



**Preliminary Comments: Saskatchewan Mining Association (SMA)
Presentation to Saskatchewan Rate Review Panel
December 3, 2013
Regina, SK**

The Saskatchewan Mining Association (SMA), appreciates the opportunity to provide comments regarding SaskPower's Multi-Year Rate Application to the Rate Review Panel. The Saskatchewan Mining Association, represents many of the Power Class customers of SaskPower. We will be following up with a more detailed written submission prior to the February 7th, 2014 deadline once there has been an opportunity to more fully review and digest the robust and complex application. Also, as the timeframe of the Panel hearings is prior to responses to information requests is available, a more complete analysis can only be provided after December 30th, when the responses will be filed.

The SMA supports the submission by the Saskatchewan Industrial Energy Consumers Association (SIECA) and would like to provide high level comments on the similar following areas of concern:

1. Rate Impacts for Power Class Customers
2. Load Forecasting
3. Generation Planning and Current Capacity Position
4. Multi-Year Rate Application Configuration
5. Fuel & Purchased Power Costs
6. SaskPower's Operating, Maintenance & Administration (OM&A) Costs
7. Amortization period of Assets
8. Revenue Dividend issues

1. Rate Impacts for "Power Class" Customers

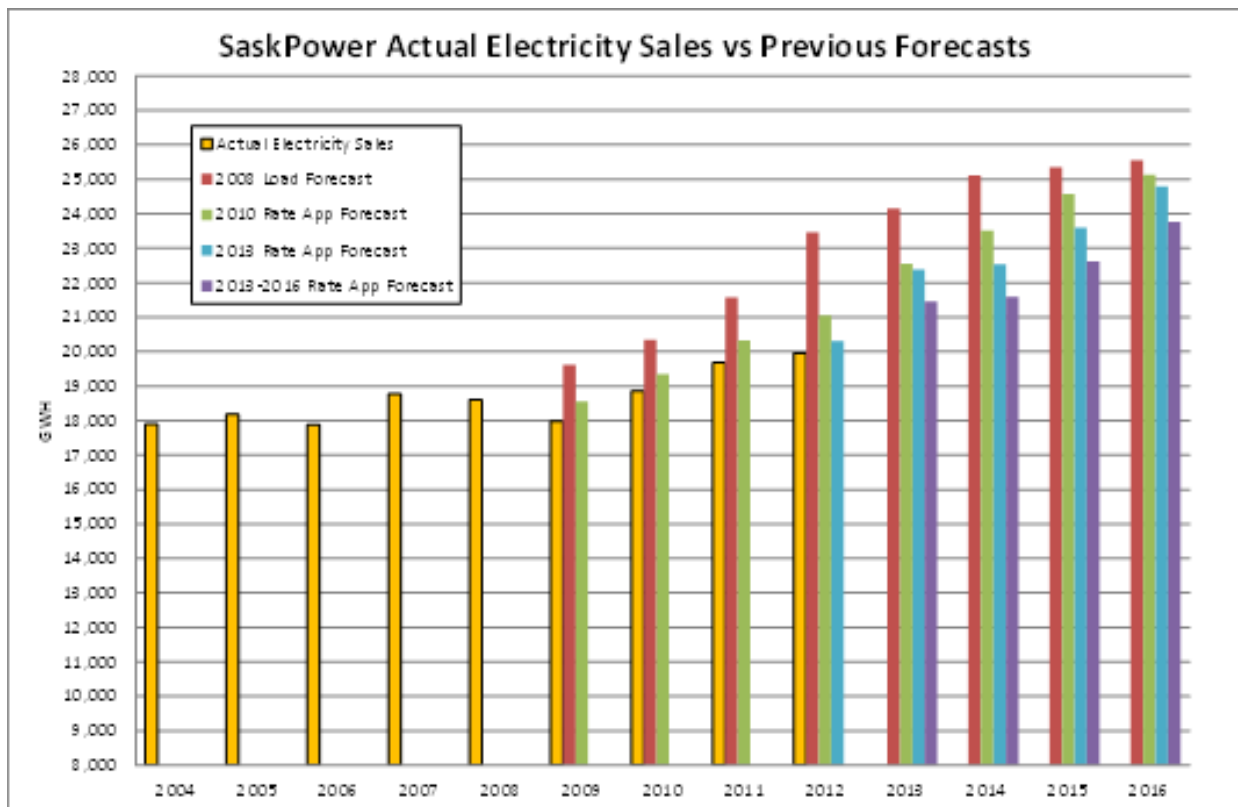
The SaskPower 2014 - 2016 multi-year rate application represents a very significant cost increase for customers, and what we feel is a disproportionate increase for Power Class Customers. SaskPower's rate application refers to a system-wide average increase of 5.5% in 2014, 5.0% in 2015 and 5.0% in 2016. However this generalization is an understatement of the impacts to customers in the Power Class which bears the highest rate increase of all classes. We estimate that, on average, the proposed increase for Power customers are 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. The compounded rate increase over the 4 year period will exceed 25% for most power 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. The proposed 2014-2016 rate increases are far in excess of inflation in the Saskatchewan marketplace and present a particular challenge

to customers or industries where electricity is a significant component of variable costs or where expansion of production or capacity may not occur to offset increased costs.

