begin at \$10/tonne in 2018, and increase by \$10 a year for the next four years. The consultant noted that a \$10/tonne carbon tax would add an additional \$150 million annually to SaskPower's revenue requirement based on the current generation mix. SaskPower is currently the province's largest greenhouse gas emitter and if a tax is implemented, it will have an impact on rates which at \$10/tonne is estimated would cause an increase in rates of approximately 7% annually until it reaches the proposed maximum without mediation measures.

### Provincial Economic Outlook

SaskPower's finances are heavily influenced by the overall provincial economy. The continued downturn in mineral and oil prices have curtailed overall economic output in the province, which in turn, reduces demand for energy and drives down revenues. If economic growth remains sluggish, then this will continue to impact SaskPower's revenue. However, if the economic outlook improves and demand for energy increases, SaskPower will see positive benefits to its revenues. The BHP Billiton Jansen potash mine project is an example of how the provincial economy impacts SaskPower. The company is currently developing the mine

<sup>22</sup> SRRP Q2

<sup>23</sup> Consultant's Report, P. 7-22

site, but its opening is contingent upon world potash prices. Since this mine would be a major power purchaser in the province, the timing of this opening will have an impact on SaskPower's electricity demand and a corresponding impact on its revenues.

## Collective Agreements

SaskPower's employees are subject to one of two collective labour agreements and both agreements are set to expire on December 31, 2016.<sup>24</sup> There is risk that these collective agreement rates may be higher than SaskPower is forecasting, which would apply pressure to rates.

## Weather

Weather is a constant risk for SaskPower and the corporation must prepare for the worst possible scenarios. If weather is colder than normal, then its revenues will be higher and customer bills will increase since more power will be consumed. If weather is warmer than normal, customers will consume less power, resulting in lower bills and lower revenue for the corporation. It should also be noted that a colder than normal winter may result in an increase in natural gas prices and increase operating costs for SaskPower. The reverse may occur as a result of a warmer than normal winter.

## Future Rate Changes

As noted earlier in this report SaskPower's rate strategy seeks to cap annual rate increases to 5%. This has been accomplished in the past few years by the company reducing its targeted Return on Equity (ROE) of 8.5% during this short term to help manage upward rate pressures for customers. These measures together with the capital undertakings, reinvestments have placed significant upward pressure on SaskPower's debt ratio. To help mitigate the continued deterioration of the corporation's financial ratios in the future, even with spending restraints and improved efficiencies, customers should be prepared that going forward rate increases are expected to push the upper band of SaskPower's rate strategy cap.

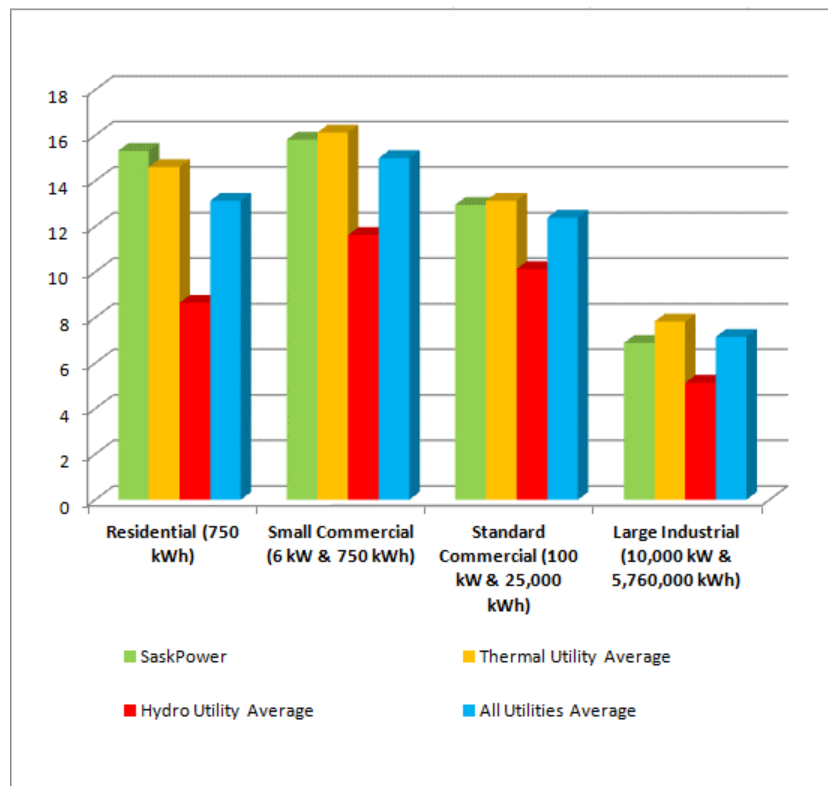
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<sup>24</sup> SRRP Q76

