



**MID-APPLICATION  
UPDATE**

[2016 and 2017 Rate Application]



## Our company

SaskPower is a Crown corporation governed by *The Power Corporation Act*. The President and Chief Executive Officer of SaskPower reports to a Board of Directors appointed by the Lieutenant Governor in Council. Through the Chair, our company's Board of Directors is accountable to the Minister Responsible for SaskPower. The Minister functions as a link between SaskPower and the provincial cabinet and the Saskatchewan Legislature. The Crown holding company, Crown Investments Corporation of Saskatchewan, provides broad direction to SaskPower, including the establishment of appropriate financial targets (such as the expected rate of return), dividend rates, and the setting of public policy.

With one of the largest service areas in Canada, SaskPower is dedicated to providing electricity generation, transmission, distribution and retail services to nearly 522,000 customer accounts throughout a geographic service area of approximately 652,000 square kilometres. SaskPower manages more than \$10 billion in generation, transmission and distribution assets to supply electricity to our customers.

To ensure reliability of services, SaskPower operates three coal-fired power stations, seven hydroelectric stations, five natural gas stations and two wind facilities. Combined, they generate 3,542 MW of electricity. SaskPower also buys power from various independent power producers including the North Battleford Energy Centre, Red Lily Wind Power Facility, SunBridge Wind Power Facility, Morse Wind Power Facility, Spy Hill Generating Station, Meridian Cogeneration Station, and Cory Cogeneration Station. SaskPower's total available generation capacity, from its own fleet and independent power producers, is 4,437 MW. In the last five years, SaskPower has added 641 MW of new power generation capacity while retiring 186 MW.

SaskPower operates and maintains one of the largest grids in Canada. The grid is comprised of approximately 157,000 kilometres of transmission and distribution lines throughout Saskatchewan. Our transmission system is made up of almost 14,000 km of power lines and 55 high voltage switching stations located across Saskatchewan. Transmission lines are high voltage lines that transport large volumes of electricity from generating stations to load centres – cities, towns or large industrial or commercial customers. Our distribution system consists of more than 143,000 km of power lines, 194 distribution substations and approximately 183,200 pole and pad-mounted transformers. Distribution lines are lower voltage lines that take electricity in smaller quantities to residential users and smaller commercial customers.

SaskPower has interconnections at the Manitoba, Alberta and North Dakota borders. These provide our company with the capability to import or export electricity to meet higher internal demand or take advantage of export market opportunities. Under normal system conditions, the import capability is up to 220 MW from Manitoba, 75 MW from Alberta, and 50 MW from North Dakota. The export capability is up to 90 MW to Manitoba, 153 MW to Alberta, and 100 MW to North Dakota. These interconnection capabilities vary with system conditions, including generation and load level. In compliance with the Open Access Transmission Tariff (OATT), SaskPower is required to compete with other suppliers for access to these interconnections. The OATT enables competitors to schedule access to our company's transmission system, allowing them to wheel power through Saskatchewan or sell to SaskPower's wholesale (Reseller) customers.

## 1.0 Overview

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In June 2016, SaskPower filed a rate application requesting rate increases of 5% effective July 1, 2016, and 5% effective January 1, 2017. A regular element of the rate application process includes a review of the underlying assumptions presented in the initial rate application. The original rate application was based on information as of May 2016. This Mid-Application Update compares the initial rate application submission to the most recent financial forecast as of August 31, 2016.

### Operating income

The original rate application forecasted an operating income of \$155.9 million in 2016-17 and an operating return on equity (ROE) of 6.9%. The Mid-Application Update forecasts operating income of \$83.3 million in 2016-17 and an operating ROE of 3.8%. The decrease in forecasted results is due to a \$31.8 million decrease in forecasted revenue and an increase of \$40.8 million in forecasted expenses.

### Revenue and load

SaskPower's latest revenue forecast for 2016-17 is expected to be \$31.8 million lower than the original rate application forecast. This is driven largely by a \$15.0 million decrease in forecasted revenue from customer contributions, lower than forecasted export sales and lower than forecasted carbon dioxide (CO<sub>2</sub>) sales. The Saskatchewan electricity sales forecast has decreased by \$2.2 million due to lower revenues in all customer classes other than the oilfield sector.

