Saskatchewan Rate Review Panel

Report to the Minister Responsible for Crown Investments Corporation of Saskatchewan

regarding the

SaskPower Rate Application Effective date January 1, 2014

Report submitted April 28, 2014

Introduction

This was the first multi-year Application that the Panel has received from SaskPower, as well as the first Application that had an interim rate already imposed.

One of the major drivers for this rate application is SaskPower's infrastructure deficit. Most of this infrastructure deficit has accumulated over the past several decades and a portion is associated with increased electricity demand. The result is that a major portion of SaskPower's generating, transmission and distribution infrastructure must be rebuilt, replaced or renewed. Renewing this infrastructure is an extremely costly process.

Another major driver has been the increase in fuel (natural gas volume required and prices) and purchased power costs. In fact, 88% of the revenue requirement in this rate application is based upon the capital projects and fuel and purchase power costs.

With these capital undertakings and associated financial requirements, SaskPower's long-term debt is expected to increase from $3.16 billion at year end 2011 to $7.572 billion by year end 2016.

The Panel's Terms of Reference for this Application indicated that SaskPower's Return on Equity (ROE) was "given" at 8.5%. In spite of the multi-year rate increases requested in the Application, the original Application proposed a ROE of only 1.3% in 2014 (this forecast was later revised to 2.9% in the Mid-Application Report).

While the Panel is cognizant of SaskPower's current financial picture, it also recognizes that significantly increasing rates to generate additional revenue to offset these increased costs represents a financial hardship on many ratepayers.

Not unexpectedly, this multi-year Application attracted substantial interest from the Public. Large industrial customers expressed their concern that the proposed rate increases were unfairly targeting their sector and that demand growth would not meet SaskPower's future load expectations. There were also suggestions that Saskatchewan's rates were not as competitive as other jurisdictions and that SaskPower should focus on lowering costs and operating more efficiently. Individual customers also expressed their concerns regarding the ongoing increases of power rates and the negative impact this has on their standard of living.

Executive Summary

SaskPower stated that it is requesting a multi-year rate increase to finance its capital spending program to meet the needs of a growing economy, to renew its aging infrastructure and to maintain a safe and reliable service. Another major cost driver is that fuel costs are increasing because of load growth, increased use of natural gas, and by using environmentally cleaner, but more expensive, generating sources.

An interim system-average rate increase of 5.5% was imposed effective January 1, 2014, and a 5% increase is proposed effective January 1, 2015 and a further 5% increase is proposed effective January 1, 2016. This increase would result in an average residential customer increase of $5/month in each year 2014-16 and an average farm customer increase of $7 per month in 2014; $10 in 2015; and $9 in 2016.

SaskPower submitted a Mid-Application Update which revised the expected 2014 net income from the initial application forecast of $26.9 million to $66.0 million, an improvement of $39.1 million. SaskPower's revised Return on Equity (ROE) was forecast to be 2.9% for 2014, up from 1.37%. The 2015 and 2016 ROE forecasts remained unchanged in the update.

However, due to revised load forecasts, 2015 net income was forecast to increase by $18 million and a further net income increase of $6 million in 2016.

The Panel contracted Forkast Consulting (the Consultant) to serve as the technical consultant to review the Application, supporting document and supplementary information. All of this information can be found on the Panel's website at www.saskratereview.ca. The Consultant's Report is attached as Appendix D. The Panel also requested and responded to public input through a variety of channels including public meetings, email, mail, website, phone, Facebook and Twitter.

Public Consultations

This Application generated considerable public discussion on a wide range of issues. There were 32 public submissions from feedback forms, voice mail and email; 3 public meeting submissions, and 6 other formal submissions. Most of the public submissions indicated that rates were already too high and that the proposed increases were unacceptable, not warranted, too excessive, and unaffordable. There were several themes that emerged from the public submissions:

1. The Long-Term Accuracy of Multi-Year Applications

Several organizations expressed their concern that there are numerous variables and uncertainties when it comes to predicting rates over 3 years.

The Saskatchewan Industrial Energy Consumers Association (SIECA), for example, indicated that:

> *The accuracy of load forecasting in total over three years introduces the risk that SaskPower's planning for resources and capital expenditures could become significantly misaligned with what is realistic and needed for fulfilling actual load*

requirement. The accuracy of load forecasting between rate classes over three years introduces a significant risk for rate disparity between classes to occur over the life of a three-year application. These two aspects associated with load forecasting and their potential impact on Power class rates underpin SIECA's position that multi-year rate decisions should not be pursued.[1]

2. The Costs and Priorities of the Capital Projects

There have been many stakeholders questioning if all of SaskPower's current and planned capital projects are absolutely required at this time, and if some could be deferred to the future to help mitigate current and proposed future rate increases.

SEICA detailed their concerns:

> *SaskPower asserts that it must invest in new generation to meet rising demand for electricity, invest to rebuild its aging electrical system, and invest to build the world's first commercial carbon capture and storage equipped power plant. Indeed, half of the capital related expenditures in 2014 are associated with the conversion of Boundary Dam #3 coal unit to an Integrated Carbon Capture and Storage (ICCS) facility. While the amounts that SaskPower plans to spend on the ICCS project are known, what is unknown is (a) whether the specific ICCS investments are needed at the present time, (b) whether the specific ICCS investments are "least cost" and (c) whether any cost overruns would make the ICCS investments uneconomic.*[2]

Due to the high cost of the capital program, the Canadian Association of Petroleum Producers (CAPP) suggested that more public discussion was warranted:

> *A process for meaningful public consultation and input into SaskPower's major capital investments is required to ensure the needs of SaskPower customers are aligned with SaskPower's plans.*[3]

3. SaskPower's Historic Accuracy on Load Forecasts

It was noted that SaskPower has often overestimated load forecasts in previous Applications and that could be exacerbated over a multi-year approach.

In addition to the concerns expressed by SIECA on the accuracy of load forecasts above, the Saskatchewan Mining Association stated that:

> *The over-estimation of large customer loads has historically been the largest contributor to SaskPower's load forecasting inaccuracy. This introduces additional risk to forecasting over a multi-year period.*[4]

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[1] SIECA Final Submission to the Rate Review Panel, P. 15

[2] SIECA Final Submission to the Rate Review Panel, P. 10

[3] Canadian Association of Petroleum Producers (CAPP) Letter to the Panel

[4] SMA Presentation to the Rate Review Panel on Dec. 3, 2013, P. 3

The Canadian Federation of Independent Business echoed these comments:

> *We share other stakeholders' concerns that historical records reveal that SaskPower overestimates costs as well as load forecast. We therefore question how SaskPower's multi-year application will improve its accuracy or provide more certainty in the Crown Corporation's ability to forecast loads or costs. CFIB recommends that should actual fuel costs be lower than the forecast provided in this application, that a rebate or future rate reductions be considered.*[5]

4. The Impact of Rate Increases on Competitiveness

Several industrial customers expressed their concern that rising energy costs could have a negative impact on their business operations. This rate increase could increase the risk of business suspension or possible closure.