2. Load Forecasting

The load forecasts critically impact the required magnitude and timing of generation and transmission infrastructure build outs. SaskPower's methodology in accurately predicting the magnitude and timing of the growth of electricity demand in the province requires examination. As noted by SIECA, overestimating load forecasts has the effect of overestimating the capital investment required to address the load growth. 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.

The load forecast information that underpinned the last four SaskPower rate application periods is shown in SIECA's submission and below. 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 all of these forecasts have exceeded the actual electricity sales through to 2012.



The over-estimation of large customer loads has historically been the largest contributor to SaskPower's load forecasting inaccuracy. This introduces additional risk to forecasting over a multi-year period. In this rate application (pg 23), the power class customer load is the highest of all customer classes and is forecast to increase by over 30% in the rate period. Comparatively, the oilfield growth forecast over a similar time frame is roughly 26%, farm - 13% , residential - 5.6%, commercial - 4% and reseller - 1.4%.

Since the capital spend of SaskPower is developed in response to SaskPower's load forecasts; the SMA joins SIECA in respectfully requesting 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 the impact on the timing of capital spending and any resulting overbuild of infrastructure.

3. Generation Planning & Capital Investment (representing 72% of increase)

From information in the rate application and the 2013 Q2 SaskPower Quarterly Report, 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. The SMA joins SIECA in questioning whether SaskPower requires more than two and one-half times its largest single contingency for reserve security on its system.

While recognizing the importance of ensuring that there is sufficient power to meet future demands, precisely understanding when that demand is needed is central to build out of the system. If the system is overbuilt because of inaccurate forecasting, existing rate payers, and notably the power class customers, will bear a disproportionate share of that burden. 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 would demonstrate the due diligence that should be required for a multi-year rate application of this magnitude.

SMA members echo SIECA's statement that we 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. 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, particularly in a multi-year application.

4. Multi-Year Rate Application Configuration

The 2014-2016 SaskPower rate application represents the first time the utility has submitted a multi-year rate application. Multi-year applications are exceptions and not the norm in other jurisdictions. Historical records indicate that SaskPower overestimates costs as well as load forecast. Consequently it is

anticipated that a multi-year application will compound the variances seen in previous one year applications. SaskPower has not demonstrated how a multi-year rate application improves accuracy or creates more certainty in their ability to forecast 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.

SaskPower's rate application doesn't reference 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 relieve SaskPower from being accountable to its customers for three years relative to any regulatory oversight by the Saskatchewan Rate Review Panel.

SMA members do not favor rate applications that fix electricity rates over multi-year terms, particularly when there is no recourse to make adjustments within the respective timeframe.

5. Fuel & Purchased Power Costs (representing 16% of increase)

Forecasts for Fuel and Purchased Power (F&PP) costs are closely tied to load forecasting. As historical records indicate that forecasts have been overestimated, it is inferred that F&PP costs are also overestimated. This over-estimation of F&PP costs is largely attributable to the generation mix that would arise from higher forecast generation requirements. Compounding this is SaskPower's intention of pursuing construction of higher incremental cost additional wind generation and environmentally preferred project generation projects ahead of additional, lower cost, natural gas fired generation.

6. Operating, Maintenance & Administration Costs (representing 12% of total increase)

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. As SIECA has noted, if SaskPower's electricity sales are growing, 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 reflect.

As evidenced by news of significant lay-offs in the mineral resource sector of late, SMA member companies must find ways to control costs to remain competitive.

The SMA requests the Panel to examine the growth of SaskPower's costs as well as their efficiency of process. Anecdotally, SMA members can reference recent regulatory proposals by SaskPower which are counter to government's initiatives to move towards a leaner, results based regulation and which would result in increased bureaucracy and administration costs to both SaskPower and our members. SMA members encourage SaskPower to look at all parts of their business to identify more efficient and cost-effective ways to carry out their business.

7. Amortization Period

The SMA requests that the Panel determine if the amortization period of capital assets is appropriate.

8. Financial ROE - Dividend

While SaskPower's long-term return on equity target is 8.5% a return on equity of 1.3% in 2014, 2.0% in 2015 and 1.9% in 2016 is anticipated from the request rate increases in the current application. This below-target ROE is identified to provide customers with some shelter from the further rate shock they would experience if the long-term ROE target of 8.5% was realized by the request.

While the revenue forecast in the 2013 rate application was also lower than the long-term equity target of 8.5%, the actual revenues were higher. Consequently, a \$120M dividend was stripped from the utility to transfer to General Revenue to address flooding issues last year. This action 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 SMA members.

The SMA repeats its request from the 2013 Rate Application Hearing, that the Panel Rate Review Committee recommend that the Saskatchewan Government exempt SaskPower from paying dividends to the General Revenue Fund during this rate application period in recognition of the significant rate shock increases that all SaskPower customers, and particularly the Power Class customers will be subjected to.

9. 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.

The SMA encourages the Panel to recommend that SaskPower continue with one year rate increases rather than supporting the current multi-year application as there is no regulatory recourse to make adjustments to electricity rates within the respective timeframe should there be variances related to load forecasts, Fuel and Purchased Power, capital and financing costs.

The SMA strongly encourage that the Panel to recommend to the Saskatchewan Government that SaskPower be exempted from paying dividends to the General Revenue Fund during the rate application period.

Thank you for the opportunity to provide initial comments for consideration to the Saskatchewan Rate Review Panel.