

**THE SASKATCHEWAN RATE REVIEW PANEL
SASKPOWER 2016 AND 2017 RATE APPLICATION**

Transcript of Proceedings of
A PUBLIC MEETING
held by the
Saskatchewan Rate Review Panel
at the DoubleTree by Hilton Hotel
Regina, Saskatchewan
on Tuesday, June 21, 2016

APPEARANCES:

Saskatchewan Rate Review Panel:

Albert Johnston (Chairperson)
Delaine Barber
Steve Kemp
Lyle Walsh

SaskPower Panel:

Mike Marsh
Sandeep Kalra
Troy King

1 (Proceedings commenced at 7:00 p.m.)

2 THE CHAIRPERSON: Good evening and welcome
3 to our public meeting for the SaskPower rate
4 application. My name is Albert Johnston; I'm
5 the Chair of the Saskatchewan Rate Review
6 Panel. With me today are three of our panel
7 members: Steve Kemp from Regina, Delaine
8 Barber from Weyburn, and Lyle Walsh, who is
9 from Yorkton.

10 We have representatives
11 from SaskPower here today; Mike Marsh, who is
12 the President and CEO, and I will leave it to
13 him to introduce the rest of his folks.

14 Again, I would welcome
15 you. We plan to answer or have questions at
16 the end and, in the meantime, your phones
17 will be muted, you won't be able to dial in.
18 If you are on-line, you would be able to type
19 in a question at any time and just press
20 "submit" and we would receive that here.

21 This presentation today
22 is for the purposes of the panel to fulfill
23 its obligation to seek input from the public,
24 so we welcome participation by everyone out
25 there and here. And we are having another

1 one of these meetings in Saskatoon on
2 Thursday evening, so if you want to attend in
3 person, you're welcome to do that or if
4 you're viewing this on-line and you
5 want to -- you think of a question later, you
6 can certainly dial in at that time.

7 As I said, we certainly
8 encourage participation and we do view the
9 public input as an important part of the
10 review process and we will look at that as a
11 part of the overall rate application. This
12 presentation, including the video, will be
13 posted on our website on-line, so it will
14 be -- you would be able to go back and review
15 it at any time or if you have friends or
16 neighbours or colleagues, you can certainly
17 tell them to log into our website and have a
18 look at the presentation. And again at any
19 time, you can post questions on our website
20 and we will get them answered and they will
21 all be considered.

22 With that, I'll turn it
23 over to Mike Marsh to start SaskPower's
24 presentation.

25 MR. MARSH: Thank you, Mr. Chair.

1 Good evening. I'm pleased to be here along
2 with members of the team from SaskPower. At
3 the far end of the table is Sandeep Kalra,
4 SaskPower's chief financial officer, and Troy
5 King, director of corporate planning.

6 Members of the Saskatchewan Rate Review
7 Panel, all attendees are here in Regina and
8 those joining us on-line.

9 We appreciate the work of
10 the Saskatchewan Rate Review Panel and the
11 opportunity to update our customers on a
12 variety of fronts related to our 2016 and
13 2017 rate application. I'd like to thank all
14 of those who have made time in their busy
15 schedules to participate in the rate review
16 process, whether it be tonight or through
17 correspondence with the Saskatchewan Rate
18 Review Panel. We value the views of our
19 customers and stakeholders and recognize the
20 importance of ongoing two-way dialogue.

21 In a few minutes, you'll
22 hear more detail about our 2016 and 2017 rate
23 application. In the meantime, I'd like to
24 begin by telling you that we take any
25 potential rate increases very seriously. We

1 recognize that any increase in electricity
2 costs for our customers is a stress for
3 Saskatchewan's households, farms and
4 business. However, we also have the
5 responsibility to ensure that our company
6 maintains a strong financial foundation so
7 that we can continue to provide a reliable
8 and sustainable supply of electricity for our
9 customers.

10 SaskPower is requesting a
11 system average rate increase of 5 percent
12 effective July 1st, 2016 and 5 percent
13 effective January 1st, 2017. Our company's
14 requirement for rate increases is driven
15 primarily by its need to make ongoing
16 investments in aging infrastructure and new
17 capacity to support Saskatchewan's growing
18 demand for electricity.

19 SaskPower continues to
20 set records for the total amount of power
21 needed by customers at one time. The most
22 recent record was a peak load of 3,640
23 megawatts in January of this year, and the
24 demand for new electrical services has
25 continued to remain strong. We have added an

1 average of 9,500 customer accounts each year
2 over the past five years. Meanwhile, the
3 province has seen a 16 percent increase in
4 load growth over the past five years, and
5 increased demand is expected to continue into
6 the foreseeable future.

