CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS

Canada's Oil and Natural Gas Producers

February 12, 2014

Ms. Kathy Weber
Chair
Saskatchewan Rate Review Panel
PO Box 1301
Saskatoon, SK S7K 3N1
(via email: feedback@saskratereview.ca)

Dear Ms. Weber,

Re: SaskPower 2014-2016 Rate Application – SRRP Review process

Please find enclosed the Canadian Association of Petroleum Producers (CAPP) final submission, prepared by Dale Hildebrand, Desiderata Energy Consulting Inc., on behalf of CAPP and our members to the Saskatchewan Rate Review Panel (SRRP) on SaskPower's 2004-2016 Rate Application (Application).

As per the process provided by the SRRP, CAPP offers the following recommendations for the SRRP:

1. 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.
2. SaskPower's request for a lower ROE is justified in light of historical over forecasting of costs and under forecasting of revenues.
3. 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.
4. 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.
5. All rate classes should be moved to a 100% revenue to cost ratio.

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The context for the above recommendations is detailed in the attached report.

If you require additional information, please contact either Dale Hildebrand at 403-869-6200 or dale.hildebrand@desiderataenergy.com or the undersigned at brad.herald@capp.ca or 403.267.1113.

Sincerely,

Brad Herald

Brad Herald
Manager Saskatchewan Operations

CANADIAN ASSOCIATION OF PETROLEUM PRODUCERS

Submission on behalf of the

Canadian Association of Petroleum Producers (CAPP)

to the

Saskatchewan Rate Review Panel (SRRP)

Review of SaskPower's 2014-2016 Rate Application

Prepared by Desiderata Energy Consulting Inc.

February 12, 2014

desiderata ENERGY CONSULTING INC

Executive Summary

The Canadian Association of Petroleum Producers (CAPP) retained Desiderata Energy Consulting Inc. (Desiderata) to review SaskPower's 2014-2016 Rate Application (Application) and provide CAPP with recommendations for submission to the Saskatchewan Rate Review Panel (SRRP). This is the ninth occasion CAPP has provided a submission to the SRRP regarding SaskPower's rate applications.

CAPP appreciates the opportunity to provide input on SaskPower's rate applications to the SRRP; however, as mentioned in our prior submissions, we remain concerned with the level of information provided. The high level overview of the forecast cost increases provided by SaskPower in their Application and subsequent information request responses does not have sufficient detail to allow for a proper review of the analysis supporting an electric utility requesting over $100 million per year increase in revenues from its' customers.

In summary, CAPP recommends that the SRRP consider making the following recommendations to Cabinet:

1. **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.**
2. **SaskPower's request for a lower ROE is justified in light of historical over forecasting of costs and under forecasting of revenues.**
3. **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 of SaskPower's stakeholders to a greater extent during the rate review process.**
4. **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.**
5. **All rate classes should be moved to a 100% revenue to cost ratio.**

Introduction

CAPP has reviewed the information the SRRP and SaskPower have provided through the public application review process and has worked cooperatively with other industrial customer associations. From the information provided CAPP has the following concerns with the Application and the related review process as discussed below.

SaskPower Proposed Return on Equity

In the Application, SaskPower is proposing a Return on Equity (ROE) significantly lower than the Minister mandated level of 8.5%. CAPP submits that the SaskPower requested ROE should be accepted by the SRRP. A higher rate increase than that proposed by SaskPower is not warranted based on the information provided and SaskPower's historical forecasting accuracy.

CAPP recognizes that SaskPower is a crown corporation responsible to the Minister. The SRRP should accept SaskPower's application for a lower ROE in the near term as being consistent with the Minister's requirement for a "targeted long term Return on Equity of 8.5%".

SaskPower's rate base has increased significantly in recent years, driven partly by the Boundary Dam #3 ICCS project. This project has imposed significant costs on SaskPower that are not justified from a competitive generation addition perspective. While CAPP understands the environmental benefits of the carbon capture project, it is appropriate that SaskPower manage with a lower ROE in the near term to minimize rate impacts on its customers.

CAPP is concerned with the accuracy of forecasts developed in the past. There seems to be a propensity for SaskPower to over forecast costs and under forecast hydro production and export revenues. CAPP submits that under a balance of probabilities, SaskPower will have higher operating income than forecast, resulting in a higher ROE in 2014 to 2016. In particular, CAPP is concerned with:

- LOAD FORECASTS – SaskPower's growth rates for industrial and oilfield customers is higher than industrial customers' own forecasts and expectations. Higher load forecasts seem to be driving the need for higher capital expenditures and higher operations and administration costs. Some of these costs are fixed and once committed, will result in higher rates if actual sales are lower than forecast.
- NATURAL GAS COSTS – For the portion of the natural gas costs that are not price hedged, CAPP submits that SaskPower's price forecasts have generally been higher than industry expectations.
- HYDRO GENERATION – CAPP understands the difficulty in forecasting hydro generation. SaskPower tends to under forecast hydro generation, minimizing the negative financial impact in a year where more expensive gas fired generation is required.
- EXPORT REVENUES – Similar to hydro production, export revenues are difficult to forecast as prices in neighboring jurisdictions can be influenced by many factors outside of SaskPower's control. Again, CAPP submits that SaskPower tends to under forecast export revenue, minimizing negative financial impacts.