> EVRAZ, for example, was:
> *… very concerned about the impact of these proposed rate increases would have on our competitiveness. These increases diminish any competitive advantage we may have and lower demand for our product which ultimately has an adverse trickledown effect on our company's employees and the demand for local goods and services.*[6]

> The Saskatchewan Chamber of Commerce indicated that:
> *Electricity is a significant cost for many of this province's businesses, so any increase in rates impacts viability and profitability of private sector companies.*[7]

> The Greater Saskatoon Chamber of Commerce stated:
> *We must emphasize the importance of keeping Saskatchewan power rates competitive in the context of all our competitors including those in the United States. Therefore we ask that your panel recognize that the applied for three year increase may place certain businesses in Saskatoon at a disadvantage to their U.S. competitors concerning power costs.*[8]

5. Affordability of the Proposed Rate Increase

The Panel heard from numerous members of the public on the affordability of the proposed rate increase. Low income earners and those on fixed incomes were particularly critical of the increase.

The Panel received the following comment from Consumers Association of Saskatchewan:

> *There are many residential customers who are just getting by and although these increases may not seem like that much, to those customers they can become unmanageable. That*

[5] Canadian Federation of Independent Business (CFIB) Letter to the Panel, Feb. 7, 2014

[6] Comments by EVRAZ Regina Steel, P. 2

[7] Saskatchewan Chamber of Commerce Letter the Panel, Jan. 30, 2014

[8] Greater Saskatoon Chamber of Commerce Submission to the Panel, Dec. 11, 2013

makes the work of this Review Panel very important. The people of Saskatchewan are relying on its work to ensure that rates they pay for power are fair and that all increases are justified and necessary.[9]

Here is a sampling of comments the Panel received from the Public during the consultation process:

If they knew they had to upgrade the infrastructure why have they not been putting money aside to pay for it? My wages are not increasing by 5%. Why not increase our costs by 3% over 5 years? I could afford that better.[10]

As a customer, I disagree with the increase you are proposing… As for all the commercials that you are putting on the TV, this is totally unnecessary. Cut out the advertising. Money could be saved right there as well as sponsorships like curling.[11]

When you make your assessment you might want to include citizens on fixed incomes and the effect these rate increases would have on them.[12]

I wondered why, with a population boom we are having in Saskatchewan, that there should be such a large rate increase proposed? It would seem to me that with so many more people now paying for power that the rates should stay the same or perhaps even go down because there is that much more income from the added population.[13]

The rate increase you are proposing is outrageous.[14]

I've used timers. I've used the type of electric light bulb. We even built a garage and got rid of the block heater for the vehicle, battery blanket, and interior car warmer. And as you can tell from my age, we're not big into Christmas lights anymore. And all things combined, I'm still finding that our bills are going up.[15]

Too big an increase, my cost of living index cannot keep up.[16]

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[9] Consumers Association of Saskatchewan Email Submission, Feb. 3, 2014

[10] Feedback Form, Nov. 21, 2013

[11] Feedback Form, Dec. 2, 2013

[12] Email Submission, Jan. 27, 2014

[13] Feedback Form, Nov. 30, 2013

[14] Feedback Form, Nov. 26, 2013

[15] Member of the Public, North Battleford Public Meetings, Nov. 26, 2013

[16] Feedback Form, Dec. 1, 2013

Recommendations

The Panel had several possible options to consider in making its recommendations:

1. The Panel could approve, deny or amend the January 2014 interim rate.
2. The Panel could approve, deny or amend the 2015 and/or 2016 rates.
3. The Panel could approve or amend the 2015 and/or 2016 rates, subject to additional filing requirements.

SaskPower's original Application was submitted to the Panel on October 25, 2013 and customers began paying the interim rate increase on January 1, 2014. SaskPower submitted a Mid-Application Update on February 19, 2014 to the Panel as part of the Application process. This Update indicated that SaskPower's financial picture had improved to the extent that it was now forecasting an increase in 2014 net income from $26.9 million to $66.0 million, an improvement of $39.1 million. SaskPower's revised ROE was forecast to be 2.9% for 2014, up from 1.3%. ROE forecasts for 2015 and 2016 were not changed in the Update. SaskPower also confirmed that because of revised load forecasts, 2015 net income was forecast to increase by $18 million with a further net income increase of $6 million in 2016. Despite this increase in net income, the Panel is cognizant that SaskPower's ROE, which is targeted at 8.5%, will remain significantly below that target over the next few years.

Based upon the data collected and analyzed, the Panel confirms that the 5.5% system average January 1, 2014 rate increase to be reasonable and justified. The Panel has also determined that the 5% system average January 1, 2015 increase is justifiable, but must be confirmed with a limited scope filing and sufficient time must be allocated to allow for public consultations. If the limited scope filing indicates that a revised rate increase is required, then the Panel expects that a full review would be undertaken.

The Panel agrees with several stakeholders that expressed concerns about SaskPower's forecasting costs over a multi-year period. There are many uncertainties or future variables regarding the 2014 forecasts and these become less certain for forecasting the accuracy of costs and revenue into 2015 and 2016. These variables include the progress of the planned capital program and its impact on revenue requirements, the province's economic outlook and future load forecasts, the continued upward movement in fuel and purchase power costs, and the availability of hydraulic generation. It is in the best interests of all parties, including SaskPower, to review possible rate increases at a time when more certainty in future cost and revenue information is available.

After completing its review and analysis, the Panel makes the following recommendations to the Minister of the Crown Investments Corporation:

Recommendation #1: That the interim system-average rate increase of 5.5% implemented on January 1, 2014, be confirmed and finalized.

Recommendation #2: That a system-average rate increase of 5% effective January 1, 2015, be conditionally approved, subject to the following filing requirements:

- **An updated summary of any changes in SaskPower's operating environment**
- **The latest annual report**
- **The most recent quarterly report**
- **An updated forecast for 2014, 2015 and 2016**
- **A detailed update on the capital plan from 2014-16**
- **Updated reports on the Business Renewal Program, Advance Metering Infrastructure Project and Demand Side Management**
- **And any other pertinent information requested by the Panel at that time, including the applicable Cost of Service Study.**

Recommendation #3: That the proposed system-wide rate increase of 5% effective January 1, 2016, be denied due to the number of variables and assumptions in the 2014 forecasts.