7 While the demand for
8 power grows, SaskPower also faces the
9 pressing need to renew its aging electrical
10 infrastructure. Much of the province's
11 electrical system was built 30 to 50 years
12 ago and has reached the end of its productive
13 life. In response, SaskPower is making
14 historic investments. In the past five
15 years, our company has invested over \$6
16 billion on capital improvements and power
17 purchase agreements.

18 Going forward, we are
19 forecasting the need to keep making capital
20 investments of about \$1 billion a year.
21 These investments are part of SaskPower's
22 ongoing commitment to renew and improve the
23 system. In recent years, the requirement for
24 capital spending has increased substantially
25 from \$280 million in 2007, for example, to

1 \$990 million in 2015. Within last year's
2 capital program, SaskPower invested nearly
3 590 million on growth and compliance
4 initiatives and nearly 390 million to sustain
5 existing infrastructure in the province.

6 As an example of how
7 SaskPower's capital funds are spent, the past
8 fiscal year saw a number of projects
9 completed, including the on-budget
10 commissioning of a \$510 million expansion of
11 Saskatoon's Queen Elizabeth power station,
12 which added 204 megawatts to the grid. The
13 on-budget completion of the \$327 million I1K
14 transmission line, which is a 300-kilometre
15 project in the Far North, which offers
16 improved service and reliability to the
17 people of northern Saskatchewan and the
18 completion of over 9,800 new customer account
19 connections at a cost of nearly \$200 million.
20 These are just a few examples of the kind of
21 work that is required today and into the
22 future.

23 We are continually
24 looking for efficiencies to mitigate the
25 impact of our capital program on rates. We

1 want to make sure that we are using our
2 customers' money wisely. In 2015 alone,
3 SaskPower reduced its budgeted operating
4 maintenance and administration spending by
5 \$38 million. This was done by freezing
6 management salaries, reducing spending on
7 training, travel, and contract services, and
8 reducing the budgeted number of employees by
9 not filling vacancies as people retire or
10 leave the company. This rate application
11 proposes additional cuts of \$53 million over
12 the next three years. In 2015, SaskPower
13 also cut 210 million from its capital budget
14 by eliminating or deferring capital projects.
15 This rate application proposes further cuts
16 of 790 million of capital spending over the
17 next three years.

18 Our efforts to streamline
19 our operations will continue throughout all
20 areas of our business. Efficiency and
21 quality will become even more important as we
22 balance the need to minimize rate increases
23 with the need to sustain and grow
24 Saskatchewan's electricity system.

25 Throughout this rate application process, we

1 look forward to working with our customers,
2 stakeholders, and the Saskatchewan Rate
3 Review Panel in a timely, open and
4 collaborative manner. And as we look ahead
5 to Saskatchewan's future, we look forward to
6 continue to deliver on our mission to ensure
7 reliable, sustainable, and cost effective
8 power to our customers. Thank you very much.

9 MR. KING: Thank you, Mike. So for
10 the next, I'm thinking about a half hour here
11 to go through our presentation talking about
12 the rate application itself and some of the
13 reasons why SaskPower has gone forward with
14 it.

15 So as you're probably
16 aware, SaskPower has made a request for two
17 rate increases, one of 5 percent effective
18 July 1st, 2016 and a second rate increase of
19 5 percent effective January 1st, 2017. As
20 part of this rate application, there has been
21 no rate rebalancing. It's a flat rate
22 increase, which means most customer classes
23 are getting the exact same rate increase.

24 As we'll talk about
25 throughout this presentation, the main driver

1 for the need for rate increases is
2 SaskPower's capital spending. We're spending
3 about a billion dollars a year. We spent
4 about 6, \$7 billion over the last five years
5 and we're planning to continue to spend a
6 billion dollars a year going forward.

7 The rate increases are
8 going to enable SaskPower to achieve its ROE
9 target of 8.5 percent in the 2017/18 fiscal
10 year and it's going to allow us, more
11 importantly, to keep our debt levels and our
12 debt ratio at about 75 percent.

13 So this slide here gives
14 an overview of what the customer impact is as
15 a result of the rate increase. And as I
16 mentioned, because it's a flat rate increase,
17 you can see that almost every class is
18 getting the exact same rate increase, with
19 the exception of our power contract rates,
20 which is separate from our regulated rates.

21 If you look to the very
22 right of this table, you can see what we call
23 a revenue-to-revenue requirement ratio. Now,
24 what a revenue-to-revenue requirement ratio
25 does is it calculates the revenue that we

1 generate from each class of customers
2 compared to the cost of serving those
3 customers. So a revenue-to-revenue
4 requirement ratio of 1 would indicate a
5 perfect balance of the revenue and the cost
6 to serve a customer. A revenue requirement
7 slightly higher than 1 would mean we're
8 collecting a little bit more from that class
9 than it costs to serve them, and a ratio
10 slightly below 1 would mean we're not
11 collecting enough for that class.

