

BACKGROUND

OCTOBER 2016

SaskPower Rate and Service Increases

Core Issue: Increasing electricity costs can substantially impact the cost of doing business in the province. As such it is important that Saskatchewan's electricity rates are competitive and that rate increases are kept as modest as possible. The purpose of this paper is to examine SaskPower's recent rate increases, its new customer connections, and its pricing competitiveness with other provinces to ensure the Saskatchewan Chamber of Commerce can remain current on the issue.

Introduction

Electricity is a significant cost for many of this province's businesses, any increase in its rates impacts the viability and profitability of private sector companies. As such, rate increases need to be carefully evaluated. The Saskatchewan Chamber fully understands that SaskPower needs to meet growing demand in a safe and reliable manner and the Chamber recognizes that without increasing the supply of affordable electricity it will become impossible to maintain the province's economic and population growth. SaskPower has indicated that the two primary factors creating a requirement for new electricity generation are the need to retire or extend the life of current electricity generating units, and generating new supply. The Saskatchewan Chamber of Commerce recognizes that both of these are legitimate considerations and are services that should be funded by the power user. Nevertheless, the Saskatchewan Chamber is concerned that rate increases are starting to place significant pressure on private enterprises and putting Saskatchewan at a competitive disadvantage for the attraction of new private-sector investment. The purpose of this paper is to examine SaskPower's recent rate increases, its new customer connections, and its pricing competitiveness with other provinces to clarify the Saskatchewan Chamber of Commerce's position on SaskPower as the power supply issue moves forward.

About SaskPower

In Saskatchewan, SaskPower is the principal electricity utility. A Crown utility, SaskPower directly serves approximately 500,000 customers and sells wholesale electricity to municipal systems. The utility operates 9 natural gas facilities, 3 coal facilities, 8 hydro facilities and 5 wind facilities, with a net generating capacity of more than 4,400 MW.¹ In 2015, Saskatchewan's power consisted of 42% coal, 34% gas, 14% hydro, 4% coal with carbon capture and storage, 3% wind, 2% imports, and 1% other.²

