
SaskPower **2014, 2015, 2016** **Rate Application**

Mid-Application Update

February 2014

1.0 Overview

In October 2013, SaskPower submitted a rate application requesting a system average rate increase of 5.5% in 2014, 5% in 2015 and 5% in 2016. A regular element of the rate application process includes a review of the underlying assumptions presented in the initial rate application. The original rate application forecasted a return on equity (ROE) of 1.3% in 2014, 2.0% in 2015 and 1.9% in 2016. The initial submission was based on SaskPower's 2014 Business Plan with a forecast effective July 2013. This mid-application update compares the initial rate application submission to the most recent financial forecast, effective January 2014.

Operating income

The original rate application forecasted an operating income of \$26.9 million in 2014 and an ROE of 1.3%. The mid-application update forecasts operating income of \$66.0 million in 2014 and an ROE of 2.9%. The improved forecast results are due to a \$4.4 million improvement in revenue and a \$34.7 million reduction in expense.

Revenue and load

SaskPower's revenue in 2014 is expected to increase \$4.4 million above the original rate application forecast. This is driven largely by an updated load forecast, which results in a \$14.8 million improvement in Saskatchewan energy sales. The load forecast in the update is based on the 2013 Q4 Load Forecast adjusted for January actuals. Overall, the load in 2014 is expected to decline slightly, but will be more than offset by a change in the revenue mix. Consumption in the residential and consumer classes are expected to increase while being offset by a decline in the power class segment. The improvement in Saskatchewan sales revenue is partially offset by a \$3.4 million decline in exports and a \$7.0 million reduction in other revenue.

Expense

Expenses are expected to decline \$34.7 million in 2014 compared to the forecast in the original rate application. The main reason for the decline in expense is due to an expected \$69.2 million reduction in depreciation and finance expenses. The primary driver for this reduction has been a delay in the commissioning of the Integrated Carbon Capture and Storage (ICCS) facility at Boundary Dam #3. The original rate application assumed that the ICCS facility would be fully operational by January 1, 2014. However, the revised forecast anticipates delays with both the power station island and the carbon capture facility. The impact of these delays is that there will be a decrease in both depreciation expense and finance charges, as these costs do not hit the income statement until the facility is operational. There has also been a change in the estimated pension expense for 2014 which is contributing to the reduction in finance expense.

These reductions in expense are partially offset by a forecasted \$35 million increase in fuel and purchased power expense in 2014. This is due largely to a forecasted increase in the price of natural gas. The original application assumed a market price of \$3.29 / GJ in 2014. The latest forecast, which is based on the forward price of natural gas at the end of January, assumes a forward price of \$4.08 / GJ.

Conclusion

The net impact of these changes is SaskPower's operating income for 2014 is forecasted to improve from \$26.9 million in the initial submission to \$66.0 million in this mid-application update. SaskPower's revised ROE forecast for 2014 is now 2.9% compared to the original ROE forecast of 1.3%, still well below the Crown Investment Corporation (CIC)-approved long-term target of 8.5%. As the impact of the new information does not cause SaskPower to exceed its long-term ROE target, SaskPower recommends that the rate increase request be approved as requested in the initial submission.

2.0 Financial Requirements Update

The following section provides a comparison between the initial rate application and the mid-application update forecast. If the SRRP approves the 2014 to 2016 rate application, similar financial updates will be provided for 2015 and 2016.