These rate increase recommendations balance SaskPower's financial wellness with the need to keep rates affordable for its customers. The Panel realizes that these recommendations will keep SaskPower's ROE low for the short term, but expects the ROE over the longer term to meet SaskPower's long-term target of 8.5%.

Refer to Section 4.0 for more information on these recommendations.

Observations

While reviewing the proposed rate increases, the Panel made several observations that it felt were worthy of review by SaskPower, its customers, the public and the provincial government.

1. **Capital Projects**
   During the review process, several stakeholders questioned various aspects of SaskPower's capital projects, including the need and timing of certain priorities. Since capital projects are a main driver of this Application, the Panel suggests that a public dialogue be developed to further educate customers and the general public on the need for the capital projects in order to supply a safe, reliable and effective electrical service. A public dialogue with key stakeholders and the Panel will help SaskPower to demonstrate the need for and the transparency of its current plans to ensure that the plans are implemented in a timely and cost effective manner.

2. **Dividends**
   SaskPower's ROE is forecast to be 2.9% in 2014, 2.6% in 2015 and 2.1% in 2016. These amounts are well below SaskPower's long-term target of 8.5%. The Panel commends the Government of Saskatchewan for refraining from taking a dividend from SaskPower in all years, except one, since 2008. No dividends are anticipated during the 2014-16 Rate Application. This action will allow SaskPower to have lower debt levels, lower finance charges, and a stronger equity position, which in turn, will help mitigate or reduce what would otherwise be higher rate increases.

3. **Public Education**
   The Panel believes that the public should become better engaged in understanding how their power is produced, and the decisions that must be made in order for them to continue to receive safe, reliable and affordable power in the future. The Panel encourages SaskPower in future customer awareness campaigns to educate its customers on these issues and encourage them to use less energy, which could ultimately delay the need for new generation facilities.

4. **Competitiveness**
   SaskPower customers currently pay rates that are on average higher than the Canadian utility average, which includes jurisdictions with a much cheaper fuel mix than SaskPower. Almost half of SaskPower's generation is thermal and SaskPower's rates are approximately 18% lower than other thermal utilities in Canada.

5. **Sponsorships and Donations**
   The Panel is of the view that sponsorship and donation costs that do not provide a direct benefit to the ratepayer should not, in the future, be an expense borne by the ratepayer through inclusion on the revenue requirement. The Panel urges SaskPower to review its sponsorship and donations policy, particularly in light of its financial situation, in an attempt to reduce the financial burden on its customers.

Refer to Section 5.0 for more information on these observations.

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1.0 Role of the Saskatchewan Rate Review Panel

1.1 Authority

Through Order-in-Council dated January 1, 2013, the Minister of Crown Investments Corporation (the Minister) appointed a Ministerial Committee known as the Saskatchewan Rate Review Panel (the Panel). The Panel's mandate states 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 3 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.

1.2 Members of the Panel

Through the January 1, 2013 Minister's Order, the following members were appointed to serve on the Saskatchewan Rate Review Panel:

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

1.3 Panel's Terms of Reference

The Minister issued an Order 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 the Panel is to consider in conducting its review, as well as various parameters the Panel is to consider as "givens."

The Minister's Order for this review called for the Panel to complete its work no later than April 28, 2014. The Minister's Order and the Terms of Reference for this review are located in Appendix A.

2.0 SaskPower's Rationale for the Application

The Panel received SaskPower's Rate Application (the "Application") on October 25, 2013 in the form of a document entitled "SaskPower 2014, 2015, 2016 Rate Application" (see Appendix B). SaskPower presented a multi-year rate application requesting a system-average rate increase of 5.5% to take effect January 1, 2014, with a 5% increase effective January 1, 2015, and a further 5% increase effective January 1, 2016. This increase would result in an average residential increase of $5/month in 2014-16 and an average farm customer increase of $7 per month in 2014, $10 in 2015 and $9 in 2016. SaskPower implemented an interim rate adjustment of 5.5% on January 1, 2014 pending a thorough review of this application by the Saskatchewan Rate Review Panel. SaskPower submitted a multi-year rate request proposed to assist customers and the utility to conduct long-term financial planning with greater certainty.

SaskPower filed a Mid-Application Update (see Appendix C) which revised the expected 2014 net income from the initial application forecast of $26.9 million to $66.0 million, an improvement of $39.1 million. SaskPower's revised ROE is now forecast to be 2.9% for 2014. ROE forecasts for 2015 and 2016 were not changed with the February Mid-Application Update. However, SaskPower confirmed that as a result of revised load forecasts, 2015 net income is forecast to increase by $18 million, with a further net income increase of $6 million in 2016.

SaskPower stated that a multi-year rate increase is necessary because of their increased capital spending proposed as being required to meet the needs of a growing economy, to renew aging infrastructure and to maintain reliable service. In addition, fuel costs are rising as a result of load growth, increased use of natural gas, and by using environmentally cleaner, but more expensive generating sources.

In 2012, there were over 10,000 new customer connections which is a 14 % increase from 2011. During the next decade, system peak demand is expected to increase by approximately 2.2 % per year, double the 1.1 % per year recorded between 2000 and 2010.

Saskatchewan sales volumes are expected to significantly grow in the next decade compared to the previous decade due to the expected growth in large scale industrial customers. Provincial load growth forecasts indicate the need for an additional 5,929 GWh of energy over the next decade.

In addition to load growth, SaskPower's generation, transmission and distribution infrastructure is aging and will require rebuilding, replacement or renewing. In order to meet the province's electricity needs, SaskPower is investing an average estimated $1 billion per year for the long term to renew and modernize Saskatchewan's electricity system.

As previously stated, fuel and purchased power expenses are increasing in part as a consequence of using environmentally cleaner, but more expensive, generation sources. This change in the fuel mix has a significant impact on fuel expense such that 16 % of the increase in the total revenue requirement in 2014 is the result of the anticipated or current forecasts for fuel and purchased power expenditures.

SaskPower affirms that the proposed rate increases reflect a balance between the level of earnings that will provide SaskPower with a positive net income and the capacity of customers to absorb rate increases. With the rate increase, net income (as revised) is forecast to be $66 million in 2014, $58 million in 2015, and $46 million in 2016. SaskPower states its rates compare favourably to the average charged by other thermal utilities in Canada.

To help offset the impact of the rate increase, SaskPower indicates it will continue to help customers reduce their electrical use, decrease their power bills and help protect the environment through a variety of energy efficiency and conservation programs. Through the SaskPower Demand Side Management portfolio of energy efficiency, load management, renewable and conservation programs, customers are able to make informed decisions about what they can do to reduce electrical consumption and thereby reduce their electricity bills.