## The Competitiveness of the Proposed Rates

The Panel recognizes that rate comparisons across jurisdictions can be difficult for several reasons. Ontario and Alberta, for example, have deregulated markets with competition for service with varying price and service options. In other cases, some utilities use deferral accounts and rate riders to smooth out rate adjustments or address variances from forecasts. SaskPower does not use deferral accounts or rate riders. It should also be noted that some utilities have natural advantages, such as access to hydro-electric generation resources that can typically provide energy at lower rates. Hydro Quebec provided a Comparison of Electricity Prices in Major North American Cities at April 1, 2016, which is a standard reference document used by many electric utilities to compare rates and bills<sup>25</sup>:

**Rate Comparison to Utility Averages at April 1, 2016**  
Average Cents/kWh



The thermal utility average includes Calgary, Edmonton, Regina, Toronto, Ottawa, Moncton, Halifax, Charlottetown, and St. John's.<sup>26</sup> The hydro utility average includes jurisdictions with primarily hydro generation including Montreal, Winnipeg and Vancouver. The all utilities average includes all utilities referenced in the thermal utility average and hydro utility average. This chart indicated that SaskPower's average residential rates were higher than the average for the thermal utilities and all utilities average in the survey. SaskPower's average small commercial rates were slightly lower than the average for thermal utilities and slightly higher than the all utilities average in the survey. SaskPower's average standard commercial rates were slightly lower than the thermal utilities average and slightly higher than the all utilities average in the survey. SaskPower's average large industrial rates were lower than the average for thermal utilities and for the all utilities average in the survey.

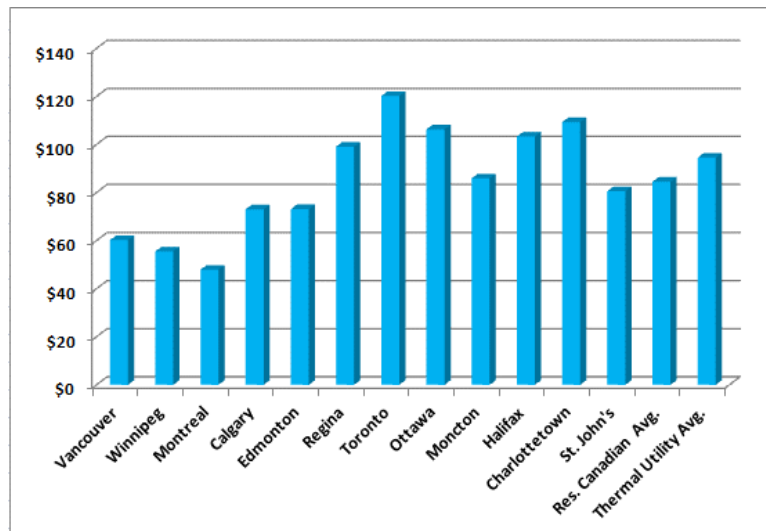
<sup>25</sup> The document is available at: <http://www.hydroquebec.com/publications/en/corporate-documents/comparaison-electricity-prices.html>. Accessed: October 5, 2016.

<sup>26</sup> Consultant's Report, P. 14-1



# Residential

**Residential Monthly Bill Comparison Rates in place April 1, 2016  
625 kWh/month**



As this chart indicates, SaskPower is now the fifth highest of the utilities surveyed, behind Charlottetown, Halifax, Toronto, and Ottawa. SaskPower’s bills are also higher than the average for the thermal utilities.

Since Saskatchewan often competes with Alberta, it is important to view SaskPower’s competitiveness with energy producers in that province. The following table compares average monthly residential bills for SaskPower to those in Edmonton and Calgary using 625 kWh/month from 2012-16.<sup>27</sup> However, it should be noted that Edmonton and Calgary are deregulated markets and this can affect prices for customers in those areas.

