

SIECA Presentation to Saskatchewan Rate Review Panel  
December 3, 2013  
Regina

A. Introduction

The Saskatchewan Industrial Energy Consumers Association (SIECA) is a group of 19 member companies and entities all of which reside in the Power and Re-Seller customer classes on SaskPower's system. Collectively our members represent over 20% of SaskPower's sales on both a peak demand and energy basis. On behalf of SIECA members, we appreciate the opportunity to provide comment regarding SaskPower's 2014-2016 Rate Application at this public meeting today. We ask the Panel to note that due to the compressed timing associated with the application, the interrogatory process and the scheduling of public meetings; we have not been given a reasonable amount of time or information to complete meaningful analysis of the issues surrounding a very complicated rate application. Given the limitation of insufficient time and given that the interrogatory process is incomplete; our comments today will be restricted to a high level. Our association will provide a more detailed written submission to the panel prior to the February 7, 2014 submission deadline.

B. Rate Impacts for Industrial Customers

The SaskPower 2014-2016 multi-year rate application represents a very significant cost increase for customers. SaskPower cites a system-wide average increase of 5.5% in 2014, 5.0% in 2015 and 5.0% in 2016; however the "system-wide average" generalization is an understatement of the impacts to the customers in the Power and Reseller classes. We estimate that, on average, the proposed increase for Power customers are 7.0% in 2014, 6.4% in 2015 and 6.0% in 2016. The compounded rate increase over the 3 year period will exceed 20% for most industrial customers. An increase of over 20% for the 3 year period constitutes rate shock for industrial and large customers; many of whom operate in competitive cost sensitive global markets. The proposed 2014-2016 rate increases are far in excess of any measure of inflation in the Saskatchewan marketplace. These proposed rate increases present a particular challenge to customers or industries where electricity is a significant component of variable costs, and increase the risk of business suspension or closure for some SIECA members. Expansion of production or capacity to offset increased costs may not be an option for all industrial customers to mitigate competitive cost pressures.

In this regard, we will be taking a close look at the Class Cost of Service model to ascertain why a disproportionate share of the proposed cost increases is allocated to the Power Class.

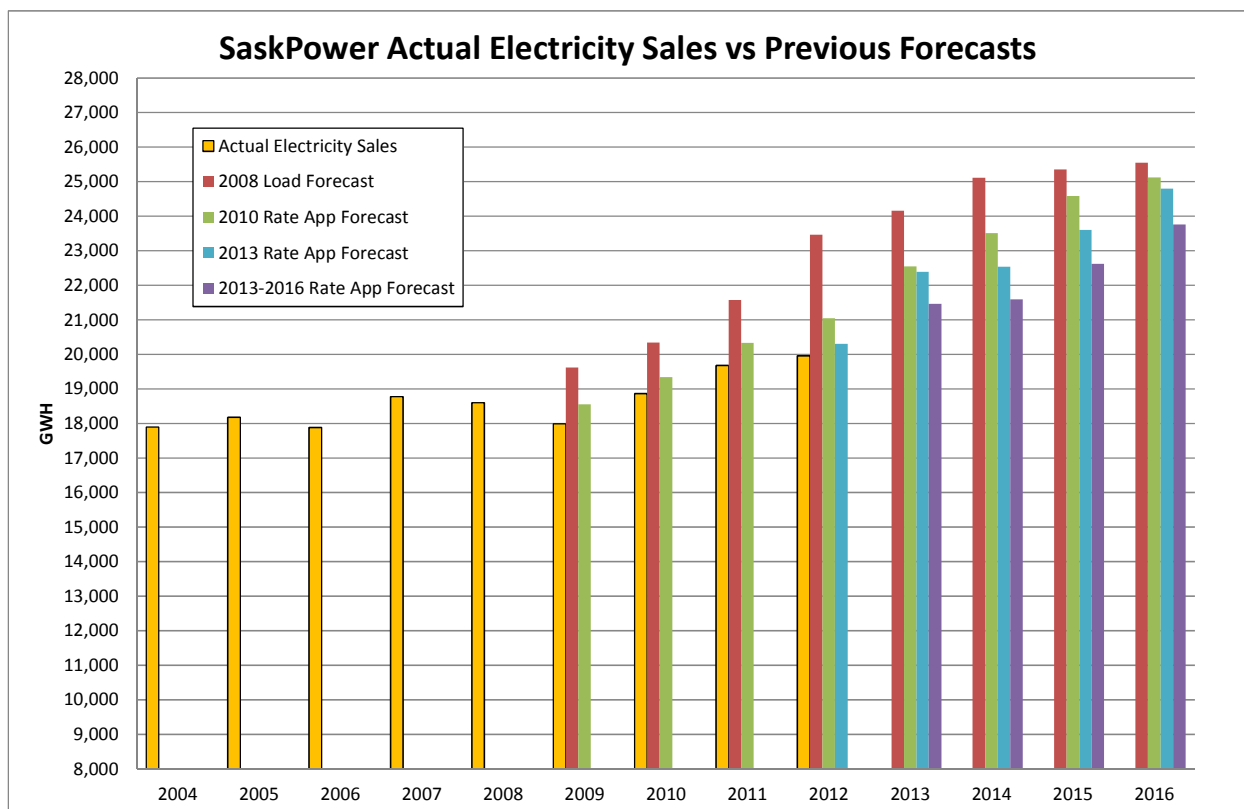
SaskPower is asserting that it must invest in new generation to meet rising demand for electricity, invest to rebuild its aging electrical system, and invest to build the world's first commercial carbon capture and storage equipped power plant. The utility states that nearly three-quarters of the 2014 increase is attributable to capital spending. Our members are very concerned about the magnitude, timing and fairness of this investment as well as its impacts on specific rate classes. Given the magnitude of the investment and its impact on rates, it is imperative that the Panel evaluate the reasonableness of this

