SaskPower Response to

City of Saskatoon

October 11, 2012

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SaskPower would like to thank the City of Saskatoon for their participation in the rate review process, their presentation at the Saskatoon public meeting and their submission to the Saskatchewan Rate Review Panel dated October 3, 2012.

With respect to the specific issues raised by the City of Saskatoon in their submission dated October 3, SaskPower has the following comments in response. Our comments are intended to: (1) clarify any misunderstanding as to why customer class R/RR ratios may change from year to year; (2) to make it clear SaskPower has implemented the SRRP recommendations in the past; and (3) to reiterate why SaskPower has recommended a flat rate increase in 2013.

1) Changes in R/RR Ratios from Year to Year

Each year the cost of service model is rebuilt using the latest customer load and revenue data and financial data from SaskPower's business plan. The resulting R/RR ratios will change from year to year, even if there are no changes in rates or cost of service methodology, due to:

- Changes in customer class revenue
- Changes to customer class revenue requirement including:
  - Non-uniform escalation of generation, transmission, distribution & customer service costs, combined with the different proportion of these costs in the rates for the various customer classes. For example, the rates for larger power and reseller customers contain primarily generation and transmission cost, whereas the rates for smaller residential, farm and commercial customers also have a large distribution and customer service cost component.
  - Changes to the relative weighting of demand and energy related costs.
  - Changes to the forecasted customer class contributions to SaskPower's system peak.

The most common causes of fluctuating R/RR ratios are increases or decreases in generation costs due to changing fuel costs or the addition of new generation plants. Another common cause is changes in the relative weighting of demand and energy related costs caused by changes to SaskPower's fuel and purchased power expense.

The following table summarizes the forecasted Reseller R/RR ratios from 2009 through 2013:

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Summary of Reseller Class R/RR Ratio by Year

Year	Rate Application	Existing R/RR Ratio	Reseller Increase	Adjusted R/RR
2009	Yes	1.02	5.82%	1.00
2010	Yes	1.01	2.60%	1.00
2011	No	1.01	0.00%	1.01
2012	No	1.00	0.00%	1.00
2013	Yes	1.00	4.92%	1.01

- In 2009 SaskPower applied a 5.82% to the Reseller class resulting in a R/RR ratio of 1.00.
- In 2010 the R/RR ratio for the Reseller class increased to 1.01 due to slightly lower generation costs relative to other costs. A 2.6% rate increase was applied in 2010 resulting in a R/RR ratio of 1.00.
- There was no rate application in 2011 and the R/RR ratio for the Reseller class increased to 1.01 due to slightly lower generation and transmission costs compared to distribution and customer service cost.
- There was no change in rates in 2012 and the R/RR ratio dropped to 1.00 due to slightly higher generation costs relative to other costs.
- The R/RR ratio for the Reseller class remained at 1.00 in the 2013 rate application until the 4.9% flat rate is applied, at which time it increases to 1.01.

It should be noted that the 2013 results shown in the table above are based on the mid-application update which was developed using SaskPower's 2013 business plan. The original 2013 rate application was developed using the 2012 business plan.

2) SRR Panel Recommendations

SaskPower has followed the SRRP recommendations in the past by setting rates which fulfilled the Panel's R/RR recommendations for the year of the rate increase, using the cost of service model that was developed for the rate application. The criticism seems to be that in subsequent years the R/RR ratios do not remain at that same level. This is unavoidable, as the R/RR ratios in subsequent years can change (up or down) as we rebuild the cost of service models with updated customer and financial data from the new business plan. The only way to maintain the ratios exactly as they were at the end of a rate application would be to initiate a rate application to rebalance rates in each and every year, even if a revenue increase was not required.

3) Flat Rate Increase for 2013

As was outlined in the 2013 Rate Application document, a cost of service methodology review is being conducted concurrently with this rate application. The review will not be completed in time for the results to be incorporated into this rate application. As a result, this rate application does not feature a rate design and rebalancing component. This will avoid rate rebalancing changes being made with this application that may have to be reversed following the cost of service methodology review.

Even if the impact of the cost of service review on R/RR ratios is minimal, SaskPower's initial cost of service calculations for 2014 indicate that the R/RR ratios for smaller (residential, farm and commercial) customers will increase and the ratios for larger Power and Reseller customers will decrease, when the BD3 carbon capture and storage project is incorporated into rate base. This supports the decision to implement a flat rate increase in 2013 instead of a full rate rebalancing exercise which would have to be reversed in the next SaskPower rate application.

With the flat rate increase proposed for 2013, SaskPower rates will still fall between the 0.95 and 1.05 revenue to revenue requirement ratio (measures revenues against the cost of service) for each customer class, in accordance with industry standards.