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February 19, 2014

Saskatchewan Rate Review Panel
P.O. Box 1301
Saskatoon, Saskatchewan
S4K 3N1

**RE: Saskatchewan Mining Association Submission of February 10, 2014**

SaskPower appreciates the comments and concerns from the Saskatchewan Mining Association (SMA) regarding our 2014, 2015, and 2016 Rate Application. We are grateful for the opportunity to address the issues presented in the submission.

The SMA noted that it collaborated with the Saskatchewan Industry Energy Consumers Association (SIECA) in reviewing SaskPower's rate application. The SMA advised that it supports SIECA's rationale, positions and recommendations to the Saskatchewan Rate Review Panel (SRRP) as detailed in SEICA's final submission. SaskPower has referenced SIECA's submission where appropriate.

***"Payments of Dividends by SaskPower |Recommendation: SRRP Recommend that SaskPower Retain any Surplus Revenues and not Be Required to Pay Dividends to the General Revenue Fund for the current year, or the rate review period."*** **SMA**

When it comes to the potential for the payment of dividends, our company is not forecasting the payment of a dividend in 2014. Our company cannot comment on whether a dividend will be requested, as that decision rests with CIC and the Government of Saskatchewan.

***"Recommendation: SRRP approve a single year rate increase only for 2014."*** **SMA**

SaskPower recognizes the concern that actual results can vary significantly from those forecasted. If a multi-year application is approved, our company has proposed that an annual review mechanism be considered to ensure that the assumptions made in the initial application are still applicable. This proposal is outlined in the response to the consultant round two interrogatory Q40. With input from the SRRP, the specific mechanism would have to be approved by provincial cabinet.

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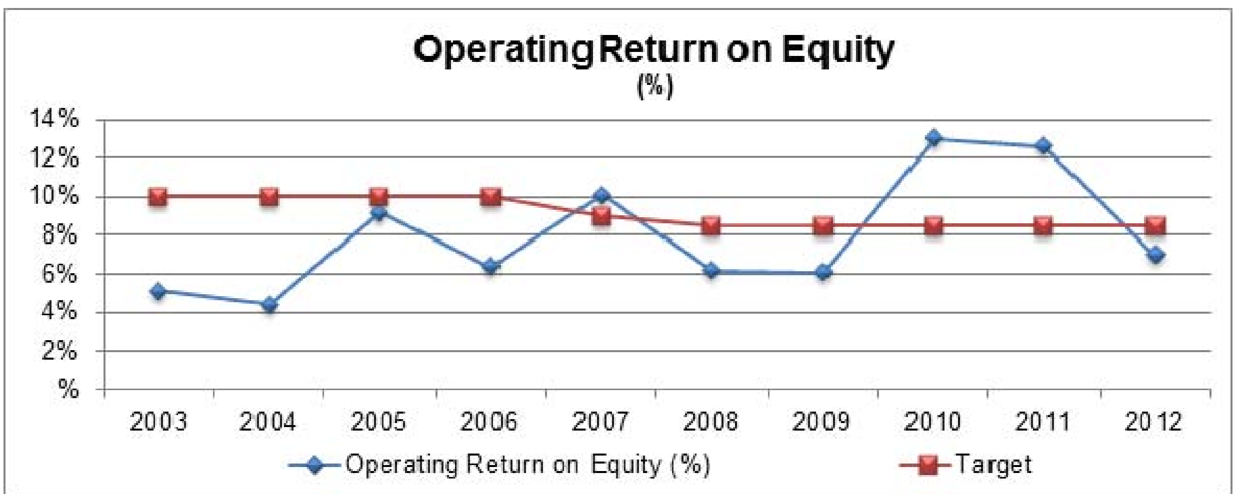
In SaskPower's proposal for an annual review mechanism, the trigger for a full review is dependent on our company's forecasted return on equity (ROE). Our company proposes that if the forecasted ROE either falls below 0% or increases to more than the 8.5% long-term target in the following year's forecast, a full rate review process would be triggered. If ROE in the following year is forecasted to remain between 0% and 8.5%, a much shorter Limited Scope Filing would be undertaken.

SEICA does fairly suggest that certain cost categories have been either over- or under-budgeted in the past. SaskPower's forecasts are prepared without bias and based on market information. It is worth noting that over the 10-year period from 2003 to 2012, SaskPower's ROE has averaged 8.2%.

In fact, in seven of the past 10 years SaskPower's operating income fell below our company's long-term ROE target. This demonstrates there has been no inherent bias in SaskPower's forecasting process to underestimate operating income or overstate its revenue requirements. As one would expect when forecasts include the use of independent information from multiple external sources, in some years our company exceeds our target and in other years it falls short.




With respect to the 2014-2016 period, SEICA questions the origins of load growth. The forecasted load growth is largely due to increased requirements in the potash sector (1,098 GWh) for existing mine expansions, as well as for construction power and production for greenfield potash mines. There is also significant growth forecasted for the northern mining sector (218 GWh), as well as the pipeline pumping sector (600 GWh) to accommodate expanding Alberta oilsands production shipping through Saskatchewan to markets in the United States.

***"Recommendation: SRRP Recommend Creation of a Public Consultation for Review of Resource Planning and Major Capital Investment." SMA***

SIECA expressed concerns about SaskPower overbuilding its infrastructure and presents arguments that imply that SaskPower does not effectively manage its existing fleet, leading to the recommendation that a public consultation for review of resource planning and major capital investments is necessary. SaskPower would first like provide further information to clear up any misunderstandings regarding potentially overbuilt infrastructure and whether or not SaskPower effectively manages its existing fleet.