12 As part of industry
13 practice, what the utility is trying to do is
14 keep that ratio between .95 and 105. And as
15 you can see from the column on the very
16 right, we're able to achieve that with the
17 flat rate increase. Almost all classes
18 remain in that 105 to 95 range with the
19 exception of our rural residential class,
20 which is slightly below at .93.

21 In terms of how
22 SaskPower's rates right now compare to the
23 rest of Canada, we rely on a study done by
24 Hydro-Quebec. It comes out in the spring of
25 each year. The last available study is one

1 that was completed as of April 1st, 2015.
2 And what we do with the study, we compare
3 ourselves to other Canadian electrical
4 utilities and we categorize those utilities
5 into two groups, one being hydro based and
6 the other being thermal based. So the
7 hydro-based utilities are those in Manitoba,
8 BC, Quebec, and they're the ones that rely
9 primarily on hydro generation.

10 Now, hydro generation is
11 a very cheap way of generating electricity
12 and in those provinces, they have access to
13 that type of resource and are able to utilize
14 it to provide electricity to their customers.
15 However, we can't really compare ourselves to
16 those because they have that competitive
17 advantage, so what we rely on is we compare
18 ourselves to other utilities that are more
19 reliant on thermal-based technology, such as
20 natural gas, coal, or even nuclear. So that
21 would primarily be Alberta, Ontario, and the
22 Atlantic provinces. So when we compare
23 ourselves to those utilities, we find that
24 SaskPower is basically right at the average.
25 Our rates are about the average of other

1 utilities.

2 However, by class, it
3 varies a little bit. On the residential
4 side, you can see on the left in the orange
5 that SaskPower's rates at about 15 cents a
6 kilowatt hour, we're slightly higher than the
7 average of other Canadian thermal utilities.
8 For commercial, both smaller commercial and
9 standard commercial were about even with
10 other utilities. And then on the large
11 industrial side, we're slightly better than
12 other thermal utilities. And we'll talk
13 about the reasons for why the residential
14 rate is a little bit higher, and it has
15 mostly to do with our distribution costs and
16 our small population base and the large area
17 that we serve.

18 As I mentioned before,
19 capital spending is a big part of our need
20 for our rate increase, and a lot of it has to
21 do with our aging infrastructure. Our coal
22 generation is quite old. It goes back to the
23 '70s and '80s and it represents about 34
24 percent of our generation capacity. Our
25 hydro generation goes back as far as 1929 and

1 I think our latest hydro facility was built
2 in the early 1980s.

3 In terms of our
4 distribution poles, we have over 1 million
5 distribution poles across the province. They
6 date back to as far back as before the 1950s.
7 They have an average mean age of 38 years for
8 the poles, and the average industry standard
9 is 25 years, so our poles are quite old
10 compared to the rest of Canada.

11 And then our transmission
12 system, which is our larger lines that carry
13 high voltage energy, most of that system was
14 built between 1950 and 1980. So as you can
15 see from this, our system is aging. It
16 requires a significant amount of capital just
17 to maintain it. We're spending between 4 and
18 \$450 million a year just to maintain that
19 infrastructure.

20 I spoke before about
21 customer density and the impact that it has
22 on our residential rates. This is a
23 comparison of the number of customers served
24 per kilometre of transmission and
25 distribution lines in Saskatchewan and

1 comparing to other jurisdictions in Canada.
2 In Saskatchewan, we have roughly 150,000
3 lines in the province and we have roughly
4 500,000 customers. So overall that makes
5 us -- has us one of the largest service areas
6 in all of Canada. I believe only Ontario has
7 a larger service area than us and we have one
8 of the smallest population bases. So the net
9 impact is that we are serving only three
10 customers per kilometre of transmission and
11 distribution line, and that compares to
12 Manitoba and Hydro, the next closest to us.
13 They have double the number of customers,
14 which means they have twice the number of
15 customers to pay for the same amount of
16 infrastructure. And when you look at New
17 Brunswick and Nova Scotia, it increases even
18 greater.

19 So that disadvantage that
20 we have is the primary reason why you'll find
21 that our residential rates are higher in
22 Saskatchewan than other provinces.

23 Another comparison we've
24 done to look at our electrical rates is we've
25 gone back to 1980 and compared the rate

1 increases that we've had here at SaskPower to
2 the rate of inflation. So this is a bit of a
3 busy graph, but the orange line shows the
4 system average rate increase that SaskPower
5 has received going back to 1980. The green
6 and blue lines, which are fairly close
7 together, they show the Canadian and
8 Saskatchewan inflation rates during that
9 period of time.

