

February 10, 2014

Ms. Kathy Weber  
Chair, Saskatchewan Rate Review Panel  
[chair@saskratereview.ca](mailto:chair@saskratereview.ca)

**Re: Saskatchewan Mining Association (SMA) Final Submission to the Saskatchewan Rate Review Panel regarding SaskPower's Rate Application 2014 - 2016**

The Saskatchewan Mining Association (SMA), appreciates the opportunity to provide a final submission to the Saskatchewan Rate Review Panel (SRRP) with respect to SaskPower's Multi-Year Rate Application (2014 – 2016). As identified in our preliminary submission on December 3, 2013, the Saskatchewan Mining Association, represents many of SaskPower's Power Class customers.

The SMA has reviewed the SaskPower Rate Application in collaboration with the Saskatchewan Industrial Energy Consumers Association (SIECA) with technical consulting expertise provided by Kavita Maini, Principal, KM Energy Consulting, LLC. SMA supports and endorses the detailed Final Submission that SIECA has provided to the Saskatchewan Rate Review Panel and as such will not repeat the detailed rationale contained in SIECA's final submission.

SaskPower's multi-year rate application represents a very significant cost increase for customers, and a disproportionate increase for Power Class customers. SaskPower's rate application refers to a system-wide average increase of 5.5% in 2014, 5.0% in 2015 and 5.0% in 2016. However this generalization is an understatement of the impacts to customers in the Power Class which bears the highest rate increase of all Classes. On average, the proposed increase for Power Class customers is approximately 6.9% in 2014, 6.0% in 2015 and 5.7% in 2016. This is on top of a 6.1% increase in 2013 – a compounded rate increase over the 4 year period will exceed 25% for most Power Class customers. This is a very significant rate shock which will have a bottom line impact, particularly at a time when cost-control is so critical to these globally competitive businesses.

Prior to offering comments on the SaskPower submission itself, the SMA notes that the SaskPower Rate Change Proposal Terms of Reference for the SRRP review limit the ability of stakeholders and the Panel itself to address some of the driving factors behind SaskPower's multi-year application.

Specifically:

- capital costs of SaskPower's power generating options which the stakeholders ultimately must pay for and which are the driving factor in the rate increase of this proposal, are not included as factors the Panel can consider
- the targeted long term Return on Equity target of 8.5% parameter is to be considered a given. The scale of infrastructure investment identified by SaskPower indicates that SaskPower is not operating under a "business as usual" environment. Hence a relaxing of the ROE target from the mandated 8.5% would be appropriate given SaskPower's current business environment.

The SMA is empathetic to the necessity of SaskPower re-investing in its infrastructure, however Power Class customers should not unfairly or inequitably bear these costs as is being proposed by this rate application. Transparency of process to ensure the "least cost" approach to determining power generating options are the basis for rate increases is a necessity.

The SMA offers the following comments for the SRRP's consideration:

#### **1. 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.**

As stated in our preliminary December 2013 submission to the SRRP, the SMA supports SaskPower retaining any surplus revenues for reinvestment back into the Crown Corporation. This will help to offset the significant rate shock increases that all SaskPower customers, and particularly the Power Class customers will be subject to. Any dollars stripped from SaskPower to support other programs effectively represents an added tax to all SaskPower customers, but particularly to those in the Power Class which contributed the most revenue to SaskPower (26% of total 2012 revenues). The inability of SaskPower to utilize these revenues to offset future SaskPower rate increases compounds the effect of the rate increase on Power Class customers.

In SaskPower's third Quarter Report for 2013 which was recently issued, SaskPower forecast revenues of \$193 M in 2013, representing a ROE of 9.7% in 2013. The report also identifies that SaskPower is carrying a debt load of just over \$3 Billion dollars which is similar in scale to the overall Saskatchewan Public Debt of \$3.8 Billion. Additionally, for the 9 months ended Sept 30, 2013 SaskPower's finance charges are \$185M. Given the scale of SaskPower's current financial challenges, combined with the significant forecast capital expenditures of almost \$10 Billion in the next decade, it would be prudent for SaskPower to retain the projected \$195 Million surplus in 2013, along with any future surpluses, to help offset the current and future proposed SaskPower rate increases.

As identified previously, the SMA collaborated with SIECA in reviewing SaskPower's rate application. SMA supports SIECA's rationale, positions and recommendations to the SRRP as detailed in their Final Submission including:

- 2. Recommendation: SRRP approve a single year rate increase only for 2014.**
- 3. Recommendation: SRRP Recommend Creation of a Public Consultation for Review of Resource Planning and Major Capital Investment.**
- 4. Recommendation: SRRP Recommend Reallocation of Integrated Carbon Capture and Sequestration (ICCS) and Wind Generation Costs within the Cost of Service Using the Percent of Revenue Allocation Method.**

#### Concluding Remarks

The SMA recognizes the need to ensure there is timely and available power generation and infrastructure in place to support the provinces' growth. However, our members are concerned that the proposed rate increase for the Power Class will result in our members paying a disproportionate part of the capital financing of the transformation and modernization of Saskatchewan's power system.

SMA does not support SaskPower's historic multi-year application as it does not provide a mechanism to adjust for inevitable variances in load forecasting, fuel and purchased power costs and capital and financing costs that will occur over the period.

SMA supports SaskPower's ability to retain any surplus revenues to address SaskPower's significant capital investment and debt requirements rather than SaskPower providing a dividend payment to the Saskatchewan Government.

Thank you for the opportunity to provide final comments for the SRRP consideration. Given the magnitude of SaskPower's rate application on SMA members, we keenly await learning of your recommendations to the Saskatchewan Government.

Yours sincerely,



Pam Schwann  
Executive Director

cc. SMA Executive