### Expense

SaskPower expense has increased \$40.8 million in 2016-17 as compared to the forecast in the original rate application. Forecasted fuel and purchased power expense has increased \$29.3 million since the application. This is largely due to increased natural gas costs, as well as increased costs associated with coal-fired generation. Forecasted OM&A, depreciation and taxes have also increased since the application, offset slightly by a forecasted decrease in finance charges.

### Conclusion

The net impact of these changes is SaskPower's operating income for 2016-17 is forecasted to decrease from \$155.9 million in the initial submission to \$83.3 million in this Mid-Application Update. SaskPower's revised operating ROE forecast for 2016-17 is now 3.8%, compared to the original operating ROE forecast of 6.9%. The new ROE forecast is still well below the Crown Investment Corporation (CIC) of Saskatchewan-approved long-term target of 8.5%. Despite the forecasted deterioration of SaskPower's financial position in the Mid-Application Update, SaskPower recommends that the rate increase request be approved as requested in the initial submission.

## 2.0 Financial requirements update

The following section provides a comparison between the initial rate application and the Mid-Application Update forecast for fiscal 2016-17.

### 2.1 FINANCIAL SUMMARY

| Consolidated statement of income        |    |                                     |  |           |
|---|----|-------------------------------------|--|-----------|
| <i>(in millions)</i>                    |    | Initial<br>submission<br>(May 2016) | Mid-application<br>update<br>(August 2016) |           |
|   |    | 2016-17                             | 2016-17                                    | variance  |
| <b>Revenue</b>                          |    |                                     |  |           |
| Saskatchewan electricity sales          | \$ | 2,328.2                             | \$ 2,326.0                                 | \$ (2.2)  |
| Export                                  |    | 17.0                                | 8.8  | (8.2)     |
| Net sales from trading                  |    | 1.2                                 | 1.2  | -         |
| Other                                   |    | 134.9                               | 113.5                                      | (21.4)    |
|   |    | 2,481.3                             | 2,449.5                                    | (31.8)    |
| <b>Expense</b>                          |    |                                     |  |           |
| Fuel and purchased power                |    | 646.6                               | 675.9                                      | 29.3      |
| Operating, maintenance & administration |    | 682.1                               | 690.5                                      | 8.4       |
| Depreciation                            |    | 487.2                               | 494.1                                      | 6.9       |
| Finance charges                         |    | 418.7                               | 412.1                                      | (6.6)     |
| Taxes                                   |    | 68.0                                | 70.8                                       | 2.8       |
| Other                                   |    | 22.8                                | 22.8                                       | -         |
|   |    | 2,325.4                             | 2,366.2                                    | 40.8      |
| <b>Operating income</b>                 | \$ | 155.9                               | \$ 83.3                                    | \$ (72.6) |
| Return on equity (operating)            |    | 6.9%                                | 3.8%                                       | -3.1%     |

Operating income is now forecasted to be \$83.3 million, a decrease of \$72.6 million from the initial rate application submission. This results in a decrease in SaskPower's forecasted operating ROE from 6.9% to 3.8%. The anticipated changes in SaskPower's revenues and expenses are explained in detail in the following sections.

## 2.2 REVENUE

SaskPower revenue is expected to decrease \$31.8 million from the initial submission. This is largely due to a reduction in forecasted other revenue of \$21.4 million, and a decrease in export revenue of \$8.2 million. Forecasted Saskatchewan electricity sales have also decreased by \$2.2 million.