investment notwithstanding the Minister’s Terms of Reference for the Rate Review Panel regarding the budgeted capital allocation, the rate base and established corporate policies of the utility.

C. Load Forecasting – A Critical Issue in this Rate Application

SaskPower is conducting an unprecedented public advertising program coincident with this rate application in which they are asserting that the province needs “Power to Grow”. Our association acknowledges that the economy of Saskatchewan is growing; however our members are very concerned about SaskPower’s ability to accurately predict the magnitude and timing of the growth of electricity demand in the province. Load forecasts are the basis upon which SaskPower builds its business and capital spending plans. These load forecasts are critical to establishing the timing for the building of generation and transmission infrastructure. SaskPower has a long and consistent history of over-estimating load growth. Our members contend that the result of this bias to over-estimation is that capital investment has been made prematurely. The official 2008 SaskPower load forecast for the period 2009-2012 predicted electricity sales that exceeded the actual electricity sales for that period by 11%. That margin of over-estimation is equivalent to the output a 250 MW gas-fired combined cycle generating facility which would have an estimated capital cost in excess of \$500 million.

Our written submission contains a graphical slide that clearly shows the progression and magnitude of over-estimation found in the load forecast information that underpinned the last four SaskPower rate application periods. Each of the successive load forecasts for electricity sales used in the rate applications for 2009, 2010, 2013 and 2014-16 were lower than the preceding forecast, but each and every one of SaskPower’s forecasts have exceeded the actual electricity sales through to 2012.



On page 24 of the application SaskPower discusses the importance of load forecasting to the rate making process and discusses some of the uncertainties associated with estimating load for the Power and Oilfield class customers. The over-estimation of large customer load has historically been the largest contributor to SaskPower's load forecasting inaccuracy. SaskPower has not changed its forecasting processes for the large customer classes and continues to forecast that most of the demand growth over the next three years will come from the Power and Oilfield class customers. SaskPower has failed to alter forecasting methodologies or adapt new investment policy to new and potential future loads to address this continuing source of forecasting error.

Our membership is very concerned that the long lead times required to construct power projects coupled with load over-estimation during the 2008-2012 period may have caused hundreds of millions of capital investment to be spent before it was needed. Since the capital spend of SaskPower is developed in response to SaskPower's load forecasts; SIECA respectfully requests that the Panel confirm the trend and extent of load over-estimation. Based on the Panel's conclusions in the area of load forecasting; our members request that the Panel quantify and comment on how over-estimation of load may have impacted the timing of capital spending. We would further request the Panel to make a determination of whether there has been a premature-build or over-build of generation and/or transmission infrastructure.

#### D. Generation Planning and Current Capacity Position

The rate application states that the SaskPower system capacity totals 4,303 MW when SaskPower owned generation assets and IPP contracted generation are combined. The 2013 Q2 SaskPower Quarterly Report cites the system capacity at 4,364 MW. As stated earlier, there has been growth in electricity demand and it is acknowledged that SaskPower set a new maximum system peak in January 2013 at 3,379 MW. However, even at this new peak, SaskPower appears to have nearly 1,000 MW of excess generating capacity to meet its obligation for spinning or contingency reserve and is adding another 110 MW of capacity with the Boundary Dam 3 completion in early 2014. The minimum single contingency reserve requirement is the largest single generation unit on the system, which for SaskPower is approximately 270 MW. The forecast 2013-2016 load growth in the application, if it were to materialize, will take up approximately 433 MW of the apparent 1,110 MW of surplus capacity leaving SaskPower with an estimated 677 MW to meet its reserve requirements. Does SaskPower require more than two and one-half times its largest single contingency for reserve security on its system?