2.1 FINANCIAL SUMMARY

Consolidated Statement of Income			
	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
<i>(in \$ millions)</i>			
Revenue			
Saskatchewan Electricity Sales	\$1,979.8	\$1,994.6	\$14.8
Export	27.5	24.1	(3.4)
Net Sales from Electricity Trading	7.2	7.2	0.0
Other	129.6	122.6	(7.0)
Total Revenue	2,144.1	2,148.5	4.4
Expense			
Fuel and Purchased Power	587.4	622.0	34.6
Operating, Maintenance & Administration	647.7	647.7	0.0
Depreciation and Amortization	425.3	399.3	(26.0)
Finance Charges	383.3	340.1	(43.2)
Taxes	57.0	57.0	0.0
Other	16.5	16.5	0.0
Total Expense	2,117.2	2,082.5	(34.7)
Operating Income	\$26.9	\$66.0	\$39.1
Return on Equity (Operating Income)	1.3%	2.9%	1.6%

Operating income is forecasted to be \$66.0 million, an increase of \$39.1 million from the original submission. This results in an improvement in SaskPower's forecasted ROE from 1.3% to 2.9%. The anticipated changes in SaskPower's revenues and expenses are explained in detail in the following sections.

2.2 REVENUE

SaskPower revenue is expected to increase \$4.4 million from the initial submission. This is due to a \$14.8 million increase in Saskatchewan sales partially offset by a \$3.4 million reduction in exports and a \$7.0 million reduction in other revenue.

2.2.1 Saskatchewan Customer Revenues

SaskPower Revenues			
	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
<i>(in \$ millions)</i>			
Total Saskatchewan Sales	\$1,979.8	\$1,994.6	\$14.8
SaskPower Exports	27.5	24.1	(3.4)
Net Sales From Trading	7.2	7.2	0.0
Total Other Revenue	129.6	122.6	(7.0)
Total Revenue	\$2,144.1	\$2,148.5	\$4.4

Saskatchewan Sales Volume (Load Forecast)			
	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
<i>(in GWh)</i>			
Saskatchewan Sales			
Residential	3,013.5	3,129.4	115.9
Farm	1,305.3	1,291.8	(13.5)
Commercial	3,609.2	3,690.0	80.8
Oilfield	3,685.7	3,682.9	(2.8)
Power	8,233.6	8,017.1	(216.5)
Reseller	1,264.1	1,267.6	3.5
Total Saskatchewan Sales	21,111.4	21,078.9	(32.5)

Saskatchewan sales are expected to increase \$14.8 million despite a slight decline in load. The revised load forecast is based on the 2013 Q4 forecast, adjusted for January 2014 actuals. This forecast anticipates a 32.5 GWh decline in total load. The power customer class forecast decreased by 216.5 GWh, primarily in the potash sector. This decrease is largely offset by forecasted increases in residential sales of 115.9 GWh due to a slightly higher household forecast and per customer usage, and commercial sales of 80.8 GWh due to an increase in the commercial GDP drivers.

Despite the decrease in load, revenues are expected to increase as a result of the anticipated change in the sales mix that will see an increase in consumption by the residential and commercial classes offset by a reduction in sales to the power customer segment.

2.2.2 Export Revenue

Export Revenue			
	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
SaskPower Exports (in \$ millions)	\$27.5	\$24.1	(\$3.4)
SaskPower Exports (in GWh)	486.3	346.7	(139.6)
SaskPower Exports (in \$/MWh)	\$56.5	\$69.5	\$13.0

Export revenue for 2014 is expected to decrease by \$3.4 million, or 12.4% compared to the original rate application. This is the result of a 139.6 GWh or 28.7% reduction in export volumes from the initial submission. Since the initial submission, a 90-day Saskatchewan-to-Alberta tie line outage that was originally scheduled for 2013 has been deferred to March 2014. This deferral significantly reduces SaskPower's export capabilities in 2014. In terms of export revenue, the impact of the 90-day tie line outage is somewhat mitigated, as March to May is historically a period of relatively low export prices for SaskPower.

2.2.3 Net Sales from Electricity Trading

Net Sales From Electricity Trading			
	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
(in \$ millions)			
Net Sales From Electricity Trading	\$7.2	\$7.2	\$0.0

The net sales from electricity trading forecast remains unchanged.