**Comparison of SaskPower to Alberta Markets – Residential Average  
(625 kWh/month) Monthly Bill at Rates in Place April 1<sup>st</sup>**

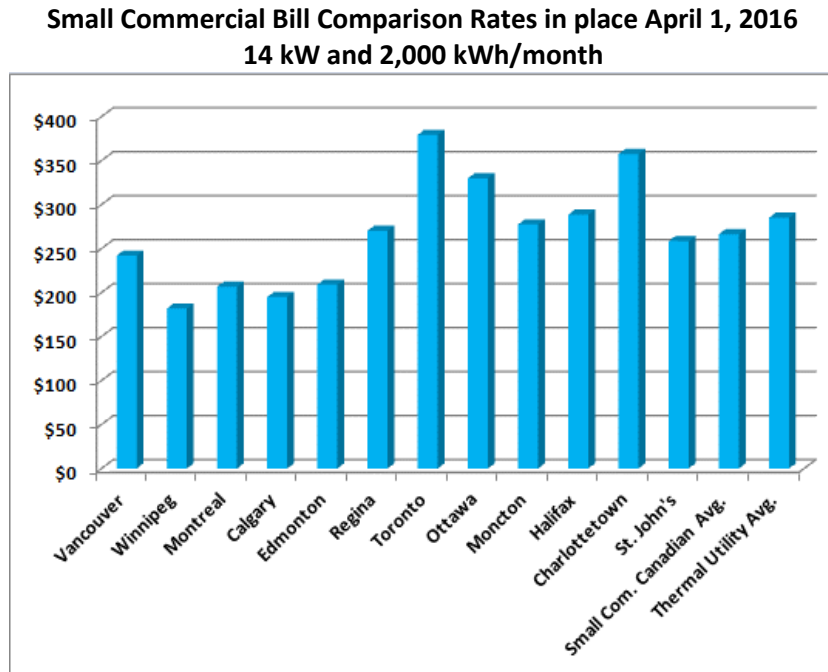
Year	Calgary	Edmonton	SaskPower
2012	\$93.80	\$88.80	\$85.59
2013	\$99.59	\$94.64	\$89.78
2014	\$92.39	\$82.05	\$94.79
2015	\$80.88	\$80.67	\$97.41
2016	\$73.03	\$73.13	\$99.11

As this chart indicates, in 2012 and 2013 SaskPower’s average urban residential monthly bills were lower than Calgary and Edmonton. From 2014-16, SaskPower’s average urban residential monthly bills for SaskPower were approximately \$26 (36%) greater than Calgary and Edmonton.

<sup>27</sup> Hydro Quebec Comparison of Electricity Prices in Major North American Cities calculates average monthly bills on April 1 for each year 2012 to 2016

## Urban Small Commercial

The following chart compares the monthly bill for small commercial customers using 14 kW and 2,000 kWh/month. This accounts for over half of the monthly consumption for SaskPower’s small commercial customers.<sup>28</sup> Rankings across utilities may change at different consumption levels due to the magnitude of the customer charge and the influence of multiple energy rate blocks.



These figures indicate that SaskPower is the median of the utilities and its bills are slightly lower than the average for the thermal utilities.

The next chart compares average monthly bills for this small commercial customer class for SaskPower to Edmonton and Calgary.

**Comparison of SaskPower to Alberta Markets – Small Commercial  
(14 kW & 2,000 kWh/month) Average Monthly Bill at Rates in Place April 1<sup>st</sup>**

Year	Calgary	Edmonton	SaskPower
2012	\$262.59	\$259.78	\$225.70
2013	\$282.06	\$276.14	\$236.75
2014	\$273.42	\$232.60	\$254.13
2015	\$219.90	\$229.58	\$263.76
2016	\$194.84	\$209.05	\$270.18