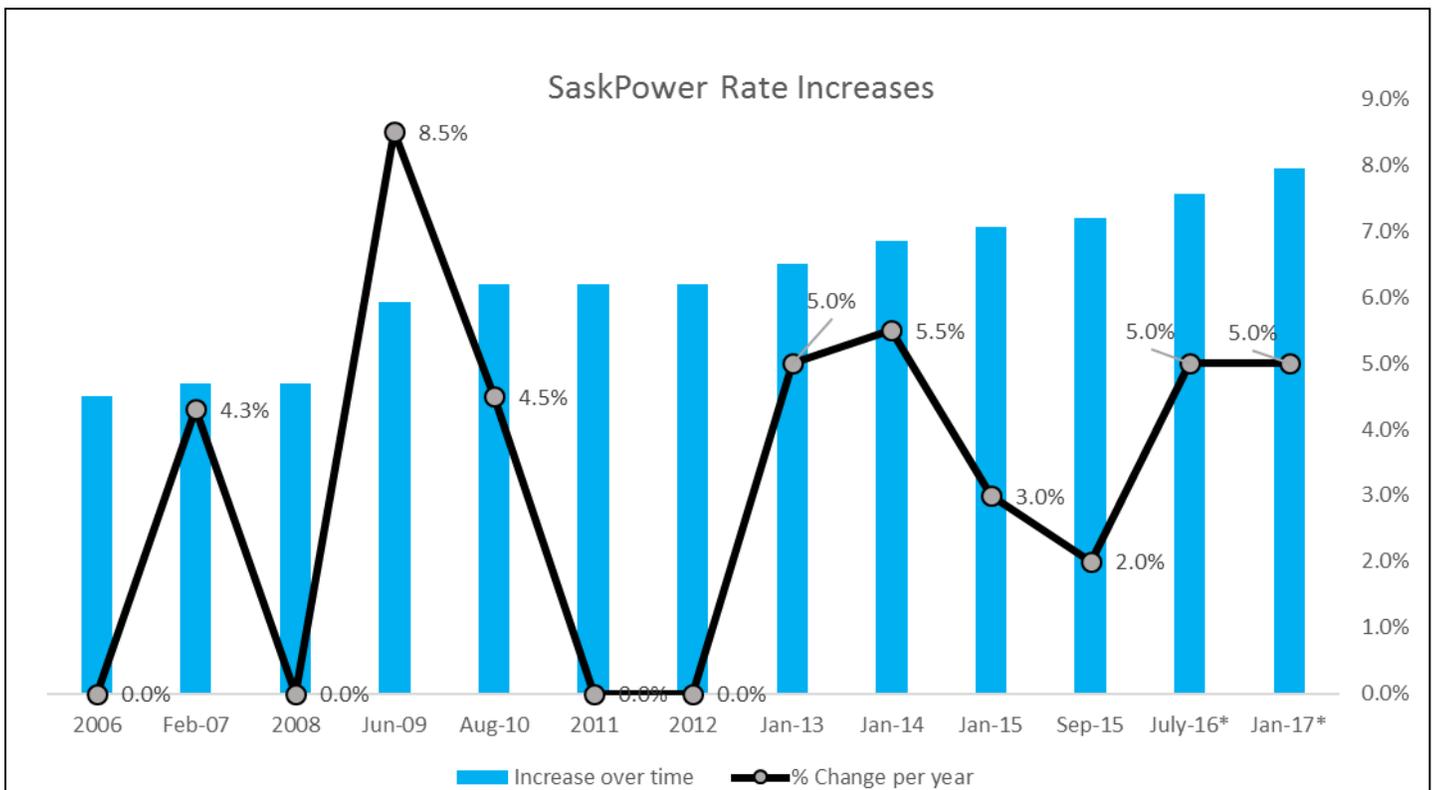
¹ SaskPower. (n.d.). *Our Electricity*. Retrieved from <http://www.saskpower.com/our-power-future/our-electricity/>

² Ibid.,

SaskPower Rate Increases

SaskPower rates are based on forecasts of fuel costs, power demand, as well as capital and other operational requirements. Concerns around the reasonable accuracy of this forecasting has prevented SaskPower from planning rate increases over any significant length of time, and rate increase requests have not been approved by the Rate Review Panel beyond a two-year timeframe.

As illustrated by the chart “SaskPower Rate Increases,” electricity rates in Saskatchewan have been continually increasing, however the size of the increases have varied considerably, ranging from a 0% to 8.5% increase per year over the last 10 years. In recent years, SaskPower has attempted to cap its rate increases at 5% per year.³



The SaskPower Rate Increases chart above reveals two characteristics of electricity rates in the province. First, rates have been increasing over the last 10 years and second, there has been a significant variation in the amount of increase each year.

* requested rate increase

Source: Johnson, H. (2016, 05 26). Rate increases and new connections. (K. McKee, Interviewer)

³ SaskPower. (2016). *Rate Application: 2016 and 2017*. Retrieved from <http://www.saskratereview.ca/docs/saskpower2016/2016-and-2017-rate-application.pdf>

It should also be noted that within SaskPower’s customers there are various classes. The rate changes detailed in the chart “SaskPower Rate Increases” are for the system-wide average. SaskPower’s main categories are residential, business, farm, and oil fields, although within some of these categories there are numerous subcategories. Each subcategory can be charged a different rate and be subject to a different rate change. Business customers tend to experience rate increases higher than the average while residential and farm customers are lower.

