
SaskPower 2013 Mid-Application Update

September, 2012



1. Overview

SaskPower submitted an Application in July 2012 recommending a system average increase of 5.0% effective January 1, 2013.

A regular element of rate applications includes a review of underlying assumptions. The fundamental reason for this Mid-Application Update is that the governance process regarding applications necessitates the preparation of the numbers a few months ahead of the announcement. The period of the formal review, conducted by the Panel, adds to the timeline between the preparation of the application and the proposed effective date.

The application was finalised in June 2012 on the basis of a preliminary Business Plan and forecasts from March 31, 2012. The formal 2013 Business Plan has since been prepared, although the governance process is not yet complete.

Based on the formal 2013 Business Plan, SaskPower requires the full 5.0% increase as requested. If effective January 1, 2013, a 5.0% system average rate increase will result in a return on equity (ROE) of 6.4%, somewhat less than the target ROE of 8.5%.

2. Financial Requirements Update

The financial requirements tables, provided in part 3.0 of the 2013 Rate Application, have been updated and are provided below. The tables include the actual numbers for 2011, updated forecasts for 2012 based upon the June 30 forecast, the 2013 forecast used in the rate application which was based on the March 31 forecast and preliminary Business Plan, the 2013 forecast used in the 2013 Business Plan and the variance between the initial submission in the rate application and the final submission.

SaskPower					
Consolidated Statement of Income					
(in millions \$)	2011 Actual	2012 Forecast	2013 Rate Application Forecast		
			Initial Submission	Final Submission	Variance
Revenue					
Saskatchewan	1,666.8	1,697.8	1,913.8	1,874.1	(39.7)
Export	40.3	23.7	22.2	27.5	5.3
Net sales from trading	13.9	17.0	11.5	12.0	0.5
Other	116.6	109.2	101.4	101.6	0.2
Total revenue	1,837.6	1,847.7	2,048.9	2,015.2	(33.7)
Expense					
Fuel	485.4	494.5	563.1	545.1	(18.0)
Operating, maint. & admin.	575.1	603.3	627.0	615.2	(11.8)
Depreciation	289.7	321.2	354.2	363.0	8.8
Finance charges	197.5	202.1	273.7	303.3	29.6
Taxes	43.4	47.5	56.0	53.5	(2.5)
Other	7.7	13.2	9.0	9.0	0.0
Total expense	1,598.8	1,681.8	1,883.0	1,889.1	6.1
Operating income	238.8	165.9	165.9	126.1	(39.8)
Unrealized market value adjustment	9.3	12.2	0.0	0.0	
Net income	\$ 248.1	\$ 178.1	\$ 165.9	\$ 126.1	\$ (39.8)

2012 figures based on June 30 forecast

SaskPower's forecast net income has declined by \$39.8 million from the initial submission in the rate application, due primarily to declining revenue from Saskatchewan sales and a smaller increase in SaskPower expenses. On the expense side, while finance charges are increasing, there is a corresponding decrease in fuel costs and operating, maintenance and administration.

SaskPower					
Consolidated Revenues					
(in millions \$)	2011 Actual	2012 Forecast	2013 Rate Application Forecast		
			Initial Submission	Final Submission	Variance
Saskatchewan sales					
Residential	407.3	395.5	403.0	409.2	6.2
Farm	144.9	137.5	143.4	148.5	5.1
Commercial	355.5	355.0	352.4	354.9	2.5
Oilfields	241.6	271.5	281.6	291.0	9.4
Power customers	440.3	461.3	563.5	503.3	(60.2)
Reseller	77.2	77.1	79.1	78.0	(1.1)
Sales before rate increase	1,666.8	1,697.9	1,823.0	1,784.9	(38.1)
Revenue lift due to rate increases	0.0	0.0	90.8	89.2	(1.6)
Total Saskatchewan sales	1,666.8	1,697.9	1,913.8	1,874.1	(39.7)
SaskPower export	40.3	23.7	22.2	27.5	5.3
Total SaskPower sales	1,707.1	1,721.6	1,936.0	1,901.6	(34.4)
Net sales from trading	13.9	17.0	11.5	12.0	0.5
Other revenue					
Gas & Elect Inspection	14.2	14.4	14.7	14.7	0.0
Customer Connects	55.6	47.1	41.8	41.8	0.0
Miscellaneous revenue	35.7	38.4	37.5	37.0	(0.5)
Cory & MRM Equity Investment	11.1	9.2	7.4	8.1	0.7
Total other revenue	116.6	109.1	101.4	101.6	0.2
Total revenue	\$1,837.6	\$1,847.7	\$ 2,048.9	\$ 2,015.2	\$ (33.7)