To quote (loosely) from the recent SaskPower advertising campaign; "SaskPower is investing to ensure that the next generation has the power they need - when they need it". This is a goal we all share but, SaskPower's view of "when they need it" is of great concern to our members today. Given realistic rates of electricity demand growth, existing generation capacity and given that the next generation retirements do not occur until 2019, it seems like SaskPower has overbuilt generation capacity? Our members question why there is not a detailed generation plan that specifically identifies existing unit capacities, future unit capacity retirements, reserve capacity obligations and required future generation build requirements included in this rate application?

Five years ago SaskPower was telling customers that they had an impending generation gap or deficit, but today they are telling customers that they are long generation through to 2020. The utility plans to continue to spend on additional generation over the life of this rate application period. In our view, this over-build of capacity is attributable to the over-estimation of load growth and the policies of SaskPower with respect to new load development. An over-build has dramatic impact on power rates for utility customers and causes existing customers to bear the commercial and market risk of new load viability. Our members would suggest that the commercial and market risk of new load viability should be born appropriately by the proponents of new electricity demand and the shareholder; the government of Saskatchewan.

An infrastructure over-build also sets up a dialogue about whether SaskPower is justified in placing all of the investment for any excess generation into the rate base.

For utilities in jurisdictions with no retail choice in the United States, the need to build infrastructure undergoes a comprehensive review to ascertain the prudence of committing investment and constructing infrastructure assets. The issue of load forecasting and subsequent need for building additional infrastructure is subject to a Certificate of Need (CON) proceeding. These CON proceedings are contested cases where the utility is compelled to demonstrate the reasonableness of its forecasts and resulting deficiency of infrastructure capacity or capability, in order to obtain approval to build the appropriate infrastructure. Utilities present their case through expert witnesses and intervening parties can seek discovery and present their assessment. Public Service Commission staff may also submit testimony. The Commission assesses the evidentiary record in the case in order to make its final decision. If the capital investment in the generation plant is approved, the utility constructs the plant and once the plant is in service, it is deemed used and useful and costs are folded in the rate base.

In SaskPower's case, stakeholders have not been provided with sufficient information or opportunity to conduct due diligence on the reasonableness of either the load forecasts or the resulting capital investments in infrastructure. SaskPower's customers are simply asked to trust the utility and its ability to prudently invest for the future. Investments are made, capacity is built and the rate base and the customers that support it continue to absorb the impacts of these decisions without recourse.

SIECA respectfully asks the Panel to determine and comment on whether there has been a generation over-build. Should the evidence support a conclusion of premature investment, our members request that the Panel comment on how SaskPower's policies and practices may have allowed an over-build to occur. Our members further encourage the Panel to make recommendations for the implementation of a formal process to allow incorporation of investment into the rate base only by meeting established Certification of Need criteria. A process of this type must respect the Shareholder's and SaskPower authority to make investments that facilitate economic development purposes or support future environmental policy objectives. Our members contend that investments for the strategic purposes of the Shareholder should not be incorporated into the rate base until they meet prudence tests for need and usefulness.

#### E. Multi-Year Rate Application Configuration

The 2014-2016 SaskPower rate application represents the first instance where the utility has submitted a multi-year rate application spanning three years. In support for submitting such a request, the utility states the following on Page 4 of its Application:

*“We believe that our customers will benefit from knowing what their rates are going to be into the future and SaskPower will benefit from the financial certainty. Knowledge of the long-term rates will enable both SaskPower and our customers to conduct long-term financial planning with greater certainty.”*

While knowledge of forward rates is relevant to our members, it is far more critical to ensure that the utility’s proposed cost recovery is necessary, prudent and in the public interest. SIECA is awaiting responses to our discovery requests and has not been able to fully ascertain the reasonableness of SaskPower’s forecast costs; however, historical experience from past one year applications has shown that SaskPower consistently overestimates their costs. Since we lack confidence in SaskPower’s ability to forecast accurately for one year, it is troubling and concerning to envision how large the variances might be, over the course of a three year rate application period. SaskPower has not demonstrated how a multi-year rate application improves accuracy or creates more certainty in their forecasts of loads or costs. SaskPower has not demonstrated how a multi-year rate application will allow them to control and reduce costs or right-size capital investment.

Multi-year rate applications are an exception and not the norm in other jurisdictions. To the extent such applications are allowed, there is a proceeding held to determine the appropriate protocol for submitting such applications to ensure that rates remain just and reasonable during the course of the multi-year term. Not surprisingly, there is increased scrutiny of the capital projects and other costs in a multi-year plan compared to a typical one year rate case setting. The burden of proof should be on the utility to justify the recovery of prudently incurred operating expense and investment and substantiate that infrastructure investment meets the used and useful standard. Aside from certain compliance filing requirements, the utility is also required to implement a process that ensures that the cost of any investment is excluded from rates if prudent delay or avoidance of investment fails to occur. Commission staff and intervening parties are also allowed a longer time (relative to a one year application) to complete comprehensive review of the reasonableness of the proposed increases. Typically, one year rate proceedings in most jurisdictions take ten (10) months and an additional five (5) months are added for multi-year rate proceedings. SaskPower and their Shareholder have provided their customers with three (3) months to complete a review.

