SaskPower Response to

Saskatchewan Mining Association

October 11, 2012

SaskPower

SaskPower would like to thank the Saskatchewan Mining Association for their participation in the rate review process, their presentation at the Regina public meeting and their letter to the Saskatchewan Rate Review Panel dated October 4, 2012.

SaskPower agrees that it must make substantial investments in our power generation, transmission and distribution infrastructure to support Saskatchewan's growing economy and our customer's growing demand for electricity. Investment is required in new infrastructure and to replace and refurbish existing infrastructure as it reaches the end of its useful life. Saskatchewan residents will benefit from a modern, safe, efficient, reliable and sustainable power system, along with competitive rates.

With respect to the specific recommendations of the Saskatchewan Mining Association in their letter dated October 4, 2012, SaskPower has the following comments:

- Crown Investments Corporation has not required SaskPower to pay a regular dividend for the past three years in order to allow SaskPower to focus on renewing infrastructure and meeting demand growth. In the first quarter of 2012 there was a special dividend payment of $120 million as a result of higher than expected earnings in 2011. Although SaskPower doesn't expect to pay a dividend in 2013, CIC will determine whether a dividend payment is required.
- SaskPower will continue to manage projects and operations for continuous improvement in cost-effectiveness. Through the Business Renewal Program SaskPower is increasing efficiency and effectiveness so that costs can be eliminated, controlled or avoided to reduce the upward pressure on rates. The Service Delivery Renewal project is aimed at improving internal processes and information services to increase efficiency and effectiveness and improve customer service.
- SaskPower engaged the services of Gannett Fleming Inc. to review its depreciation study in response to the Saskatchewan Rate Review Panels recommendation in 2010. The results of that review have been implemented.
- The Saskatchewan Rate Review Panel has been tasked with providing its recommendations to Government in November of 2012. The cost of service review will not be completed in time for the results to be incorporated into the new rates effective January 1, 2013. As the rate application does not feature a rate design and rebalancing component, it will avoid rate rebalancing changes being made with this application that will 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 in 2014. 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.

We appreciate the involvement of the Saskatchewan Mining Association in the rate review process.