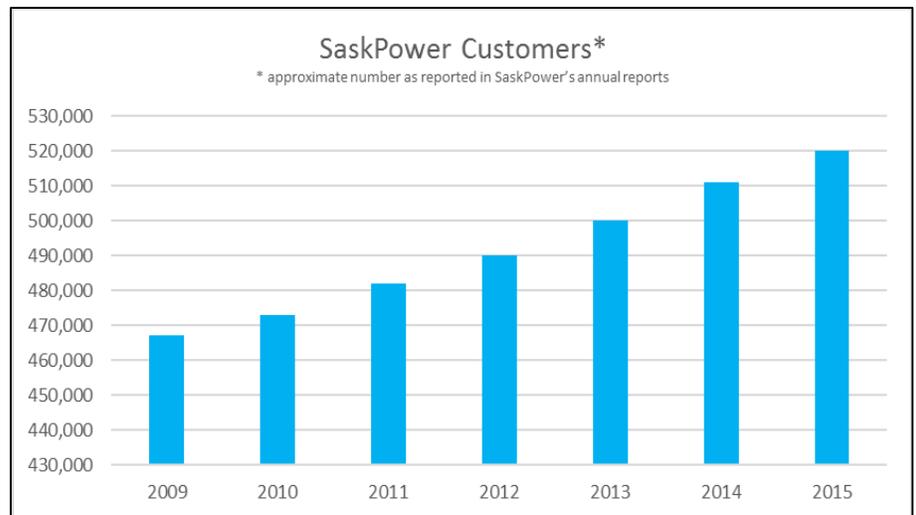
Despite the differing rates between classes, SaskPower does attempt to design its rates to create equity and fairness for each customer within each rate code, regardless of size or load factor. “This is measured by the revenue to revenue requirement ratios (R/RR). A R/RR of 1.00 indicates that the revenues exactly match the costs of providing the service and the customer is paying SaskPower to provide that service. If it does not equal 1.00, then that class is either subsidizing another class or it is being subsidized.”⁵ See the Chart “Revenue to Revenue Requirement Ratio (after July 2016 and January 2017 rate increases) for additional details on how close each rate classes R/RR is to 1.00.

Revenue to Revenue Requirement Ratio (after July 2016 and January 2017 rate increases) ⁴	
Urban Residential	1.00
Rural Residential	0.93
Farms	0.98
Urban Commercial	1.03
Rural Commercial	1.02
Power - Published Rates	1.01
Power - Contract Rates	0.99
Oilfields	1.01
Streetlights	0.96
Reseller	0.98

The Saskatchewan Rate Review Panel has also directed SaskPower that “costs that do not provide a direct benefit [e.g. sponsorship] to the ratepayer should not, in the future, be an expense borne by the ratepayer through inclusion in the revenue requirement.”⁶ Whenever SaskPower requests a rate increase a review is conducted to examine how close to 1.00 this ratio will be for each subclass.

SaskPower Service Growth

In addition to maintaining current electrical generation, SaskPower is responsible for meeting new



Source: Johnson, H. (2016, 05 26). Rate increases and new connections. (K. McKee, Interviewer)

⁴ SaskPower. (2016). *Rate Application: 2016 and 2017*. Retrieved from <http://www.saskratereview.ca/docs/saskpower2016/2016-and-2017-rate-application.pdf>

⁵ Saskatchewan Rate Review Panel. (2014, 04 28). *Report to the Minister Responsible for Crown Investments Corporation of Saskatchewan regarding the SaskPower Rate Application Effective date January 1, 2014*. Retrieved from <http://www.saskratereview.ca/docs/saskpower2013/saskpower-rate-application-report.pdf>

