2025 Victoria Avenue
Regina, SK
Canada S4P 0S1
Phone: 1 (888) 757-6937

February 19, 2014

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

RE: Canadian Association of Petroleum Producers Submission of February 12, 2014

SaskPower appreciates the comments and concerns from the Canadian Association of Petroleum Producers (CAPP) regarding our 2014, 2015, and 2016 Rate Application. We are grateful for the opportunity to address the issues presented in the submission.

"The Application should only be approved for 2014. SaskPower should be directed to file future rate applications for the next calendar year with a further two year outlook." **CAPP**

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 Saskatchewan Rate Review Panel (SRRP), the specific mechanism would have to be approved by provincial cabinet.

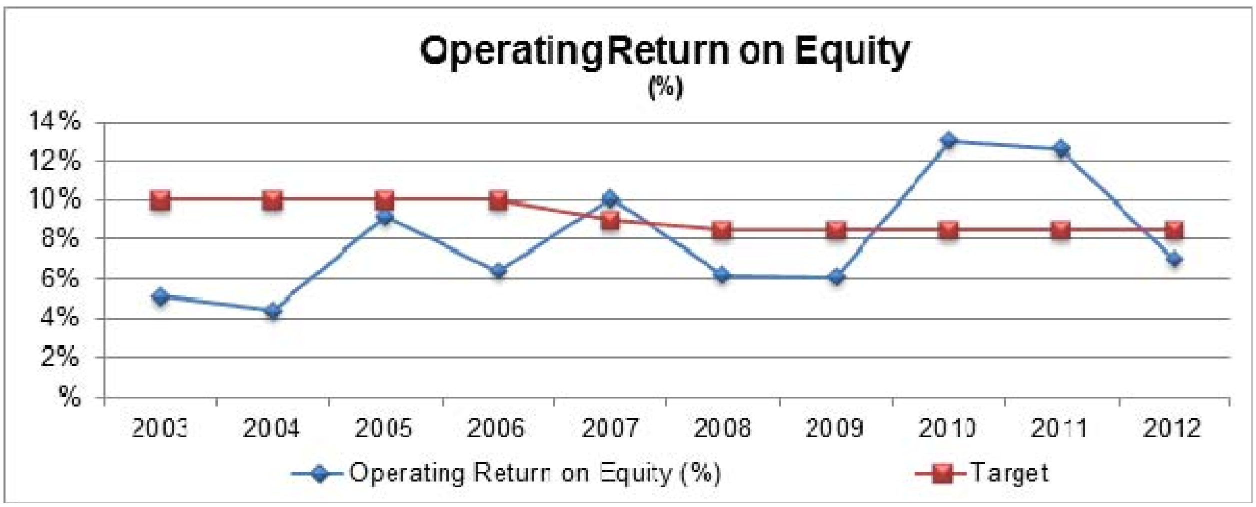
In SaskPower's proposal for an annual review mechanism, the trigger for a full review is dependent on our company's forecasted return on equity (ROE). Our company proposes that if the forecasted ROE either falls below 0% or increases to more than the 8.5% long-term target in the following year's forecast, 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.

"SaskPower's request for a lower ROE is justified in light of historical over forecasting of costs and under forecasting of revenues." **CAPP**

SaskPower has not proposed any rate increases beyond what was in the initial rate application unless our company is facing negative operating income in a subsequent year.

CAPP 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, CAPP questions the origins of load growth in the Power and Oilfield customer classes. The forecasted load growth in the Power class 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.

Meanwhile, SaskPower used the CAPP June 2012 production forecast to develop the Oilfield energy forecast for the 2014 Rate Application. The recently announced 2013 Saskatchewan oil production of 177.9 million barrels is higher than what was forecast for 2013 in the 2012 CAPP forecast (used for SaskPower's 2014 Rate Application) and is 2.9% higher than 2012 production. SaskPower's 2013 energy sales for the Oilfield class were 8.5% higher than 2012 levels.

Please note that SaskPower's Oilfield energy forecast is dependent on more than total oil production. Our company's Oilfield energy forecast is developed on a regional basis and is dependent on oil and water production and energy intensity levels. SaskPower uses regression models which indicate it requires more electrical energy each year to produce a barrel of oil.

"For the next SRRP process, the SRRP should require non-disclosure agreements, to the satisfaction of SaskPower, allowing more detailed information to be provided to organizations, like CAPP. The SRRP will be able to utilize the expertise SaskPower's stakeholders to a greater extent during the rate review process." **CAPP**

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.

"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." **CAPP**

SaskPower agrees that it should provide additional information to CAPP 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 the needs for 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.

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.

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"All rate classes should be moved to a 100% revenue to cost ratio." **CAPP**

SaskPower does not set the revenue to revenue requirement (R/RR) ratio for all classes to 1.00, but rather sets the R/RR ratio for Residential and Farm classes slightly below 1.00 and all other classes slightly above 1.00. This is done to limit the occurrences of Residential and Farm classes subsidizing other classes, which can occur if there are significant shifts in SaskPower's cost structure between rate applications.

Conclusion

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