### 2.2.1 Saskatchewan customer revenues

| Saskatchewan sales              |           |                                  |   |                 |
|---------------------------------|-----------|----------------------------------|---|-----------------|
|                                 |           | Initial submission<br>(May 2016) | Mid-application update<br>(August 2016) |                 |
| (in millions)                   |           | 2016-17                          | 2016-17                                 | variance        |
| <b>Saskatchewan sales</b>       |           |                                  |   |                 |
| Residential                     | \$        | 540.3                            | \$ 535.5                                | \$ (4.8)        |
| Farm                            |           | 176.6                            | 169.1                                   | (7.5)           |
| Commercial                      |           | 484.6                            | 484.3                                   | (0.3)           |
| Oilfield                        |           | 342.9                            | 358.3                                   | 15.4            |
| Power                           |           | 684.5                            | 679.8                                   | (4.7)           |
| Reseller                        |           | 99.3                             | 99.0                                    | (0.3)           |
| <b>Total Saskatchewan sales</b> | <b>\$</b> | <b>2,328.2</b>                   | <b>\$ 2,326.0</b>                       | <b>\$ (2.2)</b> |

| Energy sales volume in Saskatchewan |  |                                  |   |               |
|-------------------------------------|--|----------------------------------|---|---------------|
|                                     |  | Initial submission<br>(May 2016) | Mid-application update<br>(August 2016) |               |
| (in GWh)                            |  | 2016-17                          | 2016-17                                 | variance      |
| <b>Saskatchewan sales</b>           |  |                                  |   |               |
| Residential                         |  | 3,282.0                          | 3,216.2                                 | (65.8)        |
| Farm                                |  | 1,331.9                          | 1,267.8                                 | (64.1)        |
| Commercial                          |  | 3,844.9                          | 3,836.3                                 | (8.6)         |
| Oilfield                            |  | 3,478.9                          | 3,650.1                                 | 171.2         |
| Power                               |  | 9,190.4                          | 9,110.7                                 | (79.7)        |
| Reseller                            |  | 1,290.9                          | 1,271.2                                 | (19.7)        |
| <b>Total Saskatchewan sales</b>     |  | <b>22,419.0</b>                  | <b>22,352.3</b>                         | <b>(66.7)</b> |

For 2016-17, the Saskatchewan sales forecast has decreased by \$2.2 million since the initial application. This is due to a decrease in forecasted sales volumes across most customer classes. The Mid-Application Update forecast for the power class has decreased due to energy sales in the potash sector being lower than expected. SaskPower is also seeing declines in the residential, farm, commercial and reseller sectors.

The only customer class to see an increase to its forecast is the oilfield sector, largely due to higher than expected production since the initial application. The oilfield sector forecast is based on information provided by the Canadian Association of Petroleum Producers and Government of Saskatchewan Ministry of Economy.

Overall, the Saskatchewan sales forecast has decreased by 66.7 gigawatt hours (GWh) since the initial application.

## 2.2.2 Export revenue

| Export revenue                  |    |                                  |    |   |    |          |
|---------------------------------|----|----------------------------------|----|---|----|----------|
|                                 |    | Initial submission<br>(May 2016) |    | Mid-application update<br>(August 2016) |    | variance |
|                                 |    | 2016-17*                         |    | 2016-17                                 |    |          |
| SaskPower exports (in millions) | \$ | 17.0                             | \$ | 8.8                                     | \$ | (8.2)    |
| SaskPower exports (in GWh)      |    | 271.2                            |    | 216.7                                   |    | (54.5)   |
| \$/MWh                          | \$ | 62.69                            | \$ | 40.57                                   | \$ | (22.12)  |

\* Restated

Forecasted export revenue for 2016-17 has decreased by almost half since the initial rate application submission. The forecasted average export price has decreased by \$22.12/MWh. Export sales and revenue are less than initially forecasted due to continued, softer-than-expected Alberta system marginal pricing.

## 2.2.3 Net sales from electricity trading

| Net sales from electricity trading |    |                                  |    |   |    |          |
|------------------------------------|----|----------------------------------|----|---|----|----------|
|                                    |    | Initial submission<br>(May 2016) |    | Mid-application update<br>(August 2016) |    | variance |
| (in millions)                      |    | 2016-17                          |    | 2016-17                                 |    |          |
| Net sales from electricity trading | \$ | 1.2                              | \$ | 1.2                                     | \$ | -        |

The net sales from electricity trading forecast has not changed.