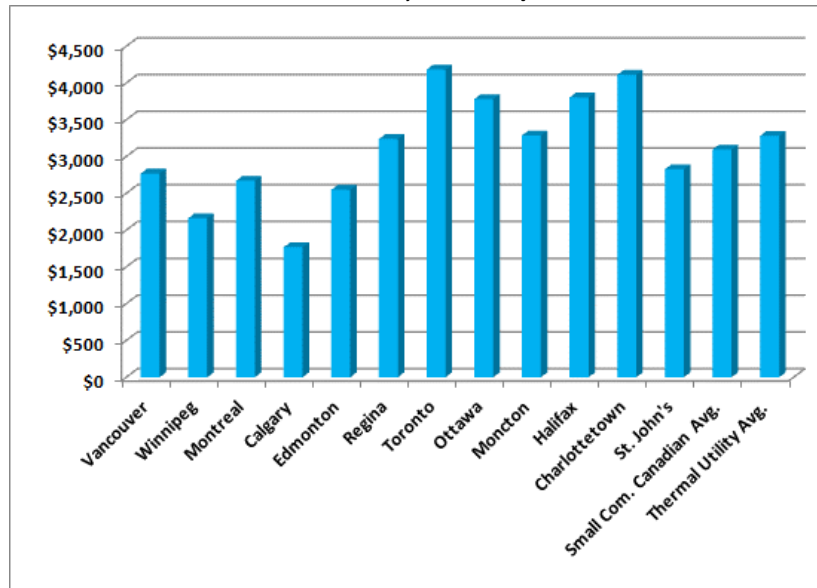
SaskPower average small commercial (14 kW and 2,000 kWh/month) monthly bills were lower than Calgary from 2012-14, and greater than Calgary for 2015 and 2016. In 2016 SaskPower monthly bills were approximately \$75 (37%) greater than Calgary. SaskPower average small commercial monthly bills were lower than Edmonton for 2012 and 2013 and greater than Edmonton for 2014-16. In 2016, SaskPower monthly bills were approximately \$61 (29%) greater than Edmonton.

<sup>28</sup> Page 20 of Appendix C to SaskPower’s 2016 and 2017 Rate Application shows approximately 65% of SaskPower’s urban small commercial customers use 2,000kWh/month or less.

## Standard Commercial

This chart compares the monthly bill for standard commercial customers using 100 kW and 25,000 kWh/month. Rankings across utilities may change at different consumption levels due to the magnitude of the customer charge and the influence of multiple energy rate blocks.

**Standard Commercial Bill Comparison Rates in place April 1, 2016  
100 kW and 25,000 kWh/month**



SaskPower is the median of the utilities and its bills are slightly lower than the average for the thermal utilities.

The next table compares average monthly bills for SaskPower to Edmonton and Calgary for standard commercial customers using 100 kW and 25,000 kWh/month from 2012-16.<sup>29</sup>

**Comparison of SaskPower to Alberta Markets – Standard Commercial  
(100 kW & 25,000 kWh/month) Average Monthly Bill at Rates in Place April 1<sup>st</sup>**

Year	Calgary	Edmonton	SaskPower
2012	\$2,584.99	\$3,029.02	\$2,724.60
2013	\$4,005.71	\$3,362.08	\$2,857.76
2014	\$2,338.45	\$2,831.17	\$2,989.50
2015	\$1,747.69	\$2,741.99	\$3,173.00
2016	\$1,766.37	\$2,547.93	\$3,238.75

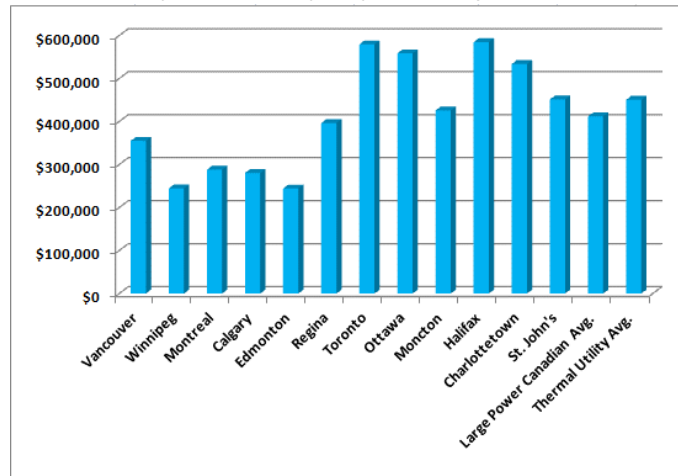
SaskPower average standard commercial (100 kW and 25,000 kWh/month) monthly bills were greater than Calgary for 2012 and from 2014-2016. SaskPower monthly bills were lower than Calgary in 2013. In 2016 SaskPower monthly bills were approximately \$1,472 (83%) greater than Calgary. SaskPower average standard commercial monthly bills were greater than Edmonton in 2012 and 2013 and greater than Edmonton for 2014-2016. In 2016 SaskPower monthly bills were approximately \$691 (27%) greater than Edmonton.