2.2.4 Other Revenue

Other Revenue			
<i>(in \$ millions)</i>	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
Gas and Electrical Inspections	\$18.7	\$18.7	\$0.0
Customer Connects	50.0	50.0	0.0
CO ₂ Sales	17.5	10.5	(7.0)
CO ₂ Test Facility Revenue	4.3	4.3	0.0
MRM Equity Investment	1.1	1.1	0.0
Miscellaneous Revenue	38.0	38.0	0.0
Total Other Revenue	\$129.6	\$122.6	(\$7.0)

SaskPower is forecasting a \$7 million decrease in other revenue due to the delay in the completion of the ICCS facility, which will reduce the amount of CO₂ available for sale in 2014.

2.3 EXPENSE

SaskPower Expenses			
<i>(in \$ millions)</i>	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
Expense			
Fuel and Purchased Power	\$587.4	\$622.0	\$34.6
Operating, Maintenance & Administration	647.7	647.7	0.0
Depreciation and Amortization	425.3	399.3	(26.0)
Finance Charges	383.3	340.1	(43.2)
Taxes	57.0	57.0	0.0
Other	16.5	16.5	0.0
Total Expense	\$2,117.2	\$2,082.5	(\$34.7)

Expenses are anticipated to be \$34.7 million or 1.6% lower than forecasted in the initial submission. This is due to a reduction in depreciation and finance charges partially offset by an increase in fuel and purchased power expense.

2.3.1 Fuel and Purchased Power

Net Fuel and Purchased Power Expense			
	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
<i>(in \$ millions)</i>			
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 Fuel and Purchased Power Expense	\$587.4	\$622.0	\$34.6

Net Fuel and Purchased Power Volumes			
	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
<i>(in GWhs)</i>			
Fuel Expense			
Gas	7,163	7,003	(160)
Coal	11,610	11,224	(386)
Wind	674	702	28
Hydro	3,645	3,556	(89)
Imports	156	652	496
Other	262	248	(14)
Gross Volumes Supplied	23,510	23,385	(125)

Fuel and purchased power expense is expected to increase by \$34.6 million from the original rate application forecast. This is primarily due to an expected increase in natural gas prices from the initial submission. The original application assumed a market price of \$3.29 / GJ in 2014. The latest forecast, which is based on the forward price of natural gas at the end of January 2014, assumes a forward price of \$4.08 / GJ. The net impact from the increase in natural gas prices is a \$36.8 million increase in fuel costs. Coal costs are expected to decrease \$22.9 million in 2014 as a result of a forecasted 386 GWh reduction in generation due to an expected reduction in coal unit availability. Because of the increase in natural gas prices and lower forecast coal generation, SaskPower is expecting a larger reliance on imports, which are forecasted to increase by 496 GWhs and \$19.5 million from the initial submission.

2.3.2 Operating, Maintenance and Administration (OM&A)

SaskPower Operating, Maintenance & Administration			
<i>(in \$ millions)</i>	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
Power Production	\$182.4	\$189.8	\$7.4
Transmission & Distribution	131.6	133.3	1.7
Operation Other	43.5	34.2	(9.3)
Subtotal Operations	357.5	357.3	(0.2)
President/Board	3.5	12.5	9.0
Finance	16.7	15.7	(1.0)
Customer Services	46.7	38.5	(8.2)
Resource Planning & NorthPoint	18.3	15.5	(2.8)
Law, Land, Regulatory Affairs	17.0	18.5	1.5
Information Technology & Security	70.1	70.2	0.1
Human Resources	27.0	28.6	1.6
Commercial	35.9	35.2	(0.7)
Business Development	1.4	1.4	0.0
Carbon Capture & Storage Initiatives	6.3	6.3	0.0
Total Core Costs	600.4	599.7	(0.7)
Demand Side Mangement	14.3	14.4	0.1
PPA-OM&A	22.2	20.0	(2.2)
Other Expense	10.8	13.6	2.8
Total Other Costs	47.3	48.0	0.7
Total OM&A	\$647.7	\$647.7	\$0.0

Although OM&A costs have moved between business units, total OM&A is forecasted to remain unchanged.