2012 figures based on June 30 forecast

Total revenue is forecast to be \$33.7 million less than the initial submission, due primarily to a decrease in Saskatchewan sales. While sales are forecast to increase for many customer classes, there is a \$60.2 million decrease in forecasted revenues from the power customer segment.

SaskPower Expenses					
(in millions \$)	2011	2012	2013 Rate Application Forecast		
	Actual	Forecast	Initial Submission	Final Submission	Variance
Expense					
Fuel	485.4	494.5	563.1	545.1	(18.0)
OM&A	575.1	603.3	627.0	615.2	(11.8)
Depreciation	289.7	321.2	354.2	363.0	8.8
Finance charges	197.5	202.1	273.7	303.3	29.6
Taxes	43.4	47.5	56.0	53.5	(2.5)
Other	7.7	13.2	9.0	9.0	0.0
Total expense	\$1,598.8	\$1,681.8	\$ 1,883.0	\$ 1,889.1	\$ 6.1
<i>2012 figures based on June 30 forecast</i>					

SaskPower expenses are forecast to increase \$6.1 million from the initial submission in the rate application. While finance charges have increased by \$29.6 million, there is a \$18 million decrease in fuel costs and an \$11.8 million decrease in operating, maintenance and administration.

SaskPower Fuel - Generation					
(in GWh)	2011	2012	2013 Rate Application Forecast		
	Actual	Forecast	Initial Submission	Final Submission	Variance
Supply Source					
SaskPower Gas	1,194	1,640	2,753	2,319	(434)
Gas (PPA)	2,838	3,109	5,033	4,881	(152)
Coal - Net of Internal Use	11,614	11,694	11,867	11,777	(90)
Imports	502	651	327	288	(39)
Hydro	4,641	4,136	3,321	3,327	6
Environmentally Preferred Power (EPP), Wind, Other	824	833	878	891	13
Gross Volume Supplied	21,612	22,063	24,177	23,483	(694)
<i>Less: Line Losses</i>	<i>(1,936)</i>	<i>(1,788)</i>	<i>(1,786)</i>	<i>(1,785)</i>	<i>1</i>
Total Generation & Purchased Power	19,676	20,275	22,391	21,698	(693)
<i>2012 figures based on June 30 forecast</i>					

Generation in volume is forecast to be 693 GWh less than what was forecast in the initial submission.

SaskPower Fuel - Costs					
(in millions \$)	2011	2012	2013 Rate Application Forecast		
	Actual	Forecast	Initial Submission	Final Submission	Variance
Supply Source					
SaskPower Gas	65.2	73.3	121.1	107.5	(13.6)
Gas (PPA)	89.6	75.3	135.6	135.9	0.3
Coal - Net of Internal Use	219.4	223.3	242.4	237.9	(4.5)
Imports	24.4	28.9	19.1	14.4	(4.7)
Hydro	20.0	18.1	14.5	15.8	1.3
Environmentally Preferred Power (EPP), Wind, Other	26.0	27.8	30.3	34.7	4.4
Gross Volume Supplied	444.6	446.7	563.1	546.2	(16.9)
<i>Realized NG Mgmt & Inventory Optimization</i>	<i>40.8</i>	<i>47.8</i>	<i>0.0</i>	<i>(1.1)</i>	<i>(1.1)</i>
Total Generation & Purchased Power	\$ 485.4	\$ 494.5	\$ 563.1	\$ 545.1	\$ (18.0)
<i>2012 figures based on June 30 forecast</i>					