<sup>29</sup> Hydro Quebec Comparison of Electricity Prices in Major North American Cities calculates average monthly bills on April 1 for each year 2012 to 2016

## Large Industrial

This chart compares the monthly bill for large industrial customers using 10,000 kW and 5,760,000 kWh/month. Large industrial customers under 10,000,000 kWh/month account for 80% of all large industrial customers.<sup>30</sup> Rankings across utilities may change at different consumption levels due to the magnitude of the customer charge and the influence of multiple energy rate blocks.

**Large Industrial Bill Comparison Rates in place April 1, 2016  
10,000 kW & 5,760,000 kWh/month**



SaskPower is the median of the utilities and its bills are lower than the average for the thermal utilities.

This chart compares average monthly bills for SaskPower to Edmonton and Calgary for large power customers using 10,000 kW and 5,760,000 kWh/month from 2012 to 2016.<sup>31</sup>

**Comparison of SaskPower to Alberta Markets – Large Industrial  
(10,000 kW & 5,760,000 kWh/month) Average Monthly Bill at Rates in Place April 1<sup>st</sup>**

Year	Calgary	Edmonton	SaskPower
2012	\$480,393.69	\$412,199.82	\$335,599.92
2013	\$811,221.55	\$766,693.06	\$351,996.00
2014	\$430,033.27	\$446,775.50	\$373,631.18
2015	\$276,667.29	\$257,453.66	\$387,289.72
2016	\$280,331.48	\$244,071.33	\$396,372.70

A review of the information in this chart indicates that SaskPower average large industrial (10,000 kW and 5,760,000 kWh/month) monthly bills were lower than Calgary for 2012-14 and greater than Calgary for 2015 and 2016. In 2016 SaskPower monthly bills were approximately \$116,041 (41%) greater than Calgary. SaskPower average large industrial monthly bills were lower than Edmonton for 2012-14, and greater than Edmonton in 2015 and 2016. In 2016 SaskPower monthly bills were approximately \$152,301 (62%) greater than Edmonton.

<sup>30</sup> Page 15 of Appendix C to SaskPower’s 2016 and 2017 Rate Application shows approximately 80% of SaskPower’s power customers use 10,000,000kWh/month or less

<sup>31</sup> Hydro Quebec Comparison of Electricity Prices in Major North American Cities calculates average monthly bills on April 1 for each year 2012 to 2016

## The Impacts of the Proposed Rates

Based upon its terms of reference, the Panel must balance the interests of the customer, SaskPower and the public. The Panel recognizes the need for SaskPower to increase rates to ensure Saskatchewan residents have access to a reliable, cost-effective and sustainable supply of electricity. The Panel has heard from customers who have expressed concern that two rate increases totaling 10 per cent in less than a year can have a substantial impact on individuals, families and businesses. In making its recommendations, the Panel is considering the current needs of customers and the utility along with possible future outcomes. The following provides more information on the impacts on each customer class.

### Impacts on the Customer

SaskPower is proposing to increase almost all components of its existing rate structure by approximately 5% on July 1, 2016 and a further 5% on January 1, 2017. The Panel is recommending that the second rate increase be revised to 3.5%. Since there are equal percentage increases for each component, customers will see approximately the same percentage increases in their bills. The following chart provides a summary of estimated bill increases for typical customers in major customer classes.

**SaskPower Monthly Bill with Rate Increase**

Customer Class	SaskPower Monthly Bill in CAD\$ <sup>32</sup>					
	April 1, 2015 Monthly Bill	July 1, 2016 (5% Increase) Monthly Bill	July 1, 2016 (5% Increase) Bill Increase	January 1, 2017 (5% Increase) Monthly Bill	January 1, 2017 (5% Increase) Bill Increase	January 1, 2017 (3.5% Increase) Bill Increase
Urban Residential 625 kWh	99.11	104.17	5.05	109.47	5.30	3.71
Urban Small Commercial 14 kW & 2,000 kWh	270.18	283.95	13.77	298.43	14.48	10.13
Urban Standard Commercial 100 kW & 25,000 kWh	3,059.62	3,215.53	155.91	3,379.52	163.99	114.80
Large Industrial 10,000 kW & 5,760,000 kWh	392,506.60	412,498.71	19,992.11	433,504.46	21,005.75	14,703.50

<sup>32</sup> Data obtained and calculated from SaskPower Minimum Filing Requirements Presented to: Saskatchewan Rate Review Panel (2016 and 2017 Rate Application) Appendix C. The figures for the bill increase based upon a 3.5% increase on January 1, 2017 were calculated on a formula using the 5% amounts from the previous column.