10 So one thing you can note
11 is that back in the 1980s, the orange line is
12 well above the blue and green. That was a
13 period -- that decade, SaskPower was doing so
14 much of what we're doing today. They had a
15 large amount of capital investment. We were
16 building new power plants, we were building
17 new transmission and distribution and, as a
18 result, our rate increases were well above
19 the rate of inflation.

20 Throughout the '90s, you
21 can see the orange line dips below the blue
22 and green line for the better part of that
23 decade. During that time, the Corporation
24 cut back on its capital investing. We were
25 only investing about \$150 million a year, so

1 we did a minimal amount of capital investment
2 and, as a result, our rates dropped below the
3 rate of inflation.

4 Throughout the 2000s, you
5 can see that it's been up and down. Our
6 rates have gone above and then below -- the
7 rate increase is below the rate of inflation
8 until we get to the period today, from 2013
9 to today, we're slightly above inflation.
10 We're getting similar to the period that we
11 were in the 1980s where we were doing a lot
12 of capital investing, so you can expect to
13 see that our rate increases are going to be
14 higher than the rate of inflation. But over
15 that whole period, the average rate increase
16 has been about three and a half percent and
17 the average rate or inflation rate has been
18 about 3.3 percent. So we're very close to
19 inflation on a long-term basis.

20 Next I'm just going to go
21 through some of the financials that support
22 the rate increase. So this slide here looks
23 at our operating income and our return on
24 equity. The blue lines are showing our net
25 income -- or the blue bars, excuse me -- and

1 the green lines are showing our return on
2 equity. So SaskPower's target is to get to
3 eight and a half percent ROE, which you can
4 see we're doing in 2017/18, and 18/19 is what
5 we're forecasting.

6 But to get to that level
7 of ROE, we needed a net income or an
8 operating income of about \$200 million a
9 year. Now, \$200 million may seem like an
10 excessive amount of profit, but there are
11 many reasons why the Corporation needs to
12 earn that eight and a half percent. The
13 primary reason that we see here at the
14 Corporation is we need that level of income
15 to afford the capital spending that we're at.
16 To afford the billion dollars a year and to
17 manage our debt levels going forward, we need
18 to earn about \$200 million a year to reduce
19 the amount of debt we're using to finance it.

20 Five years ago, we were
21 about a \$5 billion company and we earned
22 about \$100 million a year which gave us our
23 eight and a half percent. Today we're a \$10
24 billion company. Our profits need to double
25 to about \$200 million to be able to afford to

1 operate it at that size.

2 This slide here just
3 benchmarks that ROE that we're achieving to
4 other utilities in Canada, so we picked the
5 2014/15 fiscal year. That's the last year
6 that we have comparatives for all the other
7 utilities. During that year, we earned an
8 ROE of 2 percent, and you can see that's in
9 the orange at the very far right, so we were
10 well below or, by far, the lowest of all the
11 Canadian utilities. The orange line there is
12 showing our target of eight and a half
13 percent and we're well below that as well.

14 Last year, for the
15 calendar year 2015, we earned an ROE of 4.7
16 percent. So it's an improvement, but it
17 would still put us at the bottom of the list
18 of other Canadian utilities. So that is what
19 we're trying to get back to, the eight and a
20 half percent. At that orange line, that
21 would put us right at about the average of
22 what other utilities are earning across
23 Canada.

24 This next slide talks
25 about our forecasted load growth. So the

1 green bars are showing the growth in energy
2 sales that we have from year to year, so the
3 total consumption of electricity by our
4 customers. The blue line is showing the
5 capacity or peak demand that we have in each
6 year. So it's that peak demand, that blue
7 line that really drives our capital needs
8 and, in turn, is driving our rate increases.

9 So a peak demand refers
10 to the max amount of energy that we have to
11 supply to any one point in time, and that
12 generally occurs in the first three weeks in
13 December when the weather is the coldest, the
14 nights are the longest. In that peak demand,
15 we have to build our system, we have to have
16 our generation, our transmission, our
17 distribution capacity available to meet that
18 demand at that particular point in time and
19 that's what drives our capital spending.

20 So even in years of lower
21 load growth, so you can see in 2012, it was
22 only 1.4 percent in terms of energy sales.
23 2015 was a fairly modest year, but each year
24 we're still achieving a new peak demand. So
25 the demand for additional infrastructure is

1 continuing to increase even when sales fall
2 off.

3 So since our peak demand
4 is so important, our forecasts are also very
5 important in terms of determining how much
6 capital we're going to spend or determine how
7 much we're going to invest. If we
8 overestimate the amount of energy, we can
9 overbuild the system and end up having to
10 charge customers for that new capacity before
11 it's actually needed. So back in 2012, we
12 were certainly having problems. You can see
13 the blue bars are showing the variance to
14 what we forecasted and what our large
15 industrial customers needed. The red bars
16 are showing all of our other classes and the
17 green is showing the net system total.

