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February 14, 2014

Saskatchewan Rate Review Panel
P.O. Box 1301
Saskatoon, Saskatchewan
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**RE: City of Saskatoon/Saskatoon Light & Power Submission of February 7, 2014**

SaskPower appreciates the comments and concerns from the City of Saskatoon/Saskatoon Light & Power regarding our 2014, 2015, and 2016 Rate Application. We are grateful for the opportunity to address the issues presented in the submission.

**Revenue to Revenue Requirement (R/RR) Ratio**
The following table summarizes the R/RR ratios for the Residential, Commercial, Residential and Commercial combined (32% Residential/68% Commercial) and Reseller classes in the 2014, 2015, and 2016 Rate Application.

In 2014 and 2015, SaskPower has requested rate increases which would result in the Reseller class R/RR ratios being lower than the combined Residential/Commercial classes. This is because the rate increases required to increase the Reseller class R/RR ratio from 0.94 to 1.00 are being phased-in over the three-year application period (2014 through 2016) to avoid rate shock.

In 2016, SaskPower has requested rate increases which would result in the Reseller R/RR ratio being 1.00, which is the same as the combined Residential/Commercial R/RR ratio.

**R/RR Ratios in the 2014, 2015, 2016 Rate Application**

| Customer Class | 2014 (Revised Rates) | 2015 (Revised Rates) | 2016 (Revised Rates) |
|---|---|---|---|
| Residential (32%) | 0.98 | 0.98 | 0.98 |
| Commercial (68%) | 1.00 | 1.00 | 1.01 |
| Combined | 0.99 | 0.99 | 1.00 |
| | | | |
| Reseller | 0.96 | 0.97 | 1.00 |

**Cost of Service (COS) Methodology: Change to Two Coincident Peaks (CP)**
SaskPower has an independent review of its COS methodology done every five years. In the 2007/2008 review, the use of multiple coincident peaks to allocate demand-related costs was discussed. Although the consultant — Foster Associates — recommended that SaskPower continue using the 1 CP methodology, it was understood that the use of multiple peaks would be considered in future methodology reviews.

In 2012, SaskPower issued a request for proposals for the review of our company's COS and rate design methodology. It included a stakeholder consultation component. Elenchus Research Associates was selected, and reviewed SaskPower's methodologies and models and prepared a preliminary report in September 2012.

The preliminary report was presented to the stakeholder group in Regina on October 16, 2012. At the end of the question and answer portion of the meeting, stakeholders were invited to submit written questions and submissions to Elenchus on the draft report. Elenchus' final report of January 2013 included a response to all submissions received from stakeholders.

Elenchus recommended that SaskPower change the demand allocator used to allocate generation, transmission and most of the distribution demand-related costs. Elenchus advised a move from the contribution to SaskPower's winter peak (1 CP) to a combination of SaskPower's winter and summer peak (2CP). This recommendation was made for the following reasons:

- SaskPower's summer peak load is now approximately 91% of the winter peak.
- The capacity of generation, transmission and distribution equipment is lower in the summer.
- Elenchus' utility survey shows a majority of utilities use more than 1 peak.

The recommendation on the 2CP demand allocator has now been implemented into SaskPower's cost of service model. As was discussed at the stakeholder meeting on October 16, 2012 — and in written communications subsequent to the meeting — any changes in R/RR ratios resulting from the methodology review need not be completely rebalanced in the next rate application.

Future rate increases will balance the desire to return classes to the 0.95 to 1.05 R/RR ratio band and the need to limit the maximum rate increases to any one class of customers to avoid rate shock. In keeping with this principle, SaskPower has rebalanced the impact of the COS changes to rates over a three year period — 2014 through 2016.

**Consistent Treatment for All Utilities in Saskatchewan**
SaskPower is not clear what the costs and benefits of this recommendation by the City of Saskatoon/Saskatoon Light & Power would be for our company, Reseller customers or the remaining customers in the province.

It is also not clear whether separating the generation, transmission and distribution functions in SaskPower reporting would provide the benefits the City of Saskatoon/Saskatoon Light & Power is expecting. It is suggested the City of Saskatoon raise this issue in the next cost of service methodology review so the independent expert can review this proposal.

**The cost of load growth**
It is true that a majority of SaskPower's load growth in the next 10 years is attributed to industrial — and to a lesser extent oilfield — customer segments and that this growth is impacting rates. This is the cost of provincial economic growth and it is not limited to electricity. New customers pay part of the costs to connect to the system, but once connected pay the same rates as other similar customers.

The methodology SaskPower uses to allocate costs and design rates does not differentiate based on when a customer connects to the system. This approach is similar to what is used by other electric utilities across Canada and is used for the following reasons:

- It would be difficult to justify charging only new industrial and oilfield customers higher rates, as there is load growth in other classes as well. For example, would SaskPower need to design higher rates for customers in new subdivisions or commercial developments?
- It would be difficult to justify higher rates for new customers at this point in time when SaskPower did not charge existing customers higher rates when their loads were increasing.
- The costs attributed to serving new customers changes over time. This could lead to several different rates as the cost of serving the new load changes.
- Charging higher rates to new industries could impact the competitive position of companies within the same industry and could discourage industrial growth and economic development in the province.

The current approach is reflected in SaskPower's approved COS and rate design methodology. Any change to this approach would require significant stakeholder consultation and the agreement of the provincial government.

**Conclusion**
SaskPower appreciates the submission of the City of Saskatoon/Saskatoon Light & Power. 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.