The following are the monthly bill impacts if the Panel's recommendations are accepted:

- A typical SaskPower urban residential customer using 625 kWh in a month will see a monthly bill increase of \$5.05 at July 1, 2016 and an additional \$3.71 at January 1, 2017.
- A typical SaskPower small urban commercial customer using 14 kW & 2,000 kWh in a month will see a monthly bill increase of \$13.77 at July 1, 2016 and a further \$10.13 at January 1, 2017.
- A typical SaskPower urban standard commercial customer using 100 kW and 25,000 kWh per month will see a monthly bill increase of \$155.91 at July 1, 2016 and an additional \$114.80 at January 1, 2017.
- A typical SaskPower large industrial customer using 10,000 kW and 5,760,000 kWh per month will see a monthly bill increase of \$19,992.11 at July 1, 2016 and a further \$14,703.50 at January 1, 2017.

The Panel recognizes that utility bills make up approximately 6.5% of a household's expenditures for low income customers and that SaskPower has estimated that there are about 80,000 low income households in the province<sup>33</sup>. The Panel has strived to reduce this impact on customers yet still allow SaskPower the revenue it requires to provide safe and reliable energy.

## Impact on the Crown Corporation – SaskPower

The Panel's recommendations to the Minister will assist SaskPower to continue to provide safe and reliable power to Saskatchewan people. Reducing the 2017 rate increase from the proposed 5% increase to 3.5% will have an impact on SaskPower's revenues. As part of its restraint measures, SaskPower will need to limit increases in its Operating, Maintenance and Administration (OM&A) spending to be no greater than half of Saskatchewan's consumer price index on a per customer basis.

The recommendations in this report also encourage SaskPower to develop more public consultations regarding its plans to meet the province's long term energy needs. A public review process for its resource plan, renewable integration study, and COS methodology will increase transparency and foster greater understanding and collaboration with key stakeholders and the public in future decision making.

As well, the report contains other recommendations that will impact the way SaskPower provides information to the Panel regarding future rate applications.

## Impact on the Public

All citizens of Saskatchewan, whether they are SaskPower customers or not, are shareholders in SaskPower and have a vested interest in its operations. The public relies on safe, reliable, cost-effective and sustainable electricity; and as a shareholder, it needs to be assured that the corporation is financially sound and well positioned to meet the needs of the future. These recommendations will assist in helping to ensure the province's current energy needs will be met, and that the public will have a greater input in how our energy needs are met in the future.

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<sup>33</sup> SRRP R2Q17

# Role of the Saskatchewan Rate Review Panel

## Mandate

Through Order-in-Council dated December 5, 2012, and amended on December 31, 2014; January 13, 2015; and December 16, 2015, the Minister of Crown Investments Corporation (the Minister) appointed a Ministerial Advisory Committee known as the Saskatchewan Rate Review Panel (the Panel), with the mandate that it shall:

*... conduct a review and provide an opinion of the fairness and reasonableness of proposed Crown corporation rate changes, referred to the Panel by the Minister of Crown Investments Corporation; and incorporate as part of its mandate specific terms of reference for particular Crown corporation rate change reviews that may be attached by further Minister's Order.*

Whether in the original Order-in-Council establishing the Panel (437/2000 dated July 27, 2000), or in the Terms of Reference for particular reviews, the Panel has always been instructed to consider: "...the interests of the customer, the Crown corporation, and the public."

The mandate of the Panel extends to three Crown corporations in Saskatchewan – SaskEnergy, SaskPower and SGI's Saskatchewan Auto Fund. Serving as an advisory body to the Minister Responsible for Crown Investments Corporation, the Panel provides independent advice on rate proposals from the above-noted corporations. The final decision about these proposals continues to rest with the Saskatchewan government.

## Members of the Panel

The following members have been appointed to serve on the Saskatchewan Rate Review Panel:

Chair	Albert Johnston, Saskatoon
Vice-Chair	Bill Barzeele, Little Bear Lake
Members	Burl Adams, Kelvington; Delaine Barber, Weyburn; Daryl Hasein, Biggar; Steve Kemp, Regina; Lyle Walsh, Yorkton.

## Panel's Terms of Reference

The Minister issued an Order on May 20, 2016 establishing the Terms of Reference guiding the Panel's review of SaskPower's Rate Application. The Minister's Order and the Terms of Reference for this application identified several factors that the Panel is to consider in conducting its review, as well as various parameters that the Panel that are outside the Panel's purview.