CAPP and its members have provided information to SaskPower on their future growth plans to assist SaskPower with the development of their forecasts. While CAPP understands that SaskPower undertakes considerable effort to forecast its costs and revenues, and SaskPower's load forecasting accuracy has improved, there is a natural propensity for utilities to over forecast costs and under forecast revenues. CAPP submits that the SRRP should consider SaskPower's forecasts as being conservative and that on a balance of probabilities SaskPower will earn a higher ROE than forecast for 2014 to 2016.

CAPP notes that as of end of Q3 2013 SaskPower has earned an ROE well in excess of 8.5%. It is CAPP's belief that some of this increase in ROE is the result of forecasting accuracy.

CAPP and its members support a predictable business climate and appreciate cost stability and while a three year test period could achieve this and provide SaskPower with the ability to better manage their operations over the longer-term, CAPP does not support a three year rate recommendation to Cabinet at this time. If an industry standard rate review process were adopted, CAPP could then support longer periods between rate applications, or even alternate regulatory models like performance based regulation.

Given the projected costs, revenues and proposed lower ROE target for 2014, CAPP does not oppose the proposed 2014 rate increase. CAPP submits that the SRRP should recommend that SaskPower be required to file future applications requesting rates for the next calendar year complete with a forecasted rate outlook for the following two years. If a rate application is required for 2015, CAPP recommends that the rate application should be by filed by July 1, 2014 to allow ample time for the application to be reviewed prior to implementation.

In summary, CAPP recommends the SRRP consider making the following recommendations to Cabinet:

1. **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.**
2. **SaskPower's request for a lower ROE is justified in light of historical over forecasting of costs and under forecasting of revenues.**

Rate Review Process

Consistent with CAPP's submissions in prior SaskPower rate review and related processes before the SRRP, CAPP continues to recommend that a more open and industry standard approach be developed.

The SRRP currently utilizes two separate review processes:

- The **public** process, where organizations like CAPP, are provided with <u>some</u> information to support the requested rate increases in the Application, but not enough information, in CAPP's view, to provide meaningful feedback to the SRRP.
- The **private** process, where the SRRP is provided with information at a level that would be considered industry standard in most jurisdictions.

CAPP respects the Saskatchewan government's desire for certain SaskPower information not to be made public. However, in doing so, CAPP believes that the SRRP cannot take advantage of the diverse prospective and views different customer groups and their consultants can provide to the SRRP. CAPP would like to participate to the same level as the private process, and believes that other customer associations would as well.

CAPP submits that with appropriate provisions in place to ensure that the requirements of *The Freedom of Information and Protection of Privacy Act* are upheld, the SRRP could take advantage of the resources and insights CAPP and other associations are willing to invest in the rate review process.

CAPP recommends the SRRP consider making the following recommendation to Cabinet:

3. **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 of SaskPower's stakeholders to a greater extent during the rate review process.**

Capital Expenditures

CAPP members enjoy doing business in Saskatchewan. CAPP members desire a competitive investment environment, which includes a secure, safe, reliable and cost efficient electric energy delivery system. CAPP members have the opportunity to continue to expand their use of SaskPower's system through the electrification of new facilities, conversion of existing facilities from gas to electric energy and increased utilization at existing electrified facilities.

SaskPower is forecasting annual 6.7% growth in oilfield consumption during the 2014-2016 period. This level of growth seems excessive when compared to CAPP's projections, which indicate production growth of 0.5% per year over the same period. The National Energy Board is forecasting 0.3% annual production growth over the same time period.

The high levels of debt SaskPower has committed to as a result of the ICCS project, in addition to the other significant capital expenditures, has resulted in substantial increases in SaskPower's revenue requirement for debt repayment, interest costs, and depreciation expense. In prior submissions to the SRRP, CAPP has expressed concerns with the lack of information provided by SaskPower regarding the development of capital budgets. In light of SaskPower's proposed approximate $1 billion per year in capital expenditures in 2014 to 2016, CAPP recommends the SRRP indicate to Cabinet the need for an open consultation process whereby SaskPower and its customers can review proposed major capital expenditure projects.

CAPP notes the Minister's terms of reference where capital expenditures are to be taken as a "given". This is unusual and inconsistent with appropriate levels of oversight of public utilities in other jurisdictions. More typical processes would require utilities to provide detailed justifications for their major capital expenditures which could be reviewed and tested by customers.

CAPP recommends the SRRP consider making the following recommendation to Cabinet:

4. **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.**

Rate Design

Consistent with submissions in prior rate application review processes, CAPP again submits that all revenue to cost ratios should be set at unity. Significant resources are expended to allocate costs as fairly as possible. Allowing SaskPower to then adjust rate levels based on other factors is inappropriate and inconsistent with how rates are being developed in other jurisdictions.

CAPP recommends the SRRP consider making the following recommendation to Cabinet:

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