## 2.2.4 Other revenue

| Other revenue                         |    |                                  |    |   |    |          |
|---------------------------------------|----|----------------------------------|----|---|----|----------|
|                                       |    | Initial submission<br>(May 2016) |    | Mid-application update<br>(August 2016) |    | variance |
| (in millions)                         |    | 2016-17                          |    | 2016-17                                 |    |          |
| Gas and electrical inspections        | \$ | 22.0                             | \$ | 21.7                                    | \$ | (0.3)    |
| Customer contributions                |    | 50.0                             |    | 35.0                                    |    | (15.0)   |
| CO <sub>2</sub> sales                 |    | 20.3                             |    | 16.0                                    |    | (4.3)    |
| CO <sub>2</sub> test facility revenue |    | 13.4                             |    | 13.4                                    |    | -        |
| MRM equity investment                 |    | 2.1                              |    | 1.5                                     |    | (0.6)    |
| Miscellaneous revenue                 |    | 27.1                             |    | 25.9                                    |    | (1.2)    |
|                                       | \$ | 134.9                            | \$ | 113.5                                   | \$ | (21.4)   |

A decrease in the other revenue forecast is largely due to a decrease in customer contributions revenue, which decreased from \$50.0 million to \$35.0 million, partly due to customer delays and partly due to timing differences. A reduced forecast for CO<sub>2</sub> sales (\$4.3 million) is also contributing to the \$21.4 million decrease in forecasted other revenue.

## 2.3 EXPENSES

### Expenses

| <i>(in millions)</i>                    | Initial<br>submission<br>(May 2016)<br><b>2016-17</b> | Mid-application<br>update<br>(August 2016)<br><b>2016-17</b> | <b>variance</b> |
|---|---|--|-----------------|
| <b>Expense</b>                          |   |  |                 |
| Fuel and purchased power                | \$ 646.6  | \$ 675.9   | \$ 29.3         |
| Operating, maintenance & administration | 682.1   | 690.5  | 8.4             |
| Depreciation                            | 487.2   | 494.1  | 6.9             |
| Finance charges                         | 418.7   | 412.1  | (6.6)           |
| Taxes                                   | 68.0  | 70.8   | 2.8             |
| Other                                   | 22.8  | 22.8   | -               |
|   | <b>\$ 2,325.4</b>                                     | <b>\$ 2,366.2</b>  | <b>\$ 40.8</b>  |

Expenses are anticipated to be \$40.8 million or 1.8% higher than forecasted in the initial submission. This is largely due to changes in forecasted fuel and purchased power expense. Forecasted OM&A, depreciation and taxes have also increased, slightly offset by a decrease in finance charges.

### 2.3.1 Fuel and purchased power (F&PP)

#### Fuel and purchased power expense

| <i>(in millions)</i>            | Initial<br>submission<br>(May 2016)<br><b>2016-17</b> | Mid-application<br>update<br>(August 2016)<br><b>2016-17</b> | <b>variance</b> |
|---------------------------------|---|--|-----------------|
| <b>Fuel and purchased power</b> |   |  |                 |
| Gas                             | \$ 281.6  | \$ 299.9   | \$ 18.3         |
| Coal                            | 272.3   | 284.1  | 11.8            |
| Wind                            | 21.3  | 20.9   | (0.4)           |
| Hydro                           | 16.7  | 17.7   | 1.0             |
| Imports                         | 29.2  | 28.8   | (0.4)           |
| Other                           | 25.5  | 24.5   | (1.0)           |
|                                 | <b>\$ 646.6</b>                                       | <b>\$ 675.9</b>  | <b>\$ 29.3</b>  |

## Fuel and purchased power volume

| <i>(in GWh)</i>                 | Initial<br>submission<br>(May 2016)<br><b>2016-17</b> | Mid-application<br>update<br>(August 2016)<br><b>2016-17</b> | <b>variance</b> |
|---------------------------------|---|--|-----------------|
| <b>Fuel and purchased power</b> |   |  |                 |
| Gas                             | 8,927   | 9,031  | 104             |
| Coal                            | 10,916  | 10,762   | (154)           |
| Wind                            | 772   | 734  | (38)            |
| Hydro                           | 3,068   | 3,234  | 166             |
| Imports                         | 636   | 550  | (86)            |
| Other                           | 179   | 173  | (6)             |
|                                 | <b>24,498</b>   | <b>24,484</b>  | <b>(14)</b>     |