3.0 Review Process for SaskPower's Application

3.1 Consultant

Forkast Consulting (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. Members of the consulting team included:

G. D. (Gerry) Forrest has almost 4 decades of experience in the public policy and energy regulatory sectors, at the national, provincial and municipal levels, including as a Deputy Minister in the Manitoba government, and as Chair and CEO of the Manitoba Public Utilities Board for 13 years. In 2004, Mr. Forrest established Forkast Consulting, where he has applied his expertise to a number of reviews, specific studies and training programs across North America and abroad. Forkast Consulting's clients include governments, cities, utilities and professional firms. Mr. Forrest has served as technical consultant to the Panel on SaskEnergy rate reviews in 2007 and 2008, the SaskPower Cost of Service Study in 2008, and SaskPower rate reviews in 2009-13. Mr. Forrest also serves as General Consultant to the Panel. His firm is based in Winnipeg.

Myron Kostelnyk has served as technical consultant to the Panel on Auto Fund applications since 2005. He has also worked on several SaskEnergy commodity and delivery rate applications, and SaskPower rate reviews in 2009-13. Mr. Kostelnyk has also advised the Manitoba Public Utilities Board on reviews of Manitoba Public Insurance for the past 16 years. He is based in Winnipeg.

The Consultant conducted a detailed analysis that included an examination of the application, 2 rounds of Information Requests, plus supplementary questions and individual discussions with SaskPower staff to clarify specific points. They reviewed public comments and presentations to the Panel. The Consultant also participated in several meetings and conference calls with the Panel during the review process before presenting their final report to the Panel on April 10.

The Consultant's independent report is attached as Appendix D.

3.2 Public Consultations

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

- Public meetings;
- 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.

Public meetings were held as follows: Prince Albert - November 25; North Battleford - November 26; Saskatoon - November 27; Regina - December 3; and Yorkton - December 4. All methods for public input were advertised in daily and select weekly newspapers, and information was disseminated through Facebook and Twitter. SaskPower's Rate Application received news coverage immediately after the Application was announced. Copies of SaskPower's Application were available to the public at SaskPower's offices and on the Panel's website.

Formal presentations and/or submissions were made at some of the public meetings by individuals and by representatives of various organizations including the Greater Saskatoon Chamber of Commerce, the Saskatchewan Industrial Energy Consumers Association (SIECA), the Saskatchewan Mining Association (SMA) and ERCO Worldwide. The meetings also included a question and answer session.

Organizations also made written submissions to the Panel including: EVRAZ Regina Steel, Saskatoon Light & Power, the Canadian Federation of Independent Business, the Saskatchewan Industrial Energy Consumers Association, the Canadian Association of Petroleum Producers, and the Consumer Association of Saskatchewan.

There were also a total of 32 submissions from the public through feedback forms (19), emails (8) and voicemails (5). The vast majority of the submissions suggested that rates were already too high and that the proposed rate increases were unacceptable, not warranted, too excessive, or unaffordable.

The issues raised during these consultations included:

- Current proposed rate increases (deemed unacceptable and unwarranted by ratepayers)
- Rate increase impacts on different customer classes (i.e. Reseller, Power, etc.)
- Rate comparisons between SaskPower and other jurisdictions (as well as inflation)
- Future rate increases and consideration to SaskPower's ROE and debt-equity targets
- Past, current and future capital investment plans and costs (including financing)
- F&PP and OM&A cost increases (including comparing actual results to those forecast)
- Load and cost forecasting processes and challenges (including inaccuracies)
- Customer connect costs and projections
- SaskPower wages and salaries (including competitiveness)
- SaskPower advertising (including necessity and sponsorship)
- Dividend payments
- Smart meter benefits
- Strategy to meet current and future electricity demand (including increasing capacity)
- Over reliance on natural gas as a fuel source and the associated risk
- Transmission intertie rules, regulations and opportunities
- Power supply structures in other markets
- Power generation partnerships (including First Nations)
- Public consultation process on power generation development
- Climate change (environmental issues and considerations)
- Renewable energy strategy
- Green power generation programs
- Cogeneration power production opportunities

- Nuclear and solar power generation viability
- Demand side management (energy efficiency) programs

The Panel expresses its appreciation to SaskPower for responding to all written submissions. Both the submissions and SaskPower's responses can be found on the Panel's website.

The Panel also expresses its appreciation to the people who took the time to comment or to attend Public Meetings on the Application.

4.0 Panel Recommendations and Analysis

SaskPower's original Application was submitted to the Panel on October 25, 2013 and customers began paying the interim rate increase on January 1, 2014. This was the first multi-year Application that the Panel has received from SaskPower, as well as the first Application that had an interim rate already imposed.

SaskPower submitted a Mid-Application Update on February 19, 2014 to the Panel as part of the Application process. This Update indicated that SaskPower's financial picture had improved to the extent that it was now forecasting 2014 net income to increase from $26.9 million to $66.0 million, an improvement of $39.1 million. SaskPower's revised ROE was forecast to be 2.9% for 2014. ROE forecasts for 2015 and 2016 were not changed with the Update. SaskPower also confirmed that because of revised load forecasts, 2015 net income was forecast to increase by $18 million, with a further net income increase of $6 million in 2016. Despite this increase in net income, the Panel is cognizant that SaskPower's ROE, which is targeted at 8.5%, will remain significantly below that target over the next few years.

The Panel directed its Consultant to conduct a thorough review of SaskPower's revenue requirements and to consider public input on the Application. The Consultant's review included all aspects of SaskPower's estimated revenue, System Operation, Load Forecasting, Maintenance Programs, Future Generation Resource Planning, Future Capital Programs, and Cost of Service Study. The Consultant also conducted an analysis of the Mid-Application Update submitted by SaskPower. After reviewing and assessing this information, the Panel is prepared to present the recommendations listed below to the Minister of the Crown Investments Corporation:

Recommendation #1: That the interim system-average rate increase of 5.5% implemented on January 1, 2014, be confirmed and finalized.