18 So it's our large
19 industrial customers that give us the
20 greatest challenge in terms of forecasting.
21 Whether it's mines or oil fields, they have
22 the ability to turn their production off and
23 on, which creates great variations in their
24 energy demand. So back in 2012, we were
25 relying primarily on customer forecasts to

1 However, starting in 2014, the Alberta market
2 softened. They were in a position of
3 significant supply and low demand, so really
4 the exports and trading tapered off
5 significantly. Going forward in 2016/17, the
6 first year of rate application, we're only
7 estimating about \$10 million of profits from
8 that compared to about 40 to \$50 million in
9 previous years. So the decline in those
10 revenues, in those earnings, is also putting
11 pressure on our need for rate increases.

12 This slide here talks
13 about our other revenue. So our other
14 revenue are sources from gas and electrical
15 inspections, from customer contributions,
16 from CO2 sales, and various other
17 miscellaneous sources. We are roughly around
18 100 to \$110 million for the -- you can see
19 going back to 2011 through 2014. Last year
20 it spiked to \$162 million. The biggest
21 reason for the spike was customer
22 contributions. They hit a record level. We
23 went from about 47 the year before to 93 in
24 2015. Going forward, we're forecasting the
25 customer contributions will come back to a

1 more normalized level of about \$50 million a
2 year. However, you can see there has been a
3 step change. We're going from about 110
4 million to about 135 million going forward in
5 our other revenue forecast, which is good for
6 our rate application.

7 This slide here talks
8 about SaskPower's fuel and purchased power.
9 So this is the expense that we have to buy
10 the fuel to run our generating facilities,
11 and SaskPower uses a number of fuel sources.
12 We use natural gas, we have coal, we have
13 wind, we have hydro, and we have imports.
14 Each of those has a different cost make-up
15 and each of them contributes to our fuel and
16 purchased power expense.

17 So two of the main
18 variables that we have in our fuel cost is
19 (1) the price of natural gas. It's quite
20 volatile. We have to purchase that on the
21 market, and it can swing with changes in the
22 market, which impacts the overall cost of our
23 fuel.

24 The other thing that
25 impacts us is water levels or hydro levels.

1 So the more hydro that we have in the system,
2 the more we can generate from those
3 facilities -- it's very cheap to run hydro
4 once you've built the facility -- and the
5 more that we can do that, the more we can
6 displace other more expensive forms of fuel,
7 such as imports and natural gas.

8 If you look ahead into
9 2016/17 compared to the calendar year 2015,
10 our forecast is going from 650 down to 647,
11 so a slight decline in our fuel costs in that
12 year, and then there is a step up to about
13 687 the year after. The reason for the
14 decline this year compared to last is a
15 combination. First, natural gas prices are
16 coming down. So similar to what SaskEnergy
17 has experienced, we're seeing a decrease in
18 natural gas prices, which is resulting in a
19 savings for our corporation of about \$50
20 million. Unfortunately, that savings has
21 been eaten up by a couple of things. One,
22 we've got to increase our generation to meet
23 our load growth, so we're burning more fuel
24 to meet the additional sales.

25 And the second part, as I

1 So the bars that we have
2 there show the absolute budget that we have
3 in terms of our OM&A expenditures going back
4 to 2013 out to 2018/19. And we use 2013 as a
5 starting point because that's the first year
6 that we embarked on a series of rate
7 increases of about 5 percent a year.

8 So the blue line shows
9 the accumulative growth in our OM&A over that
10 period of time. So from 2013 up to 2015, the
11 accumulative growth is about 3 percent or
12 about 1 percent a year. Going forward, we
13 can see a little bit more of a growth in our
14 OM&A, but our objective is to try and keep it
15 below the growth in the business, so the
16 growth in our Saskatchewan sales, and that is
17 indicated by the green line. So you can see
18 over the period of 2013 to 2018/19, the OM&A
19 growth is a little below and then by 2018/19
20 we're about the same, so we've been able to
21 keep our OM&A growth at the level of growth
22 in the Corporation.

23 However, the other major
24 driver that we have in our OM&A costs that
25 causes it to increase is not only the growth

1 of the company, but inflation. So once we
2 added inflation by the orange bar there, I
3 add that to the growth, you can see that
4 SaskPower's actual OM&A and forecasted OM&A
5 is set to be well below the growth in the
6 Corporation plus inflation.

7 The final set of expenses
8 I want to talk about is what we call our
9 capital investment expenses, so these are the
10 expenses that are driven directly by our
11 level of capital spending, by that billion
12 dollars a year that I referred to previously.
13 So that includes depreciation, it includes
14 finance charges, it includes capital taxes,
15 it includes environmental expenses, it
16 includes cost of retirement and clean-up of
17 our capital assets.