Fuel costs are forecast to decrease by \$18 million from the initial submission primarily due to a \$13.6 million decrease in SaskPower gas costs. In the final submission

SaskPower's hedged natural gas price has decreased to \$4.00, down from \$4.54 in the initial submission.

SaskPower OM&A					
(in millions \$)	2011 Actual	2012 Forecast	2013 Rate Application Forecast		
			Initial Submission	Final Submission	Variance
President' Office	1.2	2.9	2.8	2.8	0.0
Power Production	183.0	187.7	183.6	183.6	0.0
Transmission & Distribution	165.1	174.5	162.7	163.5	0.8
Finance	17.3	12.9	14.2	14.2	0.0
Customer Services	40.6	41.6	42.0	42.0	0.0
Planning, Environment & Regulatory Affairs	10.8	12.9	12.0	12.0	0.0
Law, Land, Regulatory Affairs	4.8	4.3	4.5	4.5	0.0
Corporate Information & Technology	48.7	58.4	57.9	62.7	4.8
Human Resources	22.6	28.7	28.7	28.7	0.0
Business Development	12.6	5.3	2.9	3.5	0.6
Shand Greenhouse	0.7	0.7	0.7	0.7	0.0
NorthPoint Energy Solutions	8.4	6.4	6.7	6.7	0.0
Supply Chain	0.0	7.3	8.5	8.3	(0.2)
ICCS	2.2	3.2	7.6	4.7	(2.9)
Service Delivery Renewal	11.0	9.1	8.9	8.9	0.0
DIP Premium Increases	0.0	0.0	1.6	1.6	0.0
Asset management	0.0	0.0	0.0	3.0	3.0
Wage and Benefit Adjustments	0.0	0.0	0.0	3.0	3.0
Total Operation Costs	528.9	555.9	545.3	554.4	9.1
Other					
Nuclear Initiative	0.0	0.0	6.4	6.4	0.0
Insurance Expense	5.0	5.3	7.6	5.6	(2.0)
Pension Expense	(1.2)	(4.5)	11.8	0.0	(11.8)
Bad Debt Expense	2.5	2.7	2.3	2.3	0.0
Human Resources Programs	1.8	2.5	2.5	2.5	0.0
Other Expense	8.2	0.0	0.0	0.0	0.0
PPA-OM&A	18.1	22.4	25.0	24.0	(1.0)
Total Other Costs	34.4	28.4	55.6	40.8	(14.8)
Demand Side Management	11.8	19.0	26.1	20.0	(6.1)
Total OM&A	\$ 575.1	\$ 603.3	\$ 627.0	\$ 615.2	\$ (11.8)

2012 figures based on June 30 forecast

Operating, Maintenance and Administration costs are forecast to decrease by \$11.8 million from the initial submission. While there are offsetting increases and decreases in costs, the reduction is primarily due to a \$11.8 million decrease in pension expense.

SaskPower Depreciation					
(in millions \$)	2011 Actual	2012 Forecast	2013 Rate Application Forecast		
			Initial Submission	Final Submission	Variance
Depreciation					
SaskPower depreciation	268.4	295.6	313.9	314.0	0.1
Asset retirement asset - depreciation expense	4.3	4.3	1.4	1.4	0.0
Total SaskPower depreciation	272.7	299.9	315.3	315.4	0.1
Capital lease amortization	17.0	21.3	38.9	47.6	8.7
Total depreciation	\$ 289.7	\$ 321.2	\$ 354.2	\$ 363.0	\$ 8.8

2012 figures based on June 30 forecast

Depreciation costs are forecast to increase \$8.8 million from the initial submission, primarily due to capital lease amortization.