The first recommendation is based upon the Consultant's assessment that:

> *… We consider the 5.5% system average January 1, 2014 Interim Rate increase to be reasonable and justifiable and that the Panel recommend that it be confirmed and finalized.*
>
> *Our specific recommendation respecting the 2014 Revenue Requirement is that it be approved based on the Mid Application Update should and subject to the following:*

a) *The revenue requirement be set to allow SaskPower to generate sufficient revenues to earn the requested 2.9% Rate of Return, to produce a net income for 2014 of $66.0 million.*
b) *The natural gas AECO C forward forecast price of $4.08 / GJ be used for purposes of setting 2014 rates for an estimated updated consumption of approximately 60 million GJ.*
c) *The Panel accept the updated 2014 F&PP forecast cost of $622.0 million.*
d) *The Panel accept the total OM&A expense forecast of $647.7 million (unchanged in the Mid-Application update) as filed in the original application.*
e) *The Panel accept the updated forecast for Amortization and Depreciation expense of $399.3 million.*
f) *The Panel accept the updated forecast for net finance charges of $340.1 million.*

g) *The Panel accept the forecasted Municipal Tax, Corporate and Other Taxes Obligations of $57.0 million as filed in the original application.*
h) *The Panel accept the forecasted other costs at $16.5 million as originally filed.*
i) *Lastly, the Panel accept a SaskPower expense total of $2,082.5 million as filed in the Mid-Application update.*[17]

Prior to formalizing their final recommendations, the Panel reviewed the cost of service methodology and detailed study results filed by SaskPower to support the proposed change in rates.

Following receipt of the Mid-Application Update, the Panel did consider an adjustment to the requested rate increase for 2014 based on the revised net income, however, determined it was not justifiable as the revised ROE forecast continues to be well below the long term target.

Recommendation #2: That a system-average rate increase of 5% effective January 1, 2015, be conditionally approved, subject to the following filing requirements:

- **An updated summary of any changes in SaskPower's operating environment**
- **The latest annual report**
- **The most recent quarterly report**
- **An updated forecast for 2014, 2015 and 2016**
- **A detailed update on the capital plan from 2014-16**
- **Updated reports on the Business Renewal Program, Advance Metering Infrastructure Project and Demand Side Management**
- **And any other pertinent information requested by the Panel at that time, including the applicable Cost of Service Study.**

The second recommendation is based upon the Consultant's conclusions that:

> *…it would be prudent to only recommend… conditional approval for the 2015 test year application. As suggested by SaskPower an updated filing would be required that could secure the interests of all parties (utility-ratepayer-public) for the 2015 rate application.*[18]

Recommendation #3: That the proposed system-wide rate increase of 5% effective January 1, 2016, be denied due to the number of variables and assumptions in the 2014 forecasts.

The third recommendation reflects concerns that were expressed during the public consultations and were verified by the Consultant. With the current size of the planned capital program, the uncertain economic outlook and future load forecasts, and increasing fuel and purchase power costs (including forward natural gas market pricing), there are simply too many uncertainties for the proposed 2016 rate to be approved.

The difficulty in forecasting fuel prices, for example, can be demonstrated by reviewing the variations in the original Application to the Mid-Application Update. As the table below

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[17] 2014 Forkast Consulting Report, P. 155

[18] Ibid, P. 158

indicates, natural gas costs were estimated to be $255.2 million, but that was later revised to $292.0 million. With this $36.8 million variation in just 4 months, the Panel has significant concerns about how accurate predictions will be over a 3-year period. These variations may also be further compounded over time since SaskPower has been changing its fuel source mix from coal and hydro to natural gas, where pricing is much more volatile based upon market supply and demand.

Application Update Net F&PP Expense

(in $ millions)	2014 Forecast Initial Submission (Jul 31/13)	Mid-Application Update (Jan 31/14)	Variance
Fuel Expense			
Gas	$255.2	$292.0	$36.8
Coal	264.9	242.0	(22.9)
Wind	10.3	11.2	0.9
Hydro	18.0	17.5	(0.5)
Imports	8.9	28.4	19.5
Other	30.1	30.9	0.8
Total F&PP Expense	**$587.4**	**$622.0**	**$34.6**

[19]

Overall, the Panel agrees with the Consultant's conclusions that this Application is being driven by increased fuel and power purchase costs, increased finance costs associated with past and current capital spending plans, and increased depreciation costs associated with new capital assets. The Panel believes that the 2014 and 2015 proposed rates are fair, reasonable and justifiable. SaskPower's ROE will remain significantly below target and the Corporation will continue to accumulate debt, both of which are concerns for the Panel. The Panel recognizes these rates will place additional financial pressures on large industrial customers as well as low income earners and those on fixed incomes, but the Panel believes that these increases strike a reasonable balance between SaskPower's financial needs and those of its customers.

The limited scope filing will allow the Panel to confirm the rate increase for 2015. This filing would involve a 45 to 60 day public review process. The Panel considers this filing to be an extension of its current review. Following a review at that time, the Panel would report its findings to the Minister of Crown Investments Corporation.

Operations, Maintenance and Administration (OM&A)

There were some public comments that rising Operations, Maintenance and Administration (OM&A) costs were a factor in this Application. The Panel directed its Consultant to review this area and report its findings. The Consultant noted that OM&A costs have been increasing at inflationary levels to reflect additional staff, benefits, materials and supply costs.

SaskPower estimated that its OM&A costs will increase by 12.4% ($ 80.1 million) or approximately 4.1% annually from 2014-16. The Power Production portion of the Operations Division is the main source of the incremental cost increase from the 2013 budget of $154.6 million to the forecast of $182.4 million in 2014.[20] The increase in Power Production costs are

[19] Ibid, P. 38

[20] IR 35 First Round

expected for the Shand and Boundary Dam units 4 and 6 overhauls, Western Plants, BD staff deficiency, QE staffing, ICCS chemicals and materials, and BD 3 full-year operational expense.[21] Of the total increase in OM&A costs over the 3 years, $ 49.1 million is associated with specific overhauls at various generation sites. The remaining $ 31 million balance is the actual OM&A cost increase.

Excluding the costs associated with power production overhauls and other system improvements, as noted above, it appears that OM&A costs are being contained. The Consultant determined that:

> *The cost containment is evident considering the major capital improvement and re-investments being made to generation, transmission, distribution and operational infrastructure, including AMI, all requiring increased maintenance. In addition, the increased costs associated with new staff salary & wages, benefits, materials and supply and external services, confirms that the Business Renewal and Service Delivery Renewal Programs are generating a positive net financial result for SaskPower's base cost structure.*[22]

The Panel suggests that SaskPower continue to provide a detailed overview regarding each Business Renewal Initiative steps taken to date and the costs and savings generated in such a manner that it can easily discern the progress made and the program expectations on a year-over-year basis. The Panel also notes the Service Delivery Renewal Project is expected to be completed by the end of 2015 and as a result, the Panel is hopeful SaskPower will be able to concentrate its internal resource efforts to vet out further efficiencies and the effectiveness of its Business Renewal Initiatives. This is an important undertaking as the Panel recognizes the importance of mitigating rate increases with increased cost efficiencies.

