EVRAZ

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February 6, 2014

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

Dear Sirs/Madams:

EVRAZ is enclosing a written brief regarding our comments and concerns towards SASK Power's application for a rate increase over the next three years effective January 1, 2014.

EVRAZ submits our concerns and objections to this rate increase and respectfully request that you consider our issues when making your recommendations to the Saskatchewan government.

EVRAZ is a long established company located in Saskatchewan who has provided major employment to the local work force here in Regina and has supported the Saskatchewan economy over the past fifty years and believes that this proposed rate increase will have a detrimental effect on the operations of our company especially during the times of strong North American and global competition.

We thank you in advance to your consideration of our comments and would be pleased to discuss this matter in further detail if you require.

Sincerely,

Stephen McNevitts

Stephen McNevitts
Director, Business Services
EVRAZ NA

SM/mb

Enclosure

Cc: John Zanieski, EVP, Flat Products Group & Recycling
Roger Juarez, VP and General Manager, Operations

COMMENTS BY EVRAZ REGINA STEEL TO THE SASKATCHEWAN

RATE REVIEW PANEL (SRRP) REGARDING SASKPOWER's

2013 MULTI YEAR RATE APPLICATION

Submitted by:

EVRAZ Regina Steel
A Division of EVRAZ INC. NA

COMMENTS BY EVRAZ REGINA STEEL ON THE SASKPOWER 2013 MULTI YEAR RATE APPLICATION

EVRAZ Regina Steel appreciates the opportunity to provide comments to the Saskatchewan Rate Review Panel (SRRP) regarding SaskPower's 2013 rate application. In its multi-year rate application, SaskPower proposes an average rate increase of 5.5%, 5% and 5% for 2014, 2015 and 2016 respectively. The utility states that the rate increases are being driven by increases in capital expenditures, fuel costs and O&M costs. More importantly, a significant portion of the increases is associated with new load and/or expanded load at existing facilities.

Our company is very concerned about the impact of these proposed rate increases on our competitiveness. These increases diminish any competitive advantage we may have and lower demand for our product which ultimately has an adverse trickledown effect on our company's employees and the demand for local goods and services. We are also particularly troubled by the multi-year nature of the increases that spans three years and believe it is not equitable that existing customers should be paying the costs of infrastructure to support new load or expansions. We discuss these concerns further below.

a. Potential Erosion of Competitive Advantage

EVRAZ Regina Steel is the largest steel company in Western Canada. It is also one of the largest private sector employers in Regina with 1200 employees and spends over $135 million per year on local purchases of goods and services.

The steel industry operates in a highly competitive market on a regional, North American Continent and global level. We currently face stiff competition from domestic producers and imported product from international steel companies. The Regina facility also competes with other EVRAZ global production facilities for investment capital which is based on earnings and return on investment. This requires the Regina plant to maximize operational efficiency and minimize costs on an on-going basis.

Our manufacturing processes are highly energy intensive. Next to raw materials, electricity costs are the next highest cost in producing our steel. As a result of competitive pressures, increases in power costs cannot be passed on to our customers. Consequently, increases in power costs have a direct impact on our bottom line. The EVRAZ Regina location has had a freight advantage in the northern part of the continent, which has kept us competitive against other steel companies in North America and globally. However, this advantage is being eroded by past increases in power costs. SaskPower's latest application will further diminish this competitive advantage which is very concerning to us. A decreasing competitive advantage lowers demand for our product which ultimately has an adverse trickledown effect on our company's employees and the demand for local goods and services. We urge the SRRP to carefully evaluate the proposed increases in light of its potentially serious impacts on industrial competitiveness in Saskatchewan.

b. Increases Associated with Load Growth Should be Targeted to New Customers and/or Existing Customers that are Expanding

SaskPower informed us that approximately 4%, 1.9% and 1.9% of the proposed rate increases for 2014, 2015 and 2016 are associated with capital costs of new generation and transmission. Of this amount, approximately 2%, 1% and 1% of the costs are associated with expected new load growth or potential expansions at existing facilities. EVRAZ does not take issue with paying for refurbishing the costs of the existing infrastructure provided it is implemented cost effectively. Our larger concern is regarding the costs associated with new load or expansions at existing facilities. Such costs should be specifically recovered from the customers that are either new or are expanding. EVRAZ and other customers such as existing residential customers and businesses not experiencing expansions should not be asked to bear this cost burden. Such a practice is neither fair nor reasonable and leads to all existing customers subsidizing new customers or customers experiencing expansions at existing facilities.

To address this inequity that not only impacts EVRAZ but all existing residential and business customers that are not expanding, SaskPower should implement a two tiered approach where the costs of the capital expenditures for new load are targeted to new or expanding customers. While we expect SaskPower's response will be that a two tiered approach will impact economic activity and dissuade new load from locating to Saskatchewan, the same argument could be used for retaining existing load – existing load is impacted when it is burdened with costs that are caused by new load or expansions at existing facilities. Should the Government determine that large load expansions require relief, it should utilize alternative channels to provide such assistance in lieu of power rates. It is our understanding that British Columbia has policies where after a certain load threshold, the new load pays for the cost of new generation and transmission. SaskPower needs to utilize similar approaches for fairer rates for existing customers.

c. Multi -Year Rate Increase Request is Problematic and should be Denied

Past single year rate applications have indicated that it is challenging for SaskPower to predict costs with reasonable accuracy for a single year. Therefore, it is difficult to have confidence in the utility's ability to forecast costs for three years. Changes in fuel cost prices and volumes compared to what was projected can result in high variances. Consequently, approving rate increases for three years given so much uncertainty is not reasonable. Approving a three year rate application with over predicted costs will also provide less motivation for the utility to be efficient in its operations. As a result of these concerns, we recommend any rate increase be approved on the basis of costs that the SRRP expects will be incurred for 2014 only.

Conclusion:

1. **We oppose the proposed 5.5%, 5% and 5% for 2014, 2015 and 2016 respectively and ask that the requested such increases be scaled back to a more reasonable level.**

2. **We oppose the approval of a multi-year rate request and recommend to the SRRP to deny such a request**.