SaskPower Finance Charges					
(in millions \$)	2011 Actual	2012 Forecast	2013 Rate Application Forecast		
			Initial Submission	Final Submission	Variance
Finance Expense					
Interest on long-term debt	173.0	173.5	191.6	181.5	(10.1)
Interest on finance lease	54.2	67.9	122.7	150.6	27.9
Interest on short-term debt	1.4	5.5	11.9	15.4	3.5
Accretion	5.0	5.3	5.5	4.7	(0.8)
Interest capitalized	(11.7)	(28.0)	(44.8)	(45.9)	(1.1)
Other interest and charges	0.4	0.6	7.4	20.8	13.4
	222.3	224.8	294.3	327.1	32.8
Fixed Income					
Debt retirement fund earnings	(24.7)	(22.5)	(19.8)	(19.9)	(0.1)
Interest income	(0.1)	(0.2)	(0.8)	(3.9)	(3.1)
	(24.8)	(22.7)	(20.6)	(23.8)	(3.2)
Total Finance Charges	\$ 197.5	\$ 202.1	\$ 273.7	\$ 303.3	\$ 29.6

2012 figures based on June 30 forecast

Finance charges are forecast to increase \$29.6 million from the initial submission, primarily due to the increase on interest on finance lease.

SaskPower Taxes					
(in millions \$)	2011 Actual	2012 Forecast	2013 Rate Application Forecast		
			Initial Submission	Final Submission	Variance
Taxes					
Corporate capital tax	22.5	27.0	34.5	31.8	(2.7)
Grants in lieu	20.4	20.1	21.0	21.2	0.2
Miscellaneous tax expense	0.5	0.4	0.5	0.5	0.0
Total Taxes	\$ 43.4	\$ 47.5	\$ 56.0	\$ 53.5	\$ (2.5)

2012 figures based on June 30 forecast

SaskPower taxes are forecast to decrease \$2.5 million from the initial submission primarily due to a reduction in corporate capital tax.

SaskPower Other Expenses					
(in millions \$)	2011 Actual	2012 Forecast	2013 Rate Application Forecast		
			Initial Submission	Final Submission	Variance
Other Expenses					
Gain/Loss on asset disposals	2.9	7.0	8.0	8.0	0.0
Gain/Loss on asset retirements	1.9	6.2	1.0	1.0	0.0
Foreign Exchange	(0.1)	0.0	0.0	0.0	0.0
Environmental Expense	3.0	0.0	0.0	0.0	0.0
Total Expense	\$ 7.7	\$ 13.2	\$ 9.0	\$ 9.0	\$ -

2012 figures based on June 30 forecast

The SaskPower other expense category has remained the same.

4. Effect on Customers Update

The following table summarizes the revenue to revenue requirement (R/RR) ratios and rate changes for each customer class based on the revised customer and financial data in the mid-application update.

**Year 2013 Rate Change & R/RR Ratios
5.0% General Rate Increase With No Rebalancing Maintenance**

Class of Service	2013 R/RR Ratio (Existing Rates)	2013 Rate Change	2013 R/RR Ratio (Revised Rates)
Urban Residential	0.97	4.9%	0.97
Rural Residential	0.97	4.9%	0.96
Total Residential	0.97	4.9%	0.97
Farms	0.97	4.9%	0.97
Urban Commercial	0.98	4.9%	0.98
Rural Commercial	1.01	4.9%	1.00
Total Commercial	0.99	4.9%	0.98
Power - Published Rates	1.02	4.9%	1.03
Power - Contract Rates	0.97	6.3%	0.99
Total Power	1.01	5.2%	1.02
Oilfields	1.05	4.9%	1.05
Streetlights	1.01	4.9%	1.00
Reseller	1.00	4.9%	1.01
Total (System)	1.00	5.0%	1.00

Each year the cost of service model is rebuilt using the latest customer and financial data. R/RR ratios will change from year to year with changes to customer load and revenue data and SaskPower financial data. On the financial side shifts in costs between functions (Generation, Transmission, Distribution and Customer Service) or between classifications (demand and energy related) will impact R/RR ratios.