Multi-Year Applications

This is the first 3-year test period application that has been received by the Panel from SaskPower. The Panel realizes that there are benefits to both SaskPower and its customers in knowing what the rates will be over a longer period of time, but the uncertainty of future forecasts make it extremely difficult for the Panel to meet its mandate of securing the interests of all 3 parties: the utility, the public and the customer.

In the Panel's last SaskEnergy Report to the Minister responsible for Crown Investments Corporation with respect to SaskEnergy's multi-year application, it noted that SaskEnergy's reasons for filing this type of application differ significantly from utilities in other jurisdictions that have quasi-judicial processes. Reviews of applications in quasi-judicial jurisdictions tend to be substantially more time-consuming and costly than in Saskatchewan. SaskEnergy noted its reasons for requesting a multi-test-year application was to provide longer-term financial certainty for SaskEnergy and the ability for its customers to conduct longer-term planning. SaskEnergy further stated that there were no quantifiable cost savings related to the multi-test-year application. The Panel would expect the same result for SaskPower.

[21] IR 36 First Round

[22] 2014 Forkast Consulting Report, P. 61

In this Application, many submissions expressed serious concerns relative to the uncertainties of the load growth and the forecast of revenues or expenditures, particularly in the third year of the Application. These concerns are shared by the Panel. Until greater stability can be assured for both the revenue and expense streams, and the capital undertakings return to more normal levels, the Panel urges SaskPower to limit the use of multi-year applications.

5.0 Panel Observations

The Panel offers the following observations arising from its deliberations during this review.

5.1 Capital Projects

The Panel acknowledges that the capital projects plan and its execution are givens in its Terms of Reference, but there were numerous public comments on this issue. Since capital projects are a main driver of this Application, the Panel suggests that a public dialogue be developed to further educate the stakeholders and general public on the need for the capital projects in order to supply a safe, reliable and effective electricity service. SaskPower plans to invest $3 billion over the next 3 years (2014-16) as part of its efforts to renew and modernize its system. This plan includes:

- new power generation capacity;
- reinforcing its transmission and distribution system through projects such as new transmission lines and wood pole replacements;
- a new operations centre, new building construction and existing building renovations;
- investments in new information technology;
- and adding new forms of low or non-emitting forms of generation.

The following table outlines SaskPower's capital spending program from 2012-16:

SaskPower Capital Spending for 2012 to 2016

(in $ millions)	2012	2013	2014	2015	2016
Power Production					
Capacity sustainment	$123	$118	$140	$140	$140
QE repowering	26	94	225	118	25
Tazi Twe (Elizabeth Falls)	0	14	40	80	100
ICCS	357	510	21	0	0
Total Power	**$506**	**$736**	**$426**	**$338**	**$265**
Transmission & Distribution					
Capacity increase/sustainment	$167	$260	$235	$235	$235
Customer Connects	226	189	248	241	232
I1K line	0	0	120	116	0
Total T&D	**$393**	**$449**	**$603**	**$592**	**$467**
Other Capital					
Operations Centre	$0	$0	$12	$50	$80
Buildings/Furniture/Land	26	62	35	35	35
Service Delivery Renewal	25	70	70	11	0
Information Technology & Security	31	33	54	47	50
Total Other	**$82**	**$165**	**$171**	**$143**	**$165**
Total Capital Program	**$981**	**$1,350**	**$1,200**	**$1,073**	**$897**

[23]

The Panel noted there are parts of the capital projects that are essential and must be completed to ensure that the province's power needs are met in a safe and reliable manner. However, some stakeholders have indicated that while justifiable, there may be less essential projects within the capital plan. For example, it was suggested that some of the projects associated with Other Capital projects in the foregoing table may be able to be deferred to the future to mitigate rate increases. A public dialogue with the Panel and stakeholders will help to demonstrate the need

[23] 2014 Forkast Consulting Report, P. 103

for and the transparency of the current plans and to ensure that the plans are implemented in the most least cost and effective manner at the most appropriate time.

5.2 Dividends

As previously mentioned, SaskPower's capital program and rising fuel and purchased power costs are the main reasons behind this Application. These costs are driving up the Corporation's long-term debt, which is expected to reach $7.572 billion by the end of 2016. This rising debt level has an impact on the Corporation's net operating income and the ROE. SaskPower is expected to achieve an operating income for 2014 of $66 million, and is forecasting 2015 net income to be $57.9 million and 2016 to be $46.4 million. This means that the return on equity (ROE) for 2014 will be 2.9%; 2015 will be 2.6%; and 2016 will be 2.1%. These amounts are well below SaskPower's long-term target of 8.5%.

The Panel commends the Government of Saskatchewan for refraining from taking a dividend from the corporation in all years except one since 2008. No dividend payments are anticipated during the 2014-16 time period covered by this Application. This decision allows SaskPower to have lower debt levels, lower finance charges and a stronger equity position, which in turn helps to mitigate or reduce what would otherwise be required higher future rate increases.

5.3 Public Education

SaskPower rate increases are likely to become more commonplace in the future. The Panel recognizes that there is public concern about rising rates, but there has been limited public education and discussion on why this is occurring. The reality is that SaskPower's debt will continue to increase over the next few years as significant spending is required to replace existing transmission and distribution infrastructure and aging generating facilities. Although the Application does not include any dividends being paid by SaskPower, the Corporation's ROE is expected to be well below its target of 8.5% for the next several years.

However, SaskPower's situation is similar to many other publicly-owned utilities. The infrastructure deficit has accumulated over several decades and decisions today are made on the basis that reflect economics, technology, public opinion and concern for the environment. Almost half of SaskPower's electrical generation currently comes from its coal-fired plants and with the province having an abundant supply of coal, which is a low cost and reliable fuel source, the preference is to continue to use this resource. There is concern about the realized costs of the continued use of coal, whether it be in conjunction with the clean coal technology being developed or otherwise.

After coal, natural gas is the second highest fuel source in SaskPower's fuel mix and it will become even more dominant as the bulk of SaskPower's new generation will be natural gas. It is considered a greener fuel source than coal. It is used in natural gas generating stations and co-generating facilities. The price of this generation is less stable as it is dependent upon the market price of natural gas. Coal, on the other hand, is a more price stable fuel source. Hydraulic generation is the most cost-effective source of electrical generation, but SaskPower currently has limited capacity in this area. This capacity is impacted by weather conditions and water flow, which can change significantly from year to year.

Although wind power has a favourable public perception, it is much more expensive to generate electricity than these other fuel sources, and because wind generation is intermittent, it cannot be used to meet base load demand requirements. Additionally, wind power operationally is negatively impacted if the winds are too strong, or too low, or in extremely cold weather, when electrical generation is most needed to meet demand.

