SaskPower

2013 RATE APPLICATION
GREATER SASKATOON CHAMBER OF COMMERCE

Question #1

In previous responses to the findings of the Rate Review Panel, SaskPower committed to having a long term plan to reduce the revenue to required revenue differentiation. This application, in fact, takes them further away from the previous commitment. How does SaskPower expect to fulfill its previous commitment to the panel concerning narrowing the required revenue differentials?

Response:

In the current (2013) rate application SaskPower has proposed a flat rate increase in which all customers except those customers in the Power – Contract Rate customers receive the same 4.9% rate increase. SaskPower is not rebalancing the rates between the customer classes with this application as it is concurrently completing a cost of service review that will not be finalized in time to implement with this application. Any adjustments required to the cost of service model and customer's rates will take place in a future rate application. This will avoid changes being made with this application that have to be undone following the cost of service and rate design methodology review.

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. In 2002, the Saskatchewan Rate Review Panel accepted the industry standard ratio range as the appropriate standard. This application meets that test.

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Question #2

In particular, the application refers to a 1.03 ratio for resellers. Our Chamber had understood that the Rate Review Panel had recommended that this ratio should be set at 1.00 and that SaskPower had agreed. If the ratio in the past was to be at 1.00, why is this submission suggesting 1.03?

Response:

As outlined in question 1, SaskPower has proposed a flat rate increase in this rate application in which all customers except those customers in the Power – Contract Rate customers receive the same 4.9% rate increase. SaskPower is not rebalancing the rates between the customer classes with this application as it is concurrently completing a cost of service review that will not be finalized in time to implement with this application. Any adjustments required to the cost of service model and customer's rates will take place in a future rate application. This will avoid changes being made with this application that have to be undone following the cost of service and rate design methodology review.

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Question #3

In previous submissions, SaskPower provided a more thorough discussion of return on equity. Will Sask Power be providing further details on its forecast return on equity?

Response:

In an attempt to streamline the rate application document SaskPower removed the Return on Equity section because ROE is considered a given under the Terms of Reference and is outside of the scope of the Saskatchewan Rate Review Panel's review.

Although not part of the rate application process, the reasonability of SaskPower's return on equity is reviewed on a regular basis. As one can see from the chart below, SaskPower's target ROE is still one of the lowest ROEs among Canadian utilities at 8.5%.

Company	Type	% Debt	Allowable ROE 2011	Allowable ROE 2012
BC Hydro	integrated	70.0	12.74	12.75
Hydro One	distribution	60.0	9.66	9.42
Hydro One	transmission	60.0	9.66	9.42
Toronto Hydro	distribution	60.0	9.58	n/a
FortisBC	trans & dist	60.0	9.50	9.50
Ontario Power Generation (OPG)	generation	53.0	9.43	9.55
Nova Scotia Power	integrated	60.0	9.35	9.20
Epcor	distribution	59.0	9.00	n/a
Epcor	transmission	63.0	9.00	n/a
FortisAlberta	distribution	59.0	8.75	8.75
Enmax	distribution	59.0	8.75	8.75
Enmax	transmission	63.0	8.75	8.75
Newfoundland Power	integrated	55.0	8.38	8.38
AVERAGE		**60.1**	**9.43**	**9.45**

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Question #4

A number of one-time expenditures (or possibly one-time) expenditures are embedded in the costs of operations in the submission relating to new information systems and perhaps some pension costs. Should one-time expenditures be excluded from the operating expenditure forecast to avoid inflating the base costs for SaskPower?

Response:

SaskPower's rates are based on the expenses in a given year including one-time costs. As budgets and rate requirements are reviewed annually one-time expenditures do not inflate the base costs for SaskPower as they would be removed in future years. Each year is treated individually when determining rates. SaskPower feels that it is reasonable to collect all its costs from ratepayers including one-time costs.

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Question #5

Does Sask Power do any cost comparison studies with nearby States concerning their competitive analysis and if so, how does SaskPower's cost compare for industrial and commercial customers?

Response:

SaskPower does not do cost comparisons with nearby states. We do, however, compare rates for different types of customers to other Canadian utilities. SaskPower rates compare favourably to the average charged both nationally, including low-cost hydro jurisdictions, and by other thermal utilities in Canada which is a much closer benchmark. SaskPower customers currently pay rates that are on average 8% lower than the Canadian average and 22% lower than the rates of other thermal utilities in Canada.