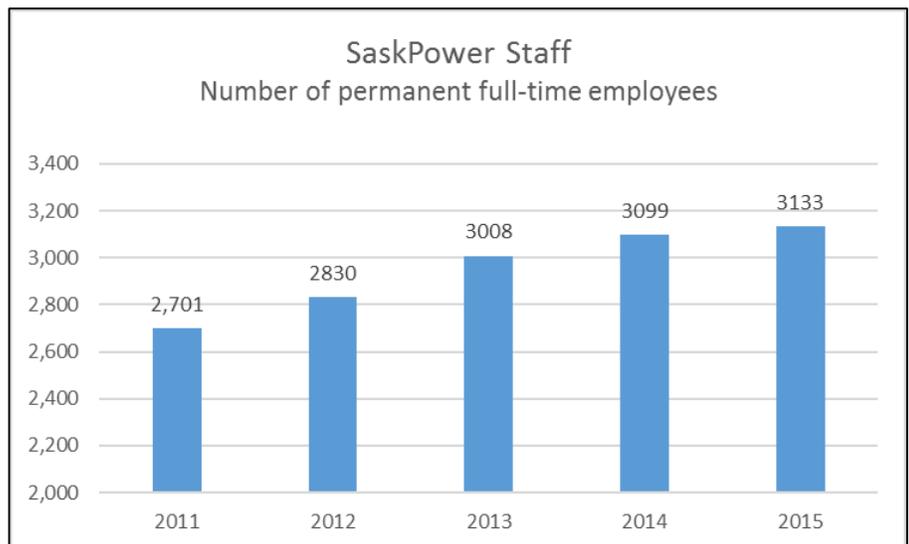
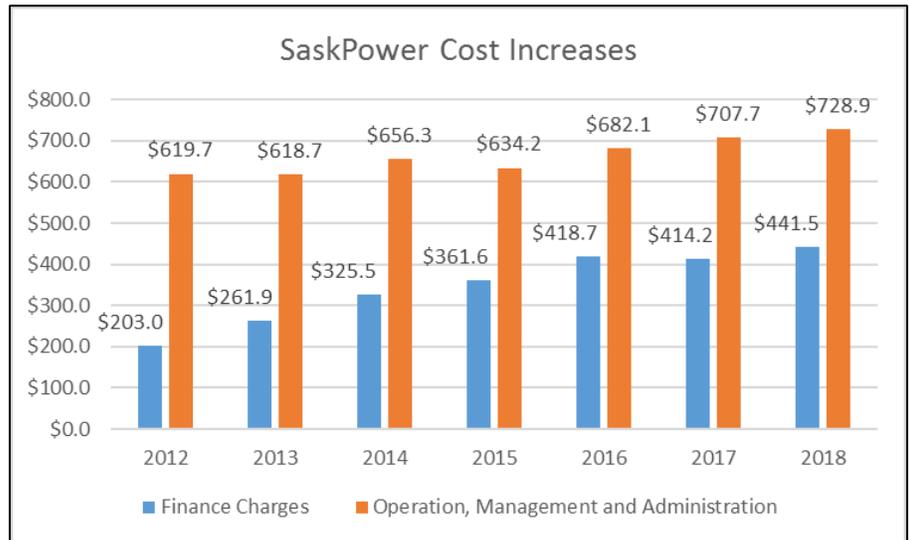
⁶ Ibid.,

customer demand. Saskatchewan’s recent economic and population growth has placed pressure on the utility to bring more supply to market. SaskPower has connected an average of 9,500 customer accounts annually since 2010.⁷ The chart “SaskPower Customers” details the growth over the last seven years. These new connects have required additional spending, growing from \$92 million in 2007 to \$170 million in 2015.⁸

Changes in Operational Spending versus Capital Investments

SaskPower is investing an estimated \$1 billion per year for the long term to renew and modernize the province’s electricity system. In fact, SaskPower has invested almost \$8.2 billion in Saskatchewan’s electricity infrastructure over the past decade, compared to only \$2.2 billion spent the decade before last.

In recent years, SaskPower has attempted to cap its rate increases at 5% per year. This means the company has absorbed some of the required rate adjustments through increased debt rather than passing costs on immediately to customers. Due to this, depreciation, finance charges, taxes and other expenses that are driven primarily by the amount of capital spending SaskPower has undertaken are responsible for much of the company’s additional expense, 72% in 2014.⁹ As shown by the chart “SaskPower Cost Increases”, finance charges have increased by 68.6% from 2013-2018, while operation, management and administration



⁷ SaskPower. (2016). *Rate Application: 2016 and 2017*. Retrieved from <http://www.saskratereview.ca/docs/saskpower2016/2016-and-2017-rate-application.pdf>

