SaskPower
Powering the future

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October 5, 2016

Saskatchewan Rate Review Panel
P.O. Box 1301
Saskatoon, Saskatchewan
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RE: Saskatchewan Industrial Energy Consumers Association submission, September 2016

SaskPower appreciates the comments and concerns presented by the Saskatchewan Industrial Energy Consumers Association (SIECA) regarding our 2016 and 2017 Rate Application. We are grateful for the opportunity to address the issues presented in the submission.

***"SIECA contends that SaskPower must ensure that system sustainment investment priority is preserved by exercising stringent control on the overall level of system growth related capital spending and the load efficacy of that spending."* SIECA**

SaskPower concurs with SIECA that system sustainment spending must remain a major area of focus. In the last number of years, our company's growth and compliance component of our capital spend has tended to outweigh the sustainment component.

Growth investments include new generating capacity to meet increasing demand, replacement capacity for retiring generating units, and new customer connections to the grid. It is important to note that SaskPower has traditionally focussed on growth investments as our company has a duty to serve under the authority and mandate of *The Power Corporation Act.*

Going forward, spending on growth investments will continue to be a critical component of SaskPower's Capital Plan as our company moves to meet our target of up to 50% renewable energy capacity by 2030. However, on a go-forward basis SaskPower's plan includes about 30% of its total capital spend directed to sustainment.

***"SIECA recommends that the Management and Board of SaskPower review the capital management and commercial processes within SaskPower to ensure that there is direct and timely correlation between capital deployment to connect new customers or loads on the system and revenue realization from the growth."* SIECA**

SaskPower reviews its load forecast with its Executive and Board of Directors on a quarterly basis. Our company targets to have its forecasts to come within 3% of actual results in any given year. SaskPower has been within this target for the year immediately following its forecast in six of the past 10 years.

The greatest volatility has been within the Power (industrial) and Oilfield customer classes. Historically, SaskPower relied primarily on Power and Oilfield customer electricity demand forecasts, but the results produced an overestimate within our company's load forecast.

More recently, SaskPower has balanced customer demand forecasts against Government of Saskatchewan Ministry of Economy natural resource development data. This has brought our company's forecasts significantly more in line with actual results.

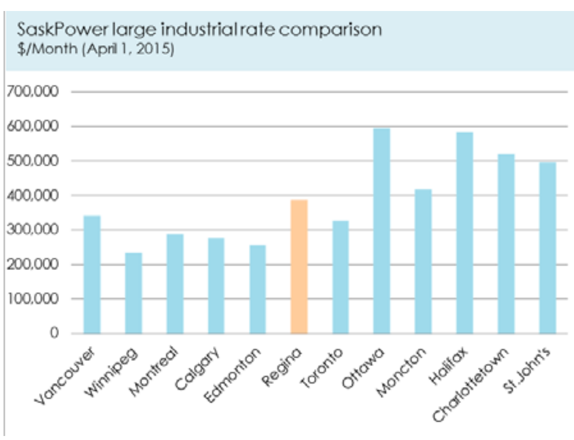
When comparing Saskatchewan sales forecasts to actual results in recent years, SaskPower has demonstrated improved forecasting. An analysis of SaskPower's 2014-16 Rate Application Saskatchewan sales forecast demonstrates a reasonable level of accuracy:

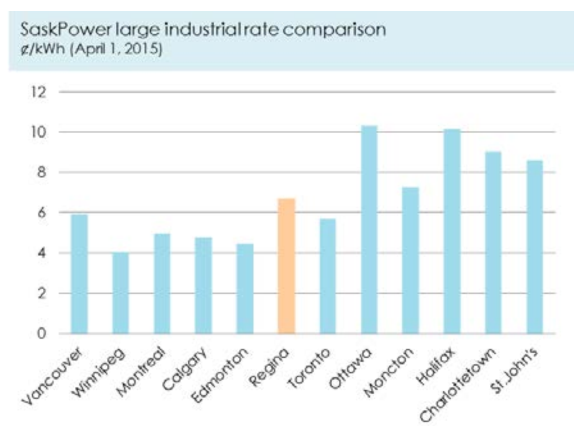
(in GWh)	**2013**	**2014**	**2015**
2014-2016 Rate Application forecast	20,714	21,111	22,033
Actual results	20,753	21,389	21,625
Variance	(39)	(278)	408
% difference from forecast	-0.2%	-1.3%	1.9%

"SIECA urges the Panel to incorporate a detailed and critical evaluation of electricity rate competitiveness in its final report and recommendations." **SIECA**

SIECA has expressed concerns about SaskPower's rate competitiveness and questions the related information SaskPower has supplied in its 2016 and 2017 Rate Application. The data provided by our company comes from an independently-produced document: Hydro Québec's annual *Comparison of Electricity Prices in Major North American Cities*. This is the same, independent source that SaskPower has been using to compare rates in Canada for many years.

