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February 14, 2014

Saskatchewan Rate Review Panel
P.O. Box 1301
Saskatoon, Saskatchewan
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RE: Canadian Federation of Independent Business Submission of February 7, 2014

SaskPower appreciates the comments and concerns from the Canadian Federation of Independent Business regarding our 2014, 2015, and 2016 Rate Application. We are grateful for the opportunity to address the issues presented in the submission.

Maintaining competitive rates
As Saskatchewan's leading supplier of electricity, our company recognizes the responsibility that we have in supporting economic growth and quality of life in Saskatchewan. Our company has a target of ensuring SaskPower's sytem average rates are less than or equal to the system average rates of Canadian utilities dependent on thermal generation. In 2013, we were once again competitive with our peers.

Like many other Canadian jurisdictions, SaskPower is requesting a rate increase because our company must replace and refurbish a significant portion of our aging infrastructure. This renewal program coincides with significant load growth in Saskatchewan, which requires even more investment to ensure power is available for all of our customers. In total, we are expecting to invest $1 billion per year in our province's grid for the foreseeable future.

SaskPower has taken steps to mitigate the impact of the required rate increases. For example, Crown Investments Corporation (CIC) of Saskatchewan set SaskPower's long-term Return on Equity (ROE) target at 8.5%. In order to help customers absorb the proposed rate increases, from 2014 through 2016, our company has requested rate increases that will generate a return on equity well below the ROE target. As well, SaskPower's debt is forecasted to temporarily exceed its debt ratio target by 2016. Carrying debt in excess of our target is not a long-term solution, but our company feels that its balance sheet has sufficient strength to manage a temporary increase in debt in order to help mitigate the impact of rate increases on customers.

A multi-year approach with a built-in review process
SaskPower appreciates the concern that actual results can vary significantly from those forecasted. If a multi-year application is approved, our company has proposed that a short annual review mechanism be considered to ensure that the assumptions made in the initial application are still applicable.

Recognizing the value of revisiting the underlying assumptions presented in our company's original rate application, our company has outlined a proposed mechanism in 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, the trigger for a full review is dependent on our company's forecasted ROE. Our company proposes that if the forecasted ROE either falls below 0% or increases to more than the 8.5% 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.

Fuel variability
SaskPower has considered a rebate or future rate reductions due to fuel cost volatility. Upon the recommendation of the SRRP, cabinet directed our company to review the appropriateness of a Fuel Cost Variance Account (FCVA) for Saskatchewan.

A FCVA is a fuel cost pass-through mechanism that ensures each customer pays the exact cost of fuel — no more and no less — usually through future rate changes. This would involve either collecting a shortfall or rebating a surplus from the variance in fuel expense. Similar mechanisms are used in many jurisdictions in the United States and have a small presence in Canada.

SaskPower hired Christensen Associates Energy Consulting to evaluate the appropriateness of a FCVA within Saskatchewan's regulatory environment. Christensen wrote a report and made a presentation to stakeholders outlining its findings. This report is available on the SRRP website. The SRRP consultant also submitted interrogatories concerning the concept of a FCVA. Please see SaskPower's responses to consultant round one interrogatories Q157 to Q161 for more information on the FCVA concept (also available on the SRRP website).

Rate increase drivers
Revenue increases needed for Operating and Maintenance and Administration (OM&A) expense represent 13% of the requested rate increase, or 2% of the 15.5% that was requested. Most of the rate increase is required for fuel and purchased power (35% of the increase), finance charges (29% of the increase) and depreciation (20% of the increase).

From 2012 to 2013, OM&A remained virtually flat and is forecasted to increase at a lower rate than the forecasted increase in sales volume over the period of 2014-16. In response to the SRRP's recommendations as part of our 2009 Rate Application, SaskPower initiated the Business Renewal Program to increase effectiveness and improve performance. To the end of 2012, our company had realized savings of more than $137 million through a variety of initiatives.

Conclusion
SaskPower appreciates the submission of the Canadian Federation of Independent Business. 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.