⁸ Ibid.,

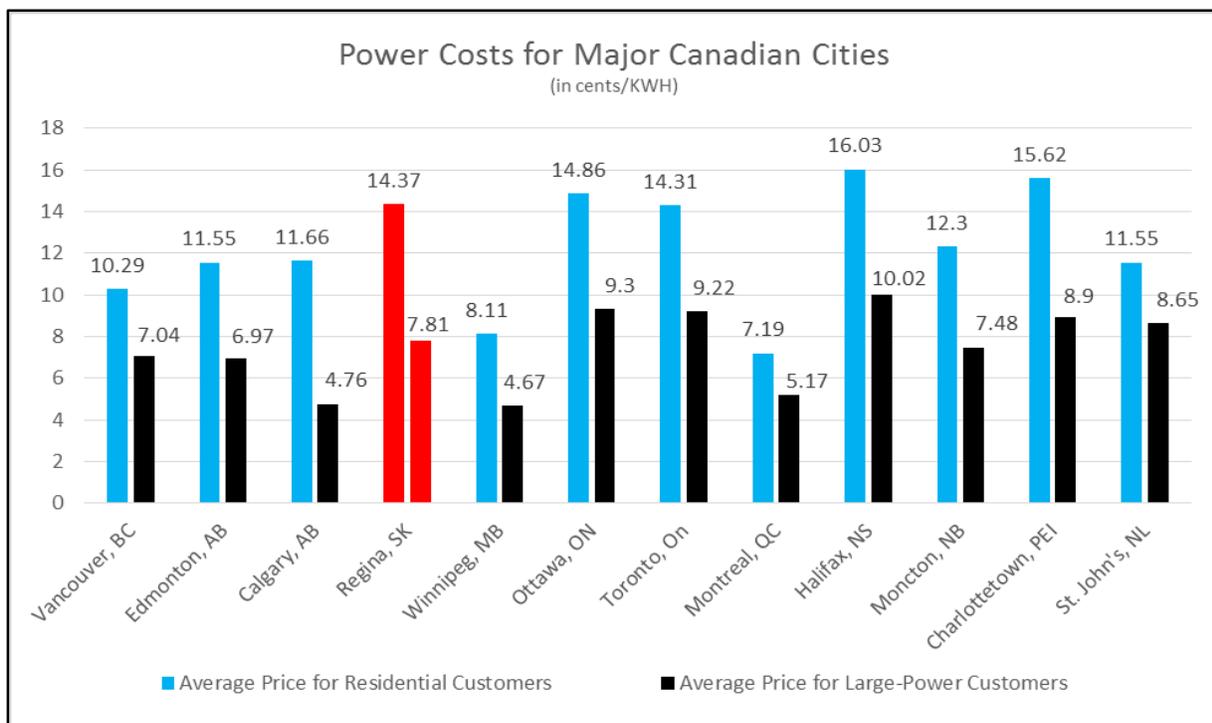
⁹ SaskPower. (2013, 10). *SaskPower 2014, 2015, 2016 Rate Application*. Retrieved from http://www.saskpower.com/wp-content/uploads/2014-15-16_rate_application.pdf

(OM&A) costs increased 17.8% over the same period. In 2015, SaskPower eliminated \$38 million from budgeted OM&A and has proposed a further \$53 million reduction over the next three years.¹⁰

Staffing changes over the past 5 years (2011-2015) have been mild when compared to finance costs, however; staffing has increased by +16% over this time period. For 2015 SaskPower’s staffing increase was very small, at only 1.2%. However, staff per SaskPower customer has increased from 1/179 to 1/166 from 2011-2015, this is obviously trending in the wrong direction. SaskPower does deserve credit for its efforts to keep increases minimal, however that in no way alleviates its obligation to constantly improve its performance and productivity. SaskPower must continue to look for additional efficiencies in operations, management and administration.