F&PP expense is expected to increase by \$29.3 million from the original rate application forecast. This is primarily due to higher gas- and coal-related expenses. The revised fuel forecast estimates an additional 104 GWh of natural gas generation and a natural gas cost of \$1.84/MWh higher than initially forecast, resulting in an \$18.3 million increase. Although the coal generation volume forecast has decreased, this is more than offset by higher than budgeted costs for coal-related generation. A forecasted increase in low cost hydro generation does reduce F&PP expense by offsetting some of the increase in relatively more expensive natural gas generation.

### 2.3.2 Operating, maintenance and administration (OM&A)

#### Operating, maintenance and administration

| <i>(in millions)</i> | Initial<br>submission<br>(May 2016)<br><b>2016-17</b> | Mid-application<br>update<br>(August 2016)<br><b>2016-17</b> | <b>variance</b> |
|----------------------|---|--|-----------------|
| Total OM&A           | \$ 682.1  | \$ 690.5   | \$ 8.4          |

The OM&A forecast for 2016-17 has increased, largely due to increased consulting and legal fees (\$5.5 million), a new Commercial Lighting Program as part of SaskPower's demand side management program (\$4 million), as well as increased bad debt expense largely attributable to the residential customer class (\$2.5 million). Cuts to salaries and wages and other OM&A reductions assist in offsetting some of the forecasted increase.



## 2.3.3 Capital-related expenses

### Finance charges

| Finance charges               |    |                                     |    |  |    |                 |
|-------------------------------|----|-------------------------------------|----|--|----|-----------------|
| <i>(in millions)</i>          |    | Initial<br>submission<br>(May 2016) |    | Mid-application<br>update<br>(August 2016) |    | <b>variance</b> |
|                               |    | <b>2016-17</b>                      |    | <b>2016-17</b>                             |    |                 |
| <b>Finance charges</b>        |    |                                     |    |  |    |                 |
| Interest on borrowings        | \$ | 431.3                               | \$ | 431.0                                      | \$ | (0.3)           |
| Interest capitalized          |    | (4.6)                               |    | (12.6)                                     |    | (8.0)           |
| Debt retirement fund earnings |    | (19.7)                              |    | (17.6)                                     |    | 2.1             |
| Other interest and charges    |    | 11.7                                |    | 11.3                                       |    | (0.4)           |
|                               | \$ | 418.7                               | \$ | 412.1                                      | \$ | (6.6)           |

Forecasted finance charges have decreased from the original rate application, largely due to an increase in interest capitalized as a result of delays to capital projects. Interest capitalized costs are offset against finance charges, so an increase in interest capitalized will cause finance charges to decrease.

The decrease from increased interest capitalized is partially offset by a decrease in debt retirement fund earnings. Debt retirement fund earnings are also an offset against finance charges, so a decrease in debt retirement fund earnings will cause finance charges to increase.

### Depreciation and amortization

| Depreciation               |    |                                     |    |  |    |                 |
|----------------------------|----|-------------------------------------|----|--|----|-----------------|
| <i>(in millions)</i>       |    | Initial<br>submission<br>(May 2016) |    | Mid-application<br>update<br>(August 2016) |    | <b>variance</b> |
|                            |    | <b>2016-17</b>                      |    | <b>2016-17</b>                             |    |                 |
| <b>Depreciation</b>        |    |                                     |    |  |    |                 |
| Depreciation               | \$ | 430.8                               | \$ | 437.7                                      | \$ | 6.9             |
| Capital lease amortization |    | 56.4                                |    | 56.4                                       |    | -               |
|                            | \$ | 487.2                               | \$ | 494.1                                      | \$ | 6.9             |

Forecasted depreciation expense has increased by \$6.9 million due to new depreciation rates that were implemented after the completion of SaskPower's annual depreciation review.