SIECA notes that SaskPower did not include a large industrial customer rate comparison within the 2016 and 2017 Rate Application. That information is included below, both on a cost per month basis and a ¢/kWh basis, based on data presented in the Hydro Québec survey.





It should be noted that market prices in Alberta have been depressed for the past two years due to reduced demand. In fact, in the second quarter of 2016 prices hit 20-year lows, according to a recent FirstEnergy Capital study. It projects that by 2018 Alberta electricity prices could double from this year's lows, once factoring in increased demand, the province's new carbon tax, as well as the impact of the government's plan to offer incentives to bring on more renewable energy.

"Timing and magnitude of the rate increases are not appropriate in current economic environment." **SIECA**

SaskPower appreciates the current economic climate within Saskatchewan today, and the impacts rate increases have on all customer classes. However, despite the struggles in certain sectors, demand for electricity continues to increase overall. SaskPower is working hard to ensure power is available to customers and must continue to accommodate growth while refurbishing and replacing the existing system to maintain reliable service.

SaskPower has implemented many initiatives, such as the Business Renewal Program, to help reduce the need for and scale of rate increases. Meanwhile, since the 2014-16 Rate Application launched in 2013, SaskPower has pursued a below-target return on equity (ROE). Also, other than a special dividend paid in 2012 based on 2011 financial results, CIC has not collected a dividend from SaskPower since 2009.

"SIECA recommends aggressive action to reduce OM&A costs." **SIECA**

SaskPower appreciates the need to effectively manage operating, maintenance and administration (OM&A) costs. Our company has placed a priority on controlling OM&A spending while still allowing SaskPower to expand where necessary to keep up with the forecasted growth in electricity demand.

SaskPower benchmarks its OM&A spending over a longer period of time to smooth out year-to-year maintenance fluctuations. From 2013 to 2018-19, OM&A is forecast to grow at a rate about the same as the growth in Saskatchewan sales volumes. When factoring in inflation on sales growth, the increase in OM&A spending falls well short of Saskatchewan sales growth throughout this application's time period.

SaskPower continually monitors and controls OM&A spending. In 2015, real savings were found through actions that included freezing management salaries; reducing spending on training, travel and contract services; and reducing the budgeted number of employees by not filling vacancies as people retire or leave the company.

"SIECA Recommends Immediate Review of SaskPower Cost Allocation Methodology." **SIECA**

SaskPower undertakes a public review of its Cost of Service methodology every five years, under the guidance of the Saskatchewan Rate Review Panel (SRRP) and external consultants, to ensure the models are functioning within industry standards. The last public review was completed in 2012, and SaskPower implemented the resulting recommendations in 2014.

The next public review is scheduled for 2017. As SaskPower is recommending a flat rate increase (no rate rebalancing that may require different levels of increases for different customer classes), a Cost of Service study would have no impact on the proposed rate increase.

. . . / Page 4

***"SIECA recommends suspension of the rate increase requested for January 1, 2017."* SIECA**

SIECA is contending that SaskPower's failure to provide a Test Embedded Cost of Service Study report for the 2017-2018 fiscal year should immediately disqualify the second 5% increase scheduled for January 1, 2017, as that increase was stated to provide a revenue lift in that period.

SaskPower's has provided all material required under the Minimum Filing Requirements (MFR) set out by the SRRP and has responded to all subsequent requests for information. Additionally, SaskPower has traditionally only provided Cost of Service studies for those years in which the rate increases are effective, in this case the 2016-2017 fiscal period.

SIECA also suggests that the second rate increase of 5% effective January 1, 2017, should be denied as it results in an inappropriate return on rate base (RORB) of 7.13%. SaskPower's rates and revenue requirements are designed to provide a return on equity (ROE) of 8.5% as set out in the Minister's Terms of Reference.

The RORB figure from the Cost of Service is calculated based on the above annualized revenue requirement (less expenses) divided by the rate base. The increase in the RORB from 5.9% to 7.1% after the second rate increase on January 1, 2017, is due to the annual system revenue increasing in 2017 with no corresponding increase in assets. In the absence of any further revenue lifts in the 2018 fiscal year, the RORB is forecasted to decrease to 6.2%.

***"SIECA recommends no dividend policy."* SIECA**

As noted previously, other than a special dividend paid in 2012 based on 2011 financial results, CIC has not collected a dividend from SaskPower since 2009. When it comes to the potential for the payment of dividends, our company cannot comment as that decision rests with CIC and the Government of Saskatchewan.

Conclusion

SaskPower appreciates the submission of SIECA. Our company values the participation of all stakeholders in the rate review process, and welcomes continuing dialogue as we strive to provide our customers with reliable, sustainable and cost-effective power.