18 So going back to 2011,
19 you can see the growth that we've had. It's
20 going from \$540 million in 2011 up to 1.1
21 billion by 2018/19, so doubling over that
22 period of time. And as I mentioned, it's
23 that capital spending that directly
24 influences that level of expense.

25 Now, if we go back and

1 look at what the cost drivers have been of
2 SaskPower's rate increases, not only for this
3 rate application, but going back to the start
4 of our series of 5 percent rate increases
5 back to 2013, you can see by this pie chart
6 here, it's the green area, our capital
7 related expenses are responsible for 62
8 percent of the growth in our expense and
9 ultimately 62 percent of our need for rate
10 increases during that period. Fuel and
11 purchased power is the next highest at 25
12 percent, and finally we have OM&A expenses
13 accounting for 13 percent of our cost
14 increases.

15 This slide here looks at
16 SaskPower's capital spending going back to
17 2013 and forecasting out to 2018/19. I spoke
18 to you previously about the need for about a
19 billion dollars a year. It's not exactly a
20 billion dollars a year; it basically averages
21 out to that. In 2013, we actually spent \$2
22 billion when you include investments made by
23 independent power producers. And over this
24 period of time, the cost is about \$7 billion
25 that we're looking to invest in the system.

1 So this slide here just
2 breaks down that capital spending a little
3 more granular. And what we do at SaskPower
4 is we break our capital investments into
5 three categories: Sustainment spend, growth
6 and compliance investment, and then strategic
7 and other investments, and it's capital
8 sustainment spend and growth and compliance
9 which make up the greatest proportion of our
10 spend.

11 So the sustainment spend,
12 you can see it's at about as high as 482 to
13 about 387, so in that 400 to \$450 million
14 range on an annual basis. You'll remember me
15 speaking previously about our assets and the
16 aging assets. We have our generation
17 stations that go back to as far as 1929, our
18 old distribution, our transmission systems.
19 So about this 400 to \$450 million a year is
20 what we require to maintain that system, to
21 keep it operating at existing levels and
22 prevent a deterioration of the system.

23 The next big group is our
24 growth and compliance investments, and that
25 is really driven by the growth of the

1 province. So that is new generation, new
2 transmission, new distribution that we need
3 to build to meet the growth in the province.
4 As I said, this will be driven a lot by
5 economic conditions. As Mike had mentioned,
6 we haven't just taken the capital spending;
7 we've done a lot of work on it to minimize
8 the impact on ratepayers. So from 2015 on,
9 we've been able to defer or reduce about a
10 billion dollars in capital spending. That
11 will translate into about a 3 to 4 percent
12 savings on your rates by 2018/19.

13 So within those two
14 programs, in the sustainment investments and
15 in the growth and compliance investments,
16 these are some of the examples of the
17 projects that we're going to be looking at.
18 So we have a transmission replacement
19 program, we're going to spend about \$372
20 million on that over the next five years.
21 That's really to go throughout the province
22 on a systematic basis where we're replacing
23 some of those old poles with new up-to-date
24 poles that are current. Circuit breaker
25 relay replacement programs, we have a rural

1 rebuild program, we have the same wood pole
2 replacement program on the distribution side,
3 and we have an E.B. Campbell life extension
4 program.

5 On the growth and
6 compliance investments, you can see there is
7 a number of new transmission lines that we're
8 building from Pasqua to Swift Current,
9 Kennedy to Tantalton, Regina to Pasqua. We
10 also have in there the Tazi Twe hydroelectric
11 station. This one is not confirmed yet, but
12 we have it in our plan at about \$630 million.
13 That's to build a station up in the Far
14 North. And we have distribution connects of
15 about \$509 million over the next five years.

16 A more detailed list of
17 our capital program will be provided to the
18 rate panel and posted on the website in the
19 coming weeks.

20 So now getting to our
21 debt and debt ratio. So in addition to our
22 capital spend having an impact on our rates
23 and through an increase in our capital
24 investment expense, the other major impact of
25 that capital program has been on our debt and

1 our debt ratio. So the orange bars are
2 showing SaskPower's total debt, and the debt
3 ratio is being illustrated by the green line
4 there. So you can see our debt ratio
5 climbing since 2011 as well as our debt
6 ratio. So this is something that the
7 Corporation expected.

8 As I mentioned before,
9 we've grown, we've doubled in size in terms
10 of our assets from a \$5 billion company to a
11 \$10 billion company. We're investing about a
12 billion dollars a year. We anticipated
13 financing a large portion of that growth
14 through debt, so this is something that we've
15 expected. However, now that our debt ratio
16 has climbed to about 75 percent -- and the
17 debt ratio refers to the level that you've
18 leveraged your corporation or mortgaged your
19 corporation, if you will, so about 75 percent
20 of our company has been financed through
21 debt -- now that we've got to that 75 percent
22 level, it's more important than ever that we
23 get the rate increases that we need to
24 achieve that eight and a half percent ROE so
25 we can properly balance the financing of

1 future capital investments with a combination
2 of both debt and corporate equity.