There is a public misconception that since Saskatchewan has ample wind and sun that SaskPower should increase its generating capacity in these "free" fuel source areas, which would result in lower energy bills. The reality is that these greener technologies are more expensive to operate and as well, they must be backed up by other sources of power due to their unreliability to produce power in all conditions.

Generation Mix by Fuel Type for 2010 to 2016 Unit Prices

	Actual			Forecast			
(in $/MWh)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Fuel Expense							
Gas	$49.83	$48.53	$43.05	$36.97	$35.63	$39.33	$38.39
Coal	17.63	18.89	19.38	20.91	22.82	23.17	24.50
Wind	76.44	82.72	84.57	84.77	84.43	87.39	77.47
Hydro	4.10	4.30	4.50	4.72	4.94	5.13	5.35
Imports	39.19	48.56	47.46	52.21	57.05	58.86	57.33
Other	77.03	119.60	108.71	122.96	100.00	82.69	70.05
Weighted Average Fuel Price	**$21.46**	**$22.46**	**$23.20**	**$23.57**	**$24.99**	**$27.35**	**$29.29**
2010-2012 figures based on actuals 2013 figures based on Jul 2013 forecast (Jan-Jul actual, Aug-Dec forecast), 2014-2016 figures based on 2014 BP							

[24]

As the above table indicates, in 2013, for example, the unit price in MWh for coal was $20.91; natural gas was $36.97; hydro was $4.72; imported power was $52.21; wind was $84.77; and other green technologies averaged $122.96. A more detailed review of SaskPower's fuel mix and unit prices can be found in Section 6.1 of the Consultant's Report.

The Panel believes that the public should become better engaged in understanding how their power is produced, and the decisions that must be made in order for them to continue to receive safe, reliable and affordable power in the future. One method to accomplish this is for SaskPower to be more transparent on its future needs and plans for capital projects. The Panel encourages SaskPower in future customer awareness campaigns to educate its customers on how power is produced, its capital program, and on measures that will encourage people to use less energy, which could ultimately delay the need for new generating facilities and the resulting costs/rate increases.

5.4 Competitiveness

While electrical rates are also rising in every Canadian jurisdiction, each utility requires different fuel sources and experiences different geographic challenges to distribute power to their customers, making true cost comparisons between jurisdictions difficult and judgmental. As a thermal utility, SaskPower's rates are approximately 18% lower than the rate of other thermal

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[24] 2014 Forkast Consulting Report, P. 51

utilities. However, SaskPower residential customers pay rates that are on average higher than the Canadian utility average.

The Panel notes that when a large industrial customer is looking at jurisdictions to invest or expand in, they do not just compare to other thermals – they compare jurisdiction to jurisdiction. Power tends to be one of many considerations in determining in which jurisdiction to invest.

5.5 Sponsorships and Donations

Sponsorships and donations were raised as a concern by members of the public since these costs may not necessarily be an integral part of SaskPower's operational revenue requirement.

During the 2013 SaskEnergy Delivery Rate Application, the Panel instructed its Consultant to review this area and provide recommendations that could be applied to future rate applications. This research indicated that regulators in other jurisdictions have limited the degree to which these types of costs are included in a utility's revenue requirements.

The Alberta Energy and Utilities Commission (now the Alberta Utilities Commission) declared that charitable donations should not be included in revenue requirements since it is inappropriate for ratepayers to pay the cost of a utility's donations and that they should be considered a shareholder's expense. In a subsequent ruling regarding an ATCO Gas (AG) rate application in 2005-07, the commission indicated that customers have the right to choose to support whichever worthy causes they choose through their own donation dollars and should not be expected to provide the funds to support the causes that AG has chosen and for which AG receives the acknowledgement.

The Ontario Energy Board expressed similar concerns regarding sponsorships. It ruled that charitable donations would not be allowed for the purpose of setting rates, except for contributions to programs that provide assistance to customers in paying their electricity bills and assistance to low income customers.

The Newfoundland and Labrador Board of Commissioners of Public Utilities has also stated that non-regulated expenses, such as donations, promotion and other costs that do not provide any benefit to ratepayers, should be eliminated for the purposes of calculating return on rate base or rate of return on equity.

Based on this research, the Panel is of the view that those costs that do not provide a direct benefit to the ratepayer should not, in the future, be an expense borne by the ratepayer through inclusion in the revenue requirement. The Panel urges SaskPower to review its sponsorship and donations policy in that light in an attempt to mitigate the financial burden on its customers, and requests that it report to the Panel on this topic in its next application.

6.0 Impacts

6.1 Impact on the Customer

The following chart indicates how the proposed rate increases will affect the various customer classes:

2014, 2015, 2016 Average Monthly Revenue Impacts per Customer Class

Class of Service	2014 Revenue Change (%)	2014 Revenue Change ($/ Cust/Month)	2015 Revenue Change (%)	2015 Revenue Change ($/ Cust/Month)	2016 Revenue Change (%)	2016 Revenue Change ($/ Cust/Month)
Urban Res	5.3%	$5	4.5%	$4	4.5%	$4
Rural Res	5.3%	$8	4.5%	$7	4.8%	$8
Total Res	**5.3%**	**$5**	**4.5%**	**$5**	**4.6%**	**$5**
Farms	3.5%	$7	4.5%	$10	4.0%	$9
Urban Com	7.0%	$36	5.6%	$30	5.6%	$32
Rural Com	4.8%	$30	4.8%	$31	4.8%	$32
Total Com	**6.4%**	**$35**	**5.4%**	**$31**	**5.4%**	**$32**
Power Pub	7.0%	$27,721	5.8%	$25,490	5.8%	$29,185
Power Con	6.4%	$38,379	6.7%	$42,404	5.5%	$39,813
Total Power	**6.9%**	**$29,213**	**6.0%**	**$27,745**	**5.7%**	**$30,576**
Oilfields	3.6%	$53	3.7%	$58	3.7%	$59
Streetlights	-4.8%	$(24)	-4.8%	$(23)	-4.8%	$(22)
Reseller	7.0%	$157,478	7.3%	$177,163	7.3%	$190,721
Total	**5.5%**		**5.0%**		**5.0%**	
The rate increase for Power Contracts is for customers whose contracts are tied to published rates. There is also escalation included in the contract customer's existing rates revenue as per their specific contract terms.						

[25]

The Panel is concerned about the impact that continued rate increases will have on SaskPower's customers.