Interprovincial Comparison

Power costs within Canada depend significantly upon the power supply mix within each jurisdiction. Regions with access to abundant cheaper power supply options, such as hydro, have lower costs than provinces like Saskatchewan which primarily uses more expensive inputs (i.e. coal and natural gas) to produce power. The chart below, “Power Costs for Major Canadian Cities,” illustrates how Regina’s power price compares with other cities across Canada.¹¹

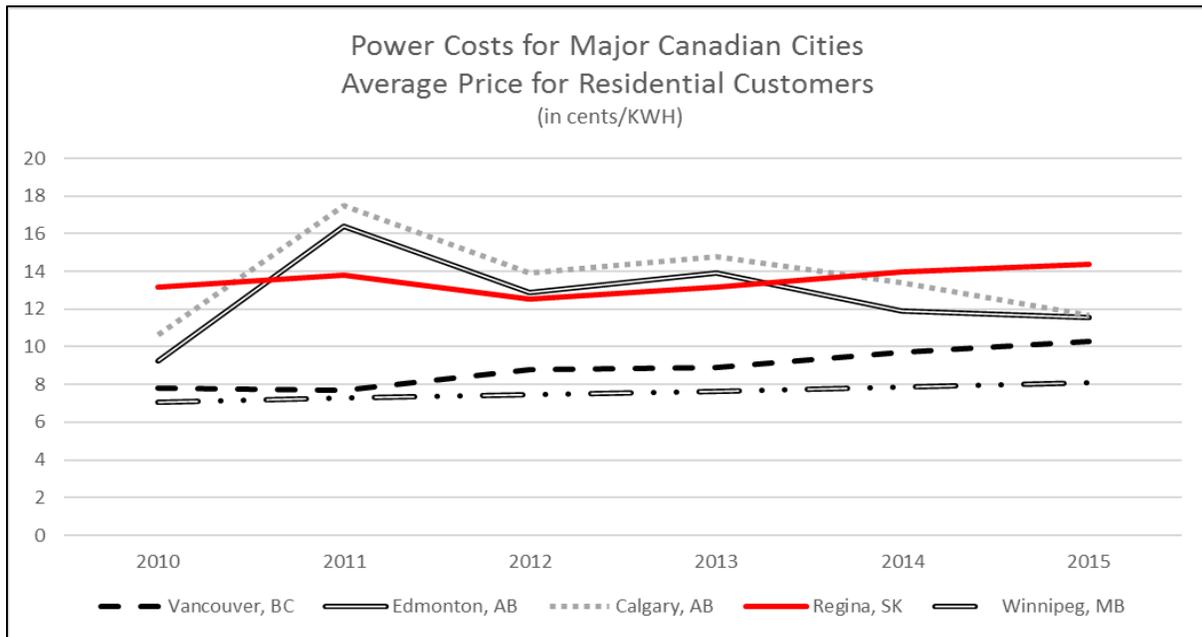


Source: HydroQuebec. (2015). *Comparison of Electricity Prices in Major North American Cities: Rates in effect April 1, 2015*. Retrieved from http://www.hydroquebec.com/publications/en/docs/comparaison-3electricity-prices/comp_2015_en.pdf

¹⁰ SaskPower. (2016). *Rate Application: 2016 and 2017*. Retrieved from <http://www.saskratereview.ca/docs/saskpower2016/2016-and-2017-rate-application.pdf>

¹¹ HydroQuebec. (2015). *Comparison of Electricity Prices in Major North American Cities: Rates in effect April 1, 2015*. Retrieved from http://www.hydroquebec.com/publications/en/docs/comparaison-electricity-prices/comp_2015_en.pdf

While sitting close to the mean, SaskPower customers pay rates that are on average higher than the Canadian utility average.¹² Since power costs are a significant consideration for businesses evaluating which jurisdiction to invest in, SaskPower needs to be continually mindful of its competitiveness. Saskatchewan customers pay higher power costs than the other provinces in the New West Partnership, which is of concern as these would likely be the primary competitors for locations in business comparisons.