3 Just to give you an
4 appreciation of where our debt ratio is
5 compared to other utilities, you can see this
6 benchmarking, SaskPower in the orange, shows
7 that we're in the top quartile or one of the
8 higher leveraged utilities in all of Canada.
9 So again, it reiterates why it's important
10 for us to manage those debt ratios going
11 forward and get the rate increases to support
12 that.

13 Mike's already touched on
14 this a little bit in his comments, but I'll
15 just reiterate. These are some of the things
16 that the Corporation is doing to mitigate the
17 impact of rate increases on our customers.
18 So on our OM&A side, in 2015 we were able to
19 cut our budget by \$38.2 million and over the
20 next -- over the total four-year period,
21 we're looking to reduce our OM&A spend by
22 about \$91 million. On the capital side, we
23 deferred or eliminated about \$210 million
24 last year and we're looking to eliminate \$1
25 billion over this four-year period.

1 SaskPower also has a
2 business renewal program. Now, this program
3 has been in place since 2009. It's a
4 continuous improvement program that has the
5 company looking at all areas of the
6 Corporation where we can find efficiencies or
7 remove redundancies or find savings that get
8 passed along to our customers. Since that
9 time we were able to identify \$528 million in
10 savings through that program.

11 And finally, we've been
12 able to mitigate some of the impact on our
13 customers through our demand side management
14 program. So our demand side management
15 program is the program where we provide
16 customers with ways to reduce their energy
17 consumption. It may be through more
18 efficient lighting, it may be through the
19 fridge recycling program, it may be through
20 the block timer heater program.

21 Since 2009 when we
22 started this program, we've been able to
23 save -- realize capacity to savings of about
24 107 megawatts, so that's equivalent to a
25 small power plant that we've been able to

1 avoid having to construct and having to pass
2 those costs on to our customers. The other
3 way customers serve or benefit, sorry,
4 through the DSM program is through energy
5 savings. Since 2009, customers have
6 benefited by 303 gigawatt hours in total
7 energy savings, so their bills have been
8 reduced by that much, which translates into
9 about \$30 million in savings for our
10 customers over that period of time.

11 So in summary, the rate
12 increases that we are requesting are
13 primarily needed to finance the Corporation's
14 capital investments. We expect to meet our
15 targeted ROE of 8.5 percent not this coming
16 year, but in the next fiscal year. The rate
17 increases will be able to allow SaskPower to
18 stabilize our debt ratio at about 75 percent
19 going forward and without those rate
20 increases, we would see our debt ratios
21 continue to climb and it would put the
22 financial health of the Corporation at risk.

23 This rate increase is
24 basically consistent with what we asked for
25 in the previous rate application. This is

1 year three of that rate application where we
2 asked for a 5 percent rate increase. We're
3 continuing to ask for 5 percent and we're
4 meeting our commitment of trying to keep our
5 rate increases on an annual basis to a cap of
6 about 5 percent or less.

7 That is all I have for my
8 presentation.

9 THE CHAIRPERSON: Thank you, Troy. I think
10 we have some questions on-line and I'll just
11 read them out here.

12 The first question is,
13 "If SaskPower was given enough money to
14 replace the 790 million supposedly cut from
15 the budget over the next three years, could
16 SaskPower even spend it all prudently? If
17 not, how could these be called cuts from the
18 budget? If yes, why was this amount cut? Is
19 it not required?"

20 MR. MARSH: If I understand the
21 question correctly, it's about our capital
22 spending program and the cancellation or
23 deferrals of some of the projects that were
24 in the original budget moving forward. Our
25 capital program is large compared to where it

1 has been historically, and it has been built
2 to deliver the required infrastructure to
3 keep up with the growth in the province as
4 well as the sustainment capital that's needed
5 to make sure that we maintain reliability on
6 the existing grid in the province.

7 We look very, very
8 carefully each and every year at the programs
9 that are in the budget, and this is a very
10 fluid thing because as the demand in some of
11 the sectors ebbs and flows, for example in
12 the mining sector, oil and gas sector, we can
13 defer projects that were maybe targeted for
14 the oil and gas sector in the southeast part
15 of the province or the west and defer them
16 into the next year. And we're doing that
17 wherever we can so that we can minimize that
18 cap spend so that we can minimize the
19 knock-on effect for a rate increase as Troy
20 has indicated in the charts. And we do this
21 each and every year and we'll continue to do
22 that.

