City of Saskatoon
Utility Services Department

Saskatoon Light & Power

File No. 1905-6
February 7, 2014

Kathy Weber, Chair
Saskatchewan Rate Review Panel
P.O. BOX 1301
Saskatoon, SK S7K 3N1

Dear Ms Weber:

Re: SaskPower's 2014 to 2016 Rate Application

The City of Saskatoon sincerely appreciates the opportunity to provide input to the Saskatchewan Rate Review Panel on the review of SaskPower's 2014 to 2016 Rate Application.

Saskatoon Light & Power (SL&P) and SaskPower have co-existed in Saskatoon for many years. SL&P currently purchases its bulk electricity from SaskPower for distribution within our franchise area. The City's franchise area includes approximately two-thirds of the city, primarily within Circle Drive. SaskPower currently provides distribution of electricity to all new growth areas of the city in addition to existing parts of the city that are not served by SL&P.

We would like to raise 5 key areas of concern regarding this rate application.

1. R/RR Ratio

In its April 2009 report, the Saskatchewan Rate Review Panel stated the following:

> *"The Panel recommends that the Resellers Revenue to Revenue Requirement (R/RR) be reduced from the amount identified in the Application to 1.0 in accordance with previous Panel recommendations."*

However, since SL&P is a reseller of electricity and not an end-consumer, we believe that it is more appropriate to set the R/RR ratio based on the mix of customers served by SL&P.

Based on the current rate application, the R/RR ratio for residential customers is set at 0.98. Energy consumption for residential customers within the SL&P franchise accounts for 32% of our sales (355.5 GWh). The R/RR ratio for commercial customers is set at 1.00. Energy consumption for commercial customers within our franchise area accounts for 68% of our sales (755.2 GWh). Therefore, if SL&P's R/RR ratio was based on the mix of customers served within our franchise area, the ratio would be 0.99.

Setting the R/RR ratio at this level ensures that SaskPower is not charging us a rate greater than the average of our customer base. This effectively helps to put SaskPower and SL&P on a level playing field. If the R/RR ratio is set at a level above 0.99, SaskPower would be collecting more from us than they otherwise would if SL&P did not exist as a Reseller and they were selling directly to the end consumers. We see this as providing SaskPower with an unfair advantage above the two Resellers.

It should be noted that the most recent rate increase by SaskPower effective January 2013 had the R/RR ratio set at 1.01 for the Reseller category.

SL&P therefore requests that the target R/RR ratio for Resellers be based on the mix of customers within their franchise area. The appropriate ratio would therefore be 0.99 for SL&P.

2. Cost of Service Methodology: Change to Saskatchewan Demand Research

SaskPower recently made a change to its Cost of Service methodology to begin using Saskatchewan demand research information instead of the Alberta demand research previously used. SL&P considers this a significant improvement to the Cost of Service methodology.

As a result of this change, the Reseller category R/RR ratio would remain at 1.00. However, the Farm category R/RR ratio would fall from 0.97 to 0.89, Urban Residential R/RR ratio would fall from 0.97 to 0.95, and Urban Commercial ratio would increase from 0.98 to 1.05.

Rate rebalancing after this change has been made would provide no rate change for Resellers. However, this change would provide a rate increase for the Farm and Urban Residential categories and a rate reduction for Urban Commercials. Changing to Saskatchewan demand research information therefore indicates that the Farm and Urban Residential categories have been effectively subsidized for a number of years and Urban Commercials have been overpaying.

SL&P supports the move to utilizing Saskatchewan demand research information.

3. Cost of Service Methodology: Change to Two Coincident Peaks

SaskPower made another significant change to the cost of service methodology used in this rate application by changing from the use of one coincident peak to two coincident peaks.

SL&P vigorously opposes this change.

For the past 30 years, SaskPower used the same American consultant (Foster Associates Incorporated) to review its Cost of Service methodology. In 2008, Foster Associates concluded:

> "For generation, transmission..., a 1-CP demand in terms of load supplied by the facility is the proper measure of cost behaviour. Ideally, the best source of the 1-CP demands is the rate class load profiles based upon load research on your own system."

For the latest Cost of Service methodology study, SaskPower chose to use a new consultant (Elenchus Research Associates). Elenchus is now disagreeing with the previous recommendations made by Foster and are recommending a change to 2-CPs. However, Elenchus acknowledges that there is no consistent method adopted by the industry. In fact, there are a number of utilities that continue to use 1-CP.

Using this method, the rates for each customer class are based on their share of total system peak. In Saskatchewan, SaskPower's system peak occurs in the winter. It is important to note that this is the methodology that current rates are based upon and that customers are use to paying.