SaskPower’s rate application is devoid of any recommended regulatory protocols or compliance mechanisms to ensure that variances in SaskPower’s electricity demand, expenses, revenues or planned investment relative to the multi-year forecast can trigger regulatory review and commensurate rate adjustment inside the three year period. Approval of the rate application in its current form by Cabinet would give SaskPower a “free hand” for three years relative to any regulatory oversight by the Saskatchewan Rate Review Panel.

SIECA members would not favor rate applications that fix electricity rates over multi-year terms without substantial changes to the regulatory review process. We believe SaskPower should provide indicative

future rates as part of any rate application, but contend that the current standard of review and associated regulatory review protocols only meets the requirements for setting rates over a one year term.

#### F. Fuel & Purchased Power Costs

Forecasts for Fuel and Purchased Power (F&PP) costs are closely tied to load forecasting. Given, our earlier comments on concerns regarding load over-estimation, it follows that SIECA would view F&PP costs as being over-estimated. This over-estimation of F&PP costs is largely attributable to the generation mix that would arise from higher forecast generation requirements.

Conceptually, SaskPower's methodology for economic dispatch of the various generation alternatives on their system whereby they dispatch their lowest incremental cost generation alternatives first is clearly articulated in the rate application. SaskPower has not provided any actual dispatch information in the rate application other than aggregate summary totals of generation output in GWh by generation type. Therefore, it is difficult for customers to confirm that the utility follows the economic dispatch methodology rigidly. The dispatch of independent power producer generation (IPPs), environmentally preferred project generation (EPPs) and wind generation may not all follow dispatch criteria that is solely economic.

SIECA urges the Panel to review SaskPower's dispatch methodology and compliance to establish whether the utility is representing its dispatch protocols appropriately in the rate application. Given the high cost of Wind and Other (EPP) categories; our members would like to understand the why SaskPower would pursue construction of additional wind generation and EPP projects ahead of additional natural gas fired generation.

#### G. OM&A Costs

Our association is aware of SaskPower's Business Renewal Program (BRP) and the utility's efforts to identify and capture savings that reduce expenses in all categories including OM&A expense. SIECA commends the management of SaskPower for its leadership on the BRP, but we remain concerned about the growth of OM&A expense despite efforts directed at the BRP. SaskPower's OM&A expense has grown from \$317 million in 2004 to a level of \$612 million in 2012; an average annual growth rate of 8.8%. OM&A expenditure as a function of load growth has grown from \$17,198 per GWh in 2004 to \$30,666 per GWh in 2012. If SaskPower's electricity sales are growing as they suggest, OM&A expense per unit of power production should be falling or flat - not rising at an annualized growth rate of 7.8% as the above numbers show.

As SaskPower has undertaken the BRP, it has adopted the ratio of OM&A costs to Total Revenue as a performance metric to evaluate cost control effectiveness. This metric has moved from 25.8% in 2004 to 32.9% in 2012 and has averaged 29.2% over that period. It has been suggested that SaskPower has identified 30% as its BRP target metric on a go-forward basis. SIECA is concerned that OM&A costs have risen by 8.8% from 2004 through 2012 while the metric averaged 29.2% - and was below the apparent

target level of 30%. Our members would like to understand how the cost control metric targeting is aggressive enough to induce a real change in spending behavior at SaskPower?

Our members recognize the challenges that demographic change and fundamentals in the Western Canadian labor market are exerting on SaskPower. Many of our companies are experiencing similar challenges and must find ways to control costs below inflationary levels to survive in competitive business environments where increased costs may not be passed on to customers.

SIECA urges the Panel to look very carefully at the growth of SaskPower's costs and suggests that a cost bench-marking comparison against peer utilities be undertaken. SaskPower draws or infers comparison against peer utilities on a power rate level within its rate application, and our members believe a parallel comparison on the cost side of the ledger should also be part of its rate application

#### H. Conclusion

In conclusion, our association reiterates its position that a multi-year rate application is not appropriate given the regulatory process currently in place. SIECA requests the Panel to consider recommending a one year rate increase at this time.

Acknowledging the preliminary status of our due diligence and given the potential imbedding of load and cost over-estimation into this application, and given that rate base adjustment should become a consideration; SIECA would suggest that any rate recommendation for a 2014 rate increase should be at levels in close proximity to inflationary levels.

Thank you on behalf of the members of the Saskatchewan Industrial Energy Consumers Association.