Source: HydroQuebec. *Comparison of Electricity Prices in Major North American Cities. 2010, 2011, 2012, 2013, 2014.* Retrieved from <http://www.hydroquebec.com/publications/en/corporate-documents/comparaison-electricity-prices.html>

It is also worth noting that, while Saskatchewan’s power costs are higher than other provinces in western Canada, they have been relatively stable compared to others. See the chart “Power Costs for Major Canadian Cities Average Price for Residential Customers” for a further breakdown. As illustrated in the chart, Regina’s power rates have increased by 9.3% from 2010-2015. This is compared to 32.1% for Vancouver, 24.6% for Edmonton, and 14.5% for Winnipeg. Only Calgary’s rates have been as relatively stable as Regina’s increasing by 9.5%.

In addition to competing for new or expanding business operations with other jurisdictions in Canada, Saskatchewan also competes with American locations, particularly the Midwestern United States. According to the KPMG Competitive Alternatives 2016 report, Regina customers pay more for electricity than those in either Billings, Montana or Fargo, North Dakota for example.¹³ SaskPower needs to be competitive on both sides of the border.

¹² Saskatchewan Rate Review Panel. (2014, 04 28). *Report to the Minister Responsible for Crown Investments Corporation of Saskatchewan regarding the SaskPower Rate Application Effective date January 1, 2014.* Retrieved from <http://www.saskratereview.ca/docs/saskpower2013/saskpower-rate-application-report.pdf>

¹³ KPMG. (2016, 07). *Competitive Alternatives 2016.* Retrieved from <https://www.competitivealternatives.com/results/locationmenu.aspx>

Energy Conservation Programs and Usage

With power rates already above the Canadian average and continually increasing, SaskPower customers are feeling the pressure. SaskPower's massive infrastructure demands provide very little opportunity for prompt, significant cost controls, so the fastest way for individual customers to constrain their power costs is through demand reduction. Conservation and energy efficiency efforts need more prominence. An energy efficiency improvement typically results from installing new energy efficiency technology or adopting a more energy efficient practice, including changing equipment use, building design, or management practices.¹⁴ Energy efficiency programs (also known as Demand Side Management programs) can range from information or training programs to financial incentive programs in which all or part of the cost of the efficient technology or design is paid for by the utility.

SaskPower does offer some limited programs to help customers become more energy efficient.¹⁵ However, the programs have had minor utilization to date because of the niche nature of the programs offered (e.g. The Compressed Air Program or the Parking Lot Controller Program) and in part because of a lack of awareness and investment by private enterprise. SaskPower's most widely used program, the Commercial Lighting Incentive, had 3,900 unique business customer facilities participate since 2012, but this program was suspended and was under review as of July 4, 2016.¹⁶

Several market barriers can prevent energy users and utilities from making otherwise rational investments in efficient technologies and practices. For example, consumers often do not have access to new technologies, or cannot afford the extra cost of these improvements in the short term despite the benefit they will offer over the long term. There is the potential for incentives to help bridge this transition. SaskPower and the Saskatchewan Chamber of Commerce can play a role in strengthening these programs in the province. From a cost perspective, it is much easier to redistribute surplus capacity than it is to generate new supply.

In addition to energy efficiency, SaskPower needs to start explicitly encouraging combined heat and power, also known as cogenerations. Cogeneration systems capture heat from natural gas turbines that is usually released into the atmosphere, and use it to create steam in a boiler. The steam can be used for industrial purposes, or it can power another turbine to produce even more electricity.¹⁷ Saskatchewan currently has two cogeneration facilities, but there is potential for more. Alberta has more than 2 GW of cogeneration capacity, which is the largest in Canada.¹⁸ The use of cogeneration helps elevate the

¹⁴ The Pembina Institute for Appropriate Development. (2004, 08). *Demand Side Management Incentives in Canada: Case Studies of Aquila Networks (FortisBC) and Enbridge Gas Distribution*. Retrieved from https://www.pembina.org/reports/DSM_incentives_in_Canada_Aug_7.pdf