The parameters that are outside the Panel's mandate include:

- The budgeted capital allocation, the rate base, and established corporate policies over the period 2016 and 2017 inclusive.
- The targeted long term Return on Equity of 8.5%.
- The existing service levels.
- Any existing supply contract.
- And the revenue to revenue requirement ratio target range of 0.95 to 1.05.

The Minister's Order for this review called for the Panel to complete its work no later than November 7, 2016.

# Review Process for the Application

## Consultant

InterGroup Consultants Ltd. (the consultant) was engaged by the Panel as an independent technical adviser to review the fairness and reasonableness of SaskPower's proposed rate change, and to provide an independent report including recommendations that would be consistent with the Terms of Reference for the Panel's review of the application.

The consulting team was led by Andrew McLaren, a principal at InterGroup Consultants Ltd. in Winnipeg. He has more than a decade experience in utility regulation and socio-economic effects assessment.

At the direction of the Panel, the consultant conducted a detailed analysis of the application. The Panel, with the assistance of the consultant, asked a number of information requests and supplementary questions (all posted on the Panel's website), and had individual discussions with SaskPower staff to clarify specific points. The consultant reviewed public comments to the Panel, and participated in several meetings and conference calls with the Panel during the review process, before presenting its final report to the Panel on October 14, 2016.

## Public Consultations

In reviewing SaskPower's Application, the Panel invited public comment. The public consultation process included:

- Submissions received by mail;
- Online messages received through the Panel's website;
- Messages received directly through the Panel's email address;
- Messages received through the Panel's toll-free voice mailbox; and
- Messages posted to the Panel's Facebook and Twitter accounts.

All methods for public input were advertised in the two major daily newspapers, and information was disseminated through Facebook and Twitter. SaskPower's application received news coverage immediately after it was announced. Copies of the application were available to the public at its offices and on the Panel's website.

A public meeting was held in Regina on June 21 and in Saskatoon on June 23. Members of the public were also invited to view the meeting online and type their questions from their computer, tablet or smartphone during the live broadcast. The Saskatoon Chamber of Commerce attended the Saskatoon meeting and provided a presentation followed by a question and answer session. The Chamber expressed concern about SaskPower's capital spending program, the province's government's ROE, fuel and purchased power data, competitiveness and other issues.

Most of the public comments the Panel received expressed concern regarding the number of rate increases, the collective total of the rate increases, the short time span of the rate increases, the current economic state, the ability of low income and fixed income individuals to afford the rate increases, the high salaries of SaskPower executives versus the continued rate increase, and how the Panel should not approve an interim rate increase in July 2016 until the entire application is approved.

The Panel also received written and oral submissions from the Canadian Association of Petroleum Producers (CAPP) and the Meadow Lake Pulp Mill, and received a written submission from the Saskatchewan Industrial Energy Consumers Association (SIECA). CAPP made a series of recommendations to the Panel regarding the government's dividend, SaskPower's hedging program, wind generation, capital investments, and consumption data. SIECA recommended that the Panel defer the proposed 5% increase for January 1, 2017 by as much as a calendar year, and expressed concern over the magnitude of the rate increase, the trajectory of future increases, and that its members have been unable to adequately perform due diligence on SaskPower's rates due to limited data access. The Meadow Lake Pulp Mill presented information on the negative impact the rates would have on its overall operations.

All submissions and a transcript of the public meeting are available on the Panel's website at [www.saskratereview.ca](http://www.saskratereview.ca).



## In Appreciation

The Panel thanks SaskPower for the timely and helpful assistance it provided throughout this application.

The Panel thanks InterGroup Consulting Ltd. for its thorough analysis of the application.

The Panel thanks Gerry Forrest, our general consultant, for his ongoing assistance in the work of the Panel.

The Panel thanks technical writer Pat Rediger for his assistance in preparing this report.

Finally, the Panel wishes to acknowledge the members of the public who participated in the review process. All contributions were received and evaluated by the Panel during its decision-making process.

## For More Information

For more information on this review, please visit the Saskatchewan Rate Review's website at [www.saskratereview.ca](http://www.saskratereview.ca). The site contains SaskPower's 2016 and 2017 Rate Application, the Mid-Application Update, SaskPower's public presentation on the application, the Panel's terms of reference, information requests to SaskPower and the responses, video of the public meeting, public submissions and comments, the technical consultant's report, SaskPower's cost of service study, and the Panel's media releases.