## Taxes

| Taxes                 |    |                                     |    |  |    |          |
|-----------------------|----|-------------------------------------|----|--|----|----------|
| <i>(in millions)</i>  |    | Initial<br>submission<br>(May 2016) |    | Mid-application<br>update<br>(August 2016) |    | variance |
|                       |    | 2016-17                             |    | 2016-17                                    |    |          |
| <b>Taxes</b>          |    |                                     |    |  |    |          |
| Corporate capital tax | \$ | 43.0                                | \$ | 45.8                                       | \$ | 2.8      |
| Grants in lieu        |    | 25.0                                |    | 25.0                                       |    | -        |
|                       | \$ | 68.0                                | \$ | 70.8                                       | \$ | 2.8      |

The tax expense forecast has increased by \$2.8 million from the rate application submission. The increase in corporate capital tax can be attributed to a forecasted increase in debt and a decrease in the deductible reserve portion of the corporate capital tax calculation.

## Other expense

| Other                |    |                                     |    |  |    |          |
|----------------------|----|-------------------------------------|----|--|----|----------|
| <i>(in millions)</i> |    | Initial<br>submission<br>(May 2016) |    | Mid-application<br>update<br>(August 2016) |    | variance |
|                      |    | 2016-17                             |    | 2016-17                                    |    |          |
| Other expense        | \$ | 22.8                                | \$ | 22.8                                       | \$ | -        |

Other expenses are largely made up of gains or losses on asset disposals and retirements. The other expense forecast has not changed.

## 2.4 Capital

### Capital spending

| <i>(in millions)</i>                            | Initial<br>submission<br>(May 2016)<br><b>2016-17</b> | Mid-application<br>update<br>(August 2016)<br><b>2016-17</b> | <b>variance</b> |
|---|---|--|-----------------|
| <b>Capital sustainment investment</b>           |   |  |                 |
| Generation                                      | \$ 132  | \$ 145   | \$ 13           |
| Carbon Capture                                  | 38  | 38   | -               |
| Transmission                                    | 88  | 110  | 22              |
| Distribution                                    | 60  | 74   | 14              |
| Other   | 115   | 96   | (19)            |
| <b>Total sustainment investment</b>             | <b>433</b>  | <b>463</b>   | <b>30</b>       |
| <b>Growth &amp; compliance investment</b>       |   |  |                 |
| Generation                                      | 19  | 127  | 108             |
| Transmission                                    | 224   | 157  | (67)            |
| Distribution                                    | 32  | 27   | (5)             |
| Customer Connects                               | 153   | 128  | (25)            |
| <b>Total growth &amp; compliance investment</b> | <b>428</b>  | <b>439</b>   | <b>11</b>       |
| <b>Total strategic &amp; other investments</b>  | <b>38</b>   | <b>63</b>  | <b>25</b>       |
| <b>Total capital spending</b>                   | <b>\$ 899</b>   | <b>\$ 965</b>  | <b>\$ 66</b>    |

SaskPower's capital forecast has increased from \$899 million in the initial rate application to \$965 million as of August 31, 2016. The \$66 million increase is largely due to the increase in generation growth and compliance investment related to the new combined cycle natural gas generation facility near Swift Current (\$114 million in costs moved to 2016-17).

Offsetting this addition is a reduction in transmission spending, with more than half of the lowered forecast related to customer connect delays, reflected in both the transmission and customer connects growth and compliance investment sections.

The growth in strategic & other investments is due to a reclassification of investments from other capital sustainment investment to strategic & other investments. This includes reclassifications related to commercial customer smart meters (\$8.6 million increase), IT&S initiatives (\$21.9 million increase) and mining equipment (\$4.3 million decrease).

### 3.0 Mid-Application Update summary

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The net impact of the updated forecast for 2016-17 is that SaskPower's operating income has decreased from \$155.9 million to \$83.3 million. SaskPower's revised operating ROE forecast for 2016-17 is now 3.8%, compared to the original operating ROE forecast of 6.9%.

The forecasted operating ROE remains well below the CIC-approved long-term target of 8.5% and SaskPower continues to recommend that the rate increase be approved as requested in the initial submission.





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