The effect of switching from 1-CP to 2-CP has a very significant impact on the Reseller category. The R/RR ratio drops from 1.0 to 0.94 using the 2013 rates. SL&P estimates that this change will increase its costs by approximately $5.0 million once fully implemented in 2016 and will continue at this increased level every year going forward.

SaskPower's decision to switch to 2-CPs has the effect of shifting the impact felt by those rate categories affected by the Saskatchewan demand research information and instead placing the impact directly on the Reseller category. Switching to 2-CPs decreases the R/RR ratio for Resellers to 0.94, increases the R/RR ratio for Street Lighting to 1.16 and returns the R/RR ratio for every other rate category to near their original level (based on the Alberta load research). Once rate rebalancing is completed, the Reseller rate increases and the street lighting rate decreases.

The timing of the change to 2-CPs at the same time as the move to Saskatchewan demand research appears to be a deliberate mechanism to offset the impact felt by some rate categories and specifically target the Reseller category.

SL&P therefore requests that the SRRP not allow the change to 2-CPs.

4. Consistent Treatment for all Utilities in Saskatchewan

There are three electrical utilities operating in Saskatchewan that distribute power to customers: SaskPower; SL&P, and the City of Swift Current. SaskPower generates the vast majority of power in the province and all three utilities are involved in distributing the electricity to the end consumers within their respective franchise areas.

However, the rates that SaskPower charges the two Resellers provide SaskPower with an unfair advantage.

The Cost of Service methodology employed by SaskPower is intended to ensure that each rate category only pays the costs associated with generating the necessary power and transmitting it to the customer. In the case of the Reseller category, only the costs attributable to generation and transmission to the Resellers' point of service are factored into the rates. If the Cost of Service methodology is working properly, any increase in costs affecting the two Resellers should also have a corresponding impact on SaskPower.

However, in the case of SaskPower, the rates are set in such a way as to have no impact on them at all. This is referred to as a 'zero sum process', which means that increases to one rate category as a result of changes in the Cost of Service methodology are offset by decreases in another rate category so that there is no impact on SaskPower.

This approach is not appropriate though for rate categories that do not consume the power but instead resell it to the end consumer. If all three electrical utilities were on a level playing field, all three would be impacted by a change to the Reseller category.

SaskPower has, in effect, a 'generation and transmission' arm and a 'distribution and customer service' arm. The company has chosen not to separate these different functions in their financial reports and therefore lumps everything together in their reporting. However, if they separated out their costs to increase their transparency, the 'distribution and customer service' arm of SaskPower would in effect become a reseller. Doing so would ensure that all three electrical utilities would be treated consistently by any increases or decreases in rate methodologies. If this system was in effect, SaskPower would be affected by the changes being implemented in this rate application, and not only SL&P and the City of Swift Current.

SL&P therefore requests that SRRP recommend a new methodology be established for determining rates for Resellers that more consistently attributes cost increases to all electrical utilities in Saskatchewan instead of just SL&P and the City of Swift Current.

5. Cost of Load Growth

SaskPower has indicated that growth in electrical consumption within the province is driving a large portion of their generation costs and therefore increasing the rates that they need to charge customers in the future. The rate application indicates that over 50% of the $3 billion capital investment between 2014 and 2016 is the result of load growth.

However, it is important to note that sales volumes for Resellers are only projected to increase by 1.4% between 2012 and 2016. By comparison, Power customers (e.g. the potash industry) are projected to grow by 31.5%, Oilfields are projected to grow by

26.4% and Farms are projected to grow by 13%.

It is apparent that the cost of increasing generation capacity within SaskPower is therefore being inappropriately spread among all customers and not just those benefitting from the increased capacity.

SL&P recommends implementing a 'growth pays for growth' philosophy for any increased costs to build new generation capacity.

Summary

Saskatoon Light & Power respectfully requests that the Saskatchewan Rate Review Panel consider these five points and make the following recommendations:

1. **R/RR Ratio** – The target ratio for Resellers should be based on the mix of customers within their franchise area. In the case of SL&P, the current ratio would be 0.99.

2. **Change to Saskatchewan Demand Research** – The proposed change from Alberta demand research to Saskatchewan demand research should be approved.

3. **Change to Two Coincident Peaks** – The proposed change from one to two coincident peaks should not be approved.

4. **Consistent Treatment for all Utilities in Saskatchewan** – SaskPower should be directed to establish a new methodology for determining rates for Resellers that more consistently attributes cost increases to all electrical utilities in Saskatchewan, including SaskPower, instead of just SL&P and the City of Swift Current.

5. **Cost of Load Growth** – SaskPower should be directed to attribute a greater share of costs for increasing generation capacity to those customer classes that contribute to the growth.

Yours truly,

Trevor Bell, P.Eng.
Director of Saskatoon Light & Power

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