¹⁵ SaskPower. (n.d.). *Efficiency Programs and Tips*. Retrieved from <http://www.saskpower.com/efficiency-programs-and-tips/>

¹⁶ SaskPower. (n.d.). *Commercial Lighting Incentive*. Retrieved from <http://http://www.saskpower.com/efficiency-programs-and-tips/business-programs-and-offers/commercial-lighting-incentive/>

¹⁷ SaskPower. (n.d.). *Cogeneration*. Retrieved from <http://www.saskpower.com/our-power-future/our-electricity/supply-options/cogeneration/>

¹⁸ Canadian Electricity Association. (2012). *Power for the Future: Cogeneration*. Retrieved from (<http://powerforthefuture.ca/electricity-411/electricity-fuel-source-technical-papers/cogeneration/>)

demand for new electricity supply and is better for the environment than other types of fossil fuel power generation.

Saskatchewan Chamber of Commerce Position

The Saskatchewan Chamber of Commerce believes in striking a reasonable balance between SaskPower's financial needs and ensuring reliable, affordable service to its customers. As previously mentioned, SaskPower's capital requirements for infrastructure are a main contributor to the ongoing power rate escalation in the province. The Saskatchewan Chamber supports the continuation of investments into this essential infrastructure, and understands that managing the future debt costs associated with this construction will also be the responsibility of rate payers. The Rate Review Panel has been an effective means through which this balance is mediated and the Saskatchewan Chamber will continue to advocate the specifics of rate increase applications through them. As always, the Chamber encourages SaskPower to continue to find efficiencies throughout its operations to help mitigate the rate increases.

In addition to SaskPower's continued efforts to control costs, the Saskatchewan Chamber of Commerce recognizes that more creative solutions are needed. Opportunities for additional power generation, with minimal greenhouse gas emissions, need to be capitalized upon. The Saskatchewan Chamber encourages the use of further imports of Manitoba hydro power, and more cogeneration capacity, as well as the ongoing search for improved power solutions.

To support SaskPower's investments, the Government of Saskatchewan has refrained from taking dividends from SaskPower over the last few years; nevertheless, the "special dividend" taken in 2011 set an alarming precedent. In 2011, when SaskPower's revenue was significantly higher than anticipated, primarily because flooding helped generate more hydroelectricity, the province took a \$120 million special dividend from the company to help pay other provincial costs generated by flooding, such as disaster claims and washed-out roads.¹⁹ The Saskatchewan Chamber firmly believes that, despite any unforeseen financial difficulties the provincial government may experience, any revenues generated by SaskPower should remain within the company to address its debt and infrastructure requirements. Further to this, the Saskatchewan Chamber recommends that the Crown Investment Corporation (CIC) of Saskatchewan continue to allow SaskPower to have a return on equity (ROE) below the approved long-term target of 8.5%.²⁰

The Chamber has been supportive of SaskPower's carbon capture and storage initiative and, although subject to a variety of criticisms, the organization still believes undertaking this project was a valid attempt by the utility to better serve the province. Moving forward, the Chamber believes the best way to serve current customers is not through additional investment in new, large-scale, untested technologies but through increased demand side management activities. Specifically, SaskPower should

¹⁹ The Canadian Press. (2013, 10 29). *Opposition NDP blames Sask. Government for power rate hike*. Retrieved from <http://regina.ctvnews.ca/opposition-ndp-blames-sask-government-for-power-rate-hike-1.1519271>

²⁰ SaskPower. (2016, 09). *Mid-Application Update (2016 and 2017 Rate Application)*. Retrieved from http://www.saskratereview.ca/docs/saskpower2016/MidApplicationUpdate_2016-17_091316FINAL.pdf

focus on ensuring appropriate programs, and if necessary, economic incentives to boost energy efficiency in commercial enterprises.

Looking forward over the long-term, the Saskatchewan Chamber has both concerns and optimism over the announced objective to move the province to 50% renewable energy by 2030. The organization is currently acquiring more information on this topic before finalizing formal recommendations on that transition process.

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