23 The plan is built on the
24 information we know at the beginning of the
25 year -- as a matter of fact, in the year

1 prior -- but as the year unfolds, we're able
2 to take advantage of more recent information
3 and make those decisions on an ongoing basis
4 and we'll continue to do that into the
5 future. Thank you.

6 THE CHAIRPERSON: The second question,
7 which may be more of a comment, says, "The
8 ROE target for SaskPower, a Crown, is
9 arbitrary versus privately-held industry
10 players who have real shareholders who demand
11 returns. The Saskatchewan Government, as a
12 shareholder, can dictate whatever ROE it
13 wants, even zero or negative," which is true.
14 I don't know if you want to comment on that?

15 MR. KALRA: I can attempt to answer
16 it. My name is Sandeep Kalra; I'm CFO at
17 SaskPower. The ROE should not be looked at
18 in isolation. There are two ways of kind of
19 looking at it. One is a comparison to the
20 industry, which the commentator mentioned
21 that private or investor-owned utilities have
22 certain return expectations and they try and
23 deliver it. The other way of looking at it
24 is from the financial health and viability of
25 the company, and that is where it kind of

1 intertwines with our debt ratio. As well,
2 our long-term debt target is 60 to 75
3 percent.

4 Over the last five years,
5 six years, the debt ratio has increased from
6 roughly 60 percent to about 75 percent right
7 now. As we have invested and have not asked
8 for rate increases to pay for all that rate
9 increase, we have not received that 8.5
10 percent. So we could do it because we had
11 financial strength, the financial room to be
12 able to do it. We are getting to a point now
13 where we have kind of used up that leverage
14 and to be able to maintain our debt ratio at
15 around 75 percent, we need to get the
16 industry standard rate, which is 8.5. Now,
17 this standard gets evaluated by various
18 regulatory bodies in Alberta and Ontario,
19 throughout Canada, and we kind of look at it
20 and say whether 8.5 percent is appropriate or
21 not. And in our view, those requirements
22 have actually gone up in the last few years
23 and we have kind of maintained it at 8.5.

24 So we do believe 8.5 is
25 appropriate. We do believe we need to get

1 that return to be able to maintain our debt
2 ratio below 75 percent to ensure long-term
3 viability in the financial strength of the
4 company.

5 THE CHAIRPERSON: Thank you. There is a
6 couple of other questions. "The slide that
7 showed fuel and purchase power, where is the
8 year 2016 data?"

9 MR. KING: I'm just going to flip
10 back to that slide if I can, and hopefully if
11 you're listening at home you can see that
12 slide.

13 So what's happened, as
14 you may or may not know, in this current
15 fiscal year, SaskPower and the other Crown
16 corporations of Saskatchewan changed their
17 fiscal year to a March 31st. So what we
18 ended up having is -- for financial reporting
19 purposes, we ended up having a 15-month
20 fiscal year ending March 31st, 2016. For
21 purposes of this presentation, what I used
22 for 2015 was the 12-month period ending
23 December 31st so that we always had a
24 12-month comparison in all the years,
25 otherwise we'd have a 15-month compared to 12

1 months in every other year.

2 So that 2017 year refers
3 to the fiscal year ending March 31st, 2017,
4 so it runs from April 1, 2016 to March 31st,
5 2017. That three-month stub period of
6 January to March 31st, 2016 we didn't include
7 in the presentation just so that we could
8 ensure an equal comparison of 12-month
9 periods, so that's where that year went to.

10 THE CHAIRPERSON: And the last on-line
11 question I have here says, "What are the
12 expected annual interest payments for this
13 amount of debt to 2019?"

14 MR. KING: So the expected annual
15 interest payments are around \$250 million a
16 year on our long-term debt. Our overall
17 finance charge, including our capital leases
18 short-term, is about \$413 million a year.

19 THE CHAIRPERSON: Thank you, and that's the
20 end of the online questions. We're now going
21 to un-mute the phones. If there is anybody
22 still on the phone and they wish to ask a
23 question, they're certainly welcome to do so
24 now. It appears that somebody is talking,
25 but we're not hearing them. You may not have

1 your phone turned on. Could you check it and
2 see if that would work? It appears that
3 we're not getting that call through. I would
4 encourage whoever that is to phone in to the
5 number on our website and they can record
6 their question. We'll certainly pass it on
7 and get it answered and post the answer to
8 our website so that your question is properly
9 answered.

10 I'll give one last chance
11 for anybody to ask questions if there is any
12 out there.

13 Okay, thank you for your
14 attention and thank you to SaskPower for
15 coming here tonight and presenting their
16 views on their application, and we look
17 forward to working with them. The rest of
18 our process, to review the rate application
19 and eventually submit our report to the
20 Government for consideration of the rate.

21 Thank you very much. That's all.

22 *(Concluded at 7:50 p.m.)*

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