In reference to *Table 4: Actual vs Forecast Planning and Reserve Margin Requirements* on page 13 of SIECA's submission, SaskPower would like to address the following:

1. Peak load: SaskPower's forecasted peak load is a potential peak forecast. This is the system peak that will result if Saskatchewan experiences sustained, very cold weather in December. Saskatchewan did experience this weather in 2008, 2009 and 2013. The resulting peak loads were high — very close to the peak load forecasted in those years. In years where Saskatchewan does not experience this cold weather, the peak load will be lower than forecast. Despite the fluctuating weather, SaskPower must still have facilities in place to meet peak loads in this critical situation.

2. Planning reserves: SaskPower does not use a planning reserve margin requirement of 13%. Our company performs generation reliability analysis based on an unserved energy criterion (see SIECA round one interrogatory Q6). The deterministic planning reserve that represents this analysis is approximately equal to 13% and is based on industry standard practice. The capacity number used by SIECA in its table represents SaskPower's total installed capacity, including wind. SaskPower only includes 15% of wind capacity in its supply adequacy analysis, not 100%. Once capacity is adjusted for a more appropriate representation of wind's capacity the forecast reserve margin is closer to 13%.

3. Operating reserves: The chart on page 15 of SIECA's submission was used at a public meeting to demonstrate in a simplistic way that SaskPower is not overbuilt. To conclude that our company is inefficiently managing its existing fleet based on the chart is a misinterpretation of the chart. SaskPower does have an extensive maintenance plan which requires us to actively manage and adjust maintenance to take advantage of available maintenance windows. Ignoring this maintenance is of no long-term benefit to customers interested in the reliability of the system. It is important to realize that the chart was built based on a peak for each week, representing only one moment in time that week. Weather impacts in the fall of 2013 did play a significant role in elevating the load plus reserves line. In cases of peak demand, SaskPower has import capability with neighbouring jurisdictions that can be utilized to offset operating reserve shortfalls implied in the chart, but for the majority of each week adequate reserves did exist even without imports from other jurisdictions.

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SaskPower agrees that it should provide additional information to SMA and other stakeholders regarding our company's major capital investments. As we move forward with a multi-year, multi-billion dollar investment plan for infrastructure growth and renewal, it is critical that we enhance dialogue around our capital plan with all of our stakeholders.

Notwithstanding the exclusion of capital spending from the scope and terms of reference of the review, SaskPower has regularly provided capital spending information in its rate applications as well as responses to submissions and capital-related interrogatories. However, our company feels additional discussion regarding SaskPower's capital plans needs to be completed in a fashion that is consistent with the existing regulatory process in Saskatchewan — one that is recognized as very efficient relative to other jurisdictions.

SIECA appears to agree with this concept as the organization recognized the efficiency of the existing regulatory system in its submission. Introducing a formal capital investment review process would come at a significantly increased cost for both SaskPower and the SRRP. To keep in line with the existing regulatory process in Saskatchewan, our company proposes a process where our company would present its long-term load forecast, capital plan and supply plan to the SRRP, its consultants and interested stakeholders. It is proposed that this would be completed as part of the Limited Scope Filing in the fall of 2014.

Another issue involves the suggested non-disclosure agreements for SIECA and other stakeholders. SaskPower does not support expanding the scope of non-disclosure agreements — and the release of confidential information — beyond the SRRP and its consultants. Giving non-disclosure agreements to customer groups could create the appearance of a conflict of interest. Considering that many of our company's customers operate in a competitive environment, those with access to confidential information (such as Power Purchase Agreements, load forecasts) could be seen as unfairly benefitting from having access to their competitors' confidential agreements with SaskPower. Also, limiting access to only a certain number of customers could also be seen as unfair by those who are not granted access.

***"Recommendation: SRRP Recommend Reallocation of Integrated Carbon Capture Sequestration (ICCS) and Wind Generation Costs within the Cost Of Service Using the Percent of Revenue Allocation Method."*** **SMA**

SaskPower recently completed a cost of service (COS) review where an independent expert consultant examined our company's COS and rate design methodology. The review included an industry survey and stakeholder consultation process, in which the consultant presented a draft report at a stakeholder meeting where stakeholders were invited to submit written questions and submissions.

It is SaskPower's view that the COS review process is the appropriate venue for SIECA to raise issues like the allocation of fixed production plant for the integrated carbon capture and storage (ICCS) project and wind power to customer classes. This allows the independent consultant and stakeholders to be engaged in the discussion.

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Please consider the following chart which outlines the impact of the Equivalent Peaker method used in the current COS model compared to SIECA's proposed Percentage of Revenue method.

| Customer Class | % of Revenue (SIECA) | Equivalent Peaker (COS) | % of Energy Sales (kWh) |
|---|---|---|---|
| Residential | 23.0% | 18.0% | 14.3% |
| Farm | 8.0% | 7.0% | 6.2% |
| Commercial | 20.0% | 18.3% | 16.8% |
| Power | 27.5% | 37.3% | 42.5% |
| Reseller | 4.5% | 6.1% | 6.0% |
| Oilfields | 17.0% | 13.1% | 14.0% |

As shown above, the Percent of Revenue method would provide a significant benefit to the Power and Reseller class to the detriment of all other classes.

**Conclusion**
SaskPower appreciates the submission of SMA. Our company values the participation of all stakeholders in the rate review process, and welcomes continuing dialogue as we strive to provide our customers with safe, reliable and sustainable power while supporting growth in Saskatchewan.