In the 2013 mid-application there are two financial changes which impacted R/RR ratios as follows:

- 1.) Increased generation and transmission costs which decreases the R/RR ratios for large Power and Reseller customers and increases the R/RR ratios for all other customers.
- 2.) Increased demand related costs which decreases the R/RR ratios for Residential, Farm, Commercial and Reseller customers which have low coincident peak load factors and increases the R/RR ratios for Power and Oilfield customers which have high coincident peak load factors

The impacts of these changes on R/RR ratios are summarized in the following table:

Financial Change	Power	Oil	Residential & Farm	Commercial	Resellers
1.) Increase in G & T costs	Reduced R/RR ratio	Minimal impact	Increased R/RR ratio	Increased R/RR ratio	Reduced R/RR ratio
2.) Increase in demand related costs	Increased R/RR ratio	Increased R/RR ratio	Reduced R/RR ratio	Reduced R/RR ratio	Reduced R/RR ratio
Overall Impact	Slightly Reduced R/RR ratio	Minimal Change	Slightly Increased R/RR ratio	Minimal Change	Reduced R/RR ratio

The following table illustrates the impact of the rate changes (excluding municipal surcharge and taxes) for an average customer in each class in dollars per month for 2013:

Year 2013 Revenue Impacts
5.0% General Rate Increase With No Rebalancing Maintenance

Class of Service	2013 Revenue (Existing Rates)	2013 Revenue Change	2013 Revenue Change	2013 Number of Accounts	2013 Average Monthly Revenue	2013 Revenue Change
	(\$)	(%)	(\$)		(\$/Cust/month)	(\$/Cust/month)
Urban Residential	321,394,246	4.9%	15,823,125	300,684	89	4
Rural Residential	87,771,436	4.9%	4,322,743	55,835	131	6
Total Residential	409,165,683	4.9%	20,145,868	356,519	96	5
Farms	148,494,985	4.9%	7,313,378	62,245	199	10
Urban Commercial	250,238,838	4.9%	12,324,263	42,963	485	24
Rural Commercial	88,933,916	4.9%	4,379,995	12,777	580	29
Total Commercial	339,172,754	4.9%	16,704,258	55,739	507	25
Power - Published Rates	410,095,794	4.9%	20,197,218	110	310,679	15,301
Power - Contract Rates	93,218,711	6.3%	5,892,058	13	597,556	37,770
Total Power	503,314,504	5.2%	26,089,276	123	340,999	17,676
Oilfields	290,983,296	4.9%	14,330,927	17,081	1,420	70
Streetlights	15,681,649	4.9%	772,321	3,321	394	19
Reseller	78,050,192	4.9%	3,843,972	3	2,168,061	106,777
Total (System)	1,784,863,063	5.0%	89,200,000	495,031	300	15

Notes:

- The rate increase for Power Contracts is for customers whose contracts are tied to published rates. There is also escalation included in the contract customer's existing rates revenue as per their specific contract terms.

5. Summary

SaskPower is requesting a 5% system average increase to its rates effective January 1, 2013. With the approval of this application, SaskPower will generate an additional \$89.2 million in additional revenue in 2013. At the time of the initial submission a 5% increase would have achieved SaskPower's target return on equity of 8.5%. As a result of updated forecasts prepared for SaskPower's 2013 Business Plan, the requested increase will result in a reduced return on equity of 6.4%. Without an increase in rates, SaskPower will experience a net income of \$36.9 million and the return on equity will be reduced to approximately 1.9%.