A comparison of monthly rates for different types of customers as of January 1, 2012 is provided below:

Customer Class	Average Canadian Thermal Utility	SaskPower	SaskPower Compared to Thermal Average	Average Canadian Utility	SaskPower	SaskPower Compared to Average
Residential (675 kWh)	$ 105.64	$ 90.90	-14.0%	$ 88.19	$ 90.90	3.1%
Small Commercial Service (5kW & 1000kWh)	$ 160.99	$ 125.01	-22.3%	$ 138.91	$ 125.01	-10.0%
Standard Commercial Service - 215 kW (239 kVa) & 65,000	$ 8,013.88	$ 6,549.80	-18.3%	$ 6,880.23	$ 6,549.80	-4.8%
72kV Power - 9,500kW (10,000kVa) & 4,854,500	$ 441,906.73	$ 292,749.86	-33.8%	$ 365,707.01	$ 292,749.86	-19.9%

Note - does not include municipal charges or taxes.

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Question #6

The fuel purchasing costs have increased quite significantly while natural gas costs are going down and coal costs remain fixed. What assumptions are driving this increase in fuel cost forecast?

Response:

The increase in fuel costs is being driven by the healthy economic projections for the Saskatchewan economy and the corresponding increase in energy requirements of approximately 2,000GWh in 2013 compared to 2012.

A portion of this incremental energy requirement is supplied from existing gas generation units from SaskPower facilities and from Purchased Power Agreements. Northland Power's North Battleford Energy Centre, built to meet the growing need of the Saskatchewan economy and under long term contract to SaskPower will begin delivering energy in 2013.

These supply volume changes are the main contributor to the increase in the fuel price forecast.

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Question #7

The forecast assumes much less hydro electric production than the previous number of years. Why?

Response:

The 2011 hydro-electric generation numbers were the actual production numbers. The values for 2012 hydro-generation in the rate application were projections for 2012 as of the time of the rate application. Flows on the Saskatchewan River systems in 2011 were well above median and the 2012 projected flow at the time of the rate application was 7% above median.

The 2013 hydro-generation projection reflects median flows on the Saskatchewan River systems.

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Question #8

If fuel costs are lower and hydro production is higher, will the extra revenues be applied to reduce future power rates?

Response:

No. The Saskatchewan Rate Review Panel reviews the reasonability of SaskPower's fuel budget as part of the overall rate application review. Cabinet ultimately approves SaskPower's budget and once that approval is final SaskPower maintains all exposure to fuel risk. Whether fuel costs rise or fall compared to budget, SaskPower does not transfer any fuel risk to rate payers. Currently rate applications are only based on the budgeted costs for the period in question. Over or under-collection in previous periods are not part of a rate application.

SaskPower was directed to review the practicality of a fuel adjustment mechanism which would transfer fuel risk to ratepayers as in the scenario described in the question above, or if SaskPower should raise future power rates when the previous year's fuel costs rose above budget. An independent review is being done concurrently with the rate application to assess the viability of this approach in Saskatchewan.

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Question #9

Interest expense is increasing quite significantly compared to previous years while interest rates remain low thereby reducing interest expense on any maturing debt being re-issued. How much of the projected increase in interest expense is related to new capital expenditures? How much maturing debt is being reissued and at what savings?

Response:

Interest expense on long-term debt is forecast to go from $174.7 million in 2012 to $191.6 million in 2013, a year over year increase of $16.9 million.

SaskPower is forecasting total borrowings in 2013 to be approximately $700 million. The proceeds from these borrowings will be used primarily to finance our capital spending program (total capital is forecast to be $1.15 billion of which approx. $600 million will be financed by debt) and to refinance a $97 million debt issue (maturing July 15, 2013) that had an interest rate of 7.81%. In addition to the $700 million in borrowings in 2013, SaskPower is also borrowing an additional $200 million in 2012 at a rate of approximately 3.4%. It is important to note that the 2012 interest expense forecast only includes one month of this debt issue while the 2013 forecast includes a full twelve months of expense.

The $97 million debt repayment results in approximately $3.5 million in interest expense savings. This is more than offset by the following new borrowings:

November 30th, 2012, $200 million issue [(1)]	$6.2 million
Feb 28th, 2013, $200 million issue [(2)]	$5.7 million
Additional $300 million long-term borrowings [(3)]	$5.1 million
New short-term borrowings ($200 million @ 1.2%) and higher average short-term debt balance in 2013 vs. 2012	$3.4 million

(1) Interest rate assumed to be 3.4%. Additional expense is based on 11 months of additional interest expense as compared to 2012.
(2) Interest rate assumed to be 3.4%. Additional expense is based on 10 months of interest.
(3) Assumes $300 million is borrowed on July 1, 2013 at a rate of 3.4%