2.3.3 Capital-Related Expenses

Finance Charges

Finance Charges			
<i>(in \$ millions)</i>	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
Finance Charges			
Interest on Borrowings	\$399.9	\$391.6	(\$8.3)
Interest Capitalized	(22.8)	(42.8)	(20.0)
Debt Retirement Fund Earnings	(9.4)	(18.1)	(8.7)
Other Interest and Charges	15.6	9.4	(6.2)
Total Finance Charges	\$383.3	\$340.1	(\$43.2)

Finance charges are forecasted to decrease by \$43.2 million from the initial submission. Interest on borrowings is expected to decrease by \$8.3 million. Although total borrowings are expected to remain largely unchanged from the original submission, timing differences between the borrowing schedule in the initial submission and the mid-application update will result in a decrease in interest on borrowing costs for 2014.

Interest capitalized is forecast to increase by \$20 million due largely to an anticipated delay in the commissioning of the ICCS facility. Until an asset goes into service, any interest paid during the asset's construction is considered a capital cost, not an expense. Interest capitalized represents the interest paid on capital projects under construction and is deducted from the total finance charges paid by SaskPower. Therefore, a deferral in the commissioning date of the ICCS facility increases the amount of interest capitalized in 2014, which reduces SaskPower's finance charges.

Debt retirement fund earnings are forecast to increase by \$8.7M due to an ongoing trend of strong earnings from the funds. Other interest and charges are expected to decline by \$6.2 million due to a reduction in the Corporation's pension expense as a result of an increase in interest rates. SaskPower's pension expense is calculated by an independent actuary based on assumptions regarding future plan earnings and plan obligations. Changes in interest rates have a material impact on the pension expense calculation.

Depreciation and Amortization

Depreciation			
<i>(in \$ millions)</i>	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
Depreciation			
SaskPower Depreciation	\$367.5	\$341.5	(\$26.0)
Asset Retirement Asset - Depn Expense	1.4	1.4	0.0
Total SaskPower Depreciation	368.9	342.9	(26.0)
Capital Lease Amortization	56.4	56.4	0.0
Total Depreciation	\$425.3	\$399.3	(\$26.0)

The depreciation expense forecast has decreased by \$26.0 million largely due to the anticipated delay in commissioning the ICCS facility. Depreciation expense does not begin until the facility is commissioned. Therefore, a delay in the commissioning date reduces the amount of depreciation expense recorded in 2014.

Taxes

Taxes			
<i>(in \$ millions)</i>	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
Taxes			
Corporate Capital Tax	\$34.5	\$34.0	(\$0.5)
Grants in Lieu	22.5	23.0	0.5
Total Taxes	\$57.0	\$57.0	\$0.0

The net tax expense forecast remains unchanged, as the moderate decrease in the forecasted corporate capital tax expense is expected to be offset by an equal increase in grants-in-lieu of taxes.

Other Expense

Other			
	2014 Forecast		
	Initial Submission (July 31, 2013)	Mid-Application Update (Jan 31, 2014)	Variance
<i>(in \$ millions)</i>			
Total Other Expense	\$16.5	\$16.5	\$0.0

Other expenses are largely made up of gains or losses on asset disposals and retirements. The other expense forecast remains unchanged.

Capital

SaskPower's capital forecast remains unchanged at \$1.2 billion for 2014.

3.0 Mid-Application Update Summary

The net impact of the updated forecast is that SaskPower's operating income for 2014 is expected to improve from \$26.9 million in the initial rate application submission to \$66.0 in this mid-application update. SaskPower's revised ROE forecast for 2014 is now 2.9%, compared to the original ROE forecast of 1.3%. As the forecasted ROE remains well below the CIC-approved long-term target of 8.5%, SaskPower continues to recommend that the rate increase be approved as requested in the initial submission.