The Panel has heard specifically from a number of low income and fixed income residents who are concerned about rising utility rates. While it recognizes and applauds SaskPower's efforts to date, the Panel emphasizes that SaskPower should continue to strive to make every attempt to find internal efficiencies to minimize rate increases in order to relieve financial pressures on vulnerable populations. The government's decision to forego dividends in recent years has also helped to mitigate rate increases on the customer.

It is also very evident at public meetings and in formal submissions that electricity is a substantial cost for several large industrial customers and that Saskatchewan must remain competitive with other jurisdictions, both in Canada and beyond its borders. By developing a dialogue with these customers and/or respective formal associations, SaskPower can work with its key stakeholders in reaching the most cost-effective solutions and priorities for meeting the province's future energy needs.

The Panel heard several public comments regarding the province's economic growth and that growth should be helping to push rates down. There is public sentiment that with more people living in the province, there should be more ratepayers to share the costs, thereby reducing the overall rates. However, system load growth results in the demand for new generation or

[25] 2014 Forkast Consulting Report, P. 16

transmission infrastructure. This demand is also coming at a time when SaskPower must maintain or replace parts of its existing infrastructure. Ratepayers must pay for these costs.

It should also be noted that within SaskPower's customers, there are various classes. SaskPower designs its rates to create equity and fairness for each customer within each rate code, regardless of size or load factor. This is measured by the revenue to revenue requirement ratios (R/RR). A R/RR of 1.00 indicates that the revenues exactly match the costs of providing the service and the customer is paying the amount it costs SaskPower to provide that service. If it does not equal 1.00, then that class is either subsidizing another class or it is being subsidized.

In 2014 and 2015, rates will fall between the industry standard R/RR range of 0.95 and 1.05 for each customer class. The only exception will be Streetlights, which will have an R/RR of 1.16 in 2014 and R/RR of 1.08 in 2015. The following chart outlines the R/RR for each customer class:

2014, 2015, 2016 Proposed Rate Change % by Class and R/RR Ratio Impact

Class of Service	2014			2015		2016	
	R/RR Ratio (Existing)	Proposed Increase	R/RR Ratio (Revised)	Proposed Increase	R/RR Ratio (Revised)	Proposed Increase	R/RR Ratio (Revised)
Urban Res	0.98	5.3%	0.98	4.5%	0.98	4.5%	0.98
Rural Res	0.98	5.3%	0.98	4.5%	0.98	4.8%	0.98
Farms	1.01	3.5%	0.98	4.5%	0.98	4.0%	0.98
Urban Com	0.98	7.0%	1.00	5.6%	1.00	5.6%	1.01
Rural Com	1.03	4.8%	1.01	4.8%	1.01	4.8%	1.01
Power Pub	0.99	7.0%	1.01	5.8%	1.01	5.8%	1.01
Power Con	0.97	6.4%	0.98	6.7%	0.98	5.5%	0.99
Oilfields	1.06	3.6%	1.04	3.7%	1.02	3.7%	1.01
Streetlights	1.29	-4.8%	1.16	-4.8%	1.08	-4.8%	1.01
Reseller	0.94	7.0%	0.96	7.3%	0.97	7.3%	1.00
Total	**1.00**	**5.5%**	**1.00**	**5.0%**	**1.00**	**5.0%**	**1.00**

[26]

Another aspect of the R/RR ratio is the Cost of Service Study (COSS), which provides the basis necessary to properly design rates for each customer class to ensure that each class is paying for its share of the revenue required to provide them the service they need. The Consultant reviewed SaskPower's COSS and determined that it was "conducted thoroughly, reflecting SaskPower's operating circumstances as well as industry norms."[27]

The City of Saskatoon expressed its concerns in a letter to the Panel about the current R/RR ratio. Since the city is a reseller of electricity and not an end-consumer, the city believed that it would be more appropriate to set the R/RR ratio based on the mix of customers served by its utility department. The City also disagreed with SaskPower's decision to change its methodology to move to 2 coincident peaks from one. The Panel requested that its Consultant review these issues, and after careful consideration, the Panel believes that the methodology used and the results of the Cost of Service Study generating SaskPower's R/RR ratio for the resellers is appropriate. The Panel also agrees with SaskPower's intention to phase in the impacts of the changes affecting the resellers over the next 3 years.

[26] 2014 Forkast Consulting Report, P. 125

[27] Ibid, P. 119

6.2 Impact on the Crown Corporation – SaskPower

The proposed rate increase is expected to generate net income for 2014 of $66.0 million and an ROE of 2.9%. The net income for 2015 is estimated to be $58 million with an ROE of 2.6%, pending the approval of a limited scope filing.

The Panel is cognizant of the low ROE that is being estimated in this Application and recognizes that changes in certain variables could have a significant impact on SaskPower's net income. The following table outlines these variables and the possible impact they could have on the Corporation:

Impact of Assumption Changes on Net Income

Revenue	Impact on Net Income
1% change in the rate increase assumption	$20.0 million
100 GWh change in power customer consumption	$4.0 million
100 GWh change in residential power consumption	$9.0 million

Fuel & Purchased Power	Impact on Net Income
$1/GJ change in the natural gas price assumption	$30.0 million
10% change in the hydro assumption	$16.0 million
10% change in the coal generation assumption	$37.0 million

Capital	Impact on Net Income
$100 million change in capital budget (full year impact)	$8.0 million
1% change in short-term interest rates	$11.0 million
1% change in interest rate assumption (full year impact)	$7.0 million

[28]

As is indicated above, even a $1/GJ change in the price assumption of natural gas can have a $30 million impact on SaskPower's net income. All else being equal, a $2 increase in the price of natural gas could effectively eliminate the net income SaskPower has projected for 2014 and 2015.

6.3 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 challenges facing the Corporation are significant, perhaps more so than any other time in its recent history. The fiscal and infrastructure challenges the corporation faces are significant. Public education is necessary to allow residents to understand the situation that SaskPower is currently in and that increased rates are likely to remain into the foreseeable future. Public education, together with open and transparent dialogues, will allow residents to be better prepared in the future.

[28] Ibid, P. 135

7.0 In Appreciation

The Panel thanks SaskPower for the timely and helpful assistance it provided throughout this Application, which was beneficial to the review process. In particular, the Panel acknowledges the co-operation received from Troy King and Tim Coucill.

The Panel thanks Forkast Consulting for its thorough analysis of the Application, especially in light of the additional complexity added by the multi-year aspects of this Application.

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. The Panel thanks both individuals and organizations that expressed their views about the proposed rate increase through the various communication channels provided. Whether it was a phone call, attendance at a public meeting, or presentation of a formal submission, all contributions were received and evaluated by the Panel during its decision-making process.