

SUBMISSION TO THE SASKATCHEWAN RATE REVIEW PANEL FOR THE SASKPOWER 2010 RATE APPLICATION

The Greater Saskatoon Chamber of Commerce has consistently, in previous presentations to this Panel, expressed concern surrounding the lack of productivity enhancement initiatives within the operations of SaskPower. Our Chamber is pleased to see that the SaskPower 2010 application provides a generalized set of comments concerning SaskPower's efficiency and effectiveness measures. SaskPower is intending to see approximately \$18 million in savings as a target for 2010 along with a much broader objective of \$2 billion over ten years in the future. This infers a compounding annual incremental savings of an additional similar amount (\$18 million) each and every year for the next ten years. This is an aggressive target! Our Chamber offers our support for this objective for SaskPower, but we suggest that in future submissions, a more detailed report on productivity initiatives be included as part of Sask Power's submissions. SaskEnergy's most recent report could serve as a guide.

Our concerns regarding this specific application and the merits of the proposed increase are that many of the justifications narrated by SaskPower do not warrant the requested increase.

The costs that the narrative suggests are driving the request for rate increase (increased environmental standards, cost of fuel and customer service load) are not those that are really driving the rate increase. The specific elements of operations, maintenance and administration that are increasing at rates far in excess of a normal rate of inflation are likely to be single event in nature thus by not justifying embedding a permanent rate increase. One time costs for carbon sequestering design costs (which are recoverable from the federal government) also fit into the analysis. Finally while not within the terms of reference for your panel we contend that, the rate of return that SaskPower is targeting is higher than comparable power suppliers on tax-adjusted basis.

JUSTIFICATION

SaskPower's submission speaks extensively to future environmental standards that will impact on the costs of service delivery for SaskPower. This statement is likely correct, but the extent to which these costs will be imposed on future obligations for SaskPower are not yet known. Our Chamber asserts that an undefined future cost doesn't justify a current increase in price in and of itself.

A second point that has been raised by SaskPower consistently in previous applications is that Saskatchewan has a dispersed grid to serve a sparse population base across the province. This is true, but the borders for the province were established in 1905. To suggest that this fact somehow represents a new justification for rate increases today can be questioned regarding its merits.

The third point concerning the narration to justify the increase is that the application speaks to an increased customer load. This is at odds with SaskPower's previous point. If customer density is increasing, then by definition customer load density per kilometer must be increasing which should suggest that economies of scale are being experienced by SaskPower as the economy of Saskatchewan develops and the population base grows. This justification also further suggests that

somehow SaskPower has not been appropriately loading costs to new users suggesting SaskPower is gaining no incremental return from new installations and is not experiencing any benefit from increased usage. In a market without competitors like that for SaskPower, these “Justifications” shows the need for oversight like that of your panel. Recent comments made by the Chief Operating Officer of TransCanada suggest that power rates in Alberta may be declining from a higher base, but the dependency on coal is similar in Alberta to the Saskatchewan situation.

OPERATING COSTS

The area that is experiencing the largest increase for SaskPower is operations, maintenance and administration. SaskPower is forecasting costs to increase in this area from \$416 million in 2007 to \$611 million in 2010. This increase of 46.9% represents a compounding increase in Operations Maintenance and Administration of over 14% per year. From 2002, these costs have increased from \$286 million in 2002 to a forecast of \$611 million in 2010. These are rate cost increases far in excess of any inflationary measure in existence. A large portion of these costs appears to be backfilling for a pension adjustment of some \$39 million over the base year of 2007 in 2009 and \$47 million in 2010. There is little discussion in the report as to whether the costs that were identified in the submission for 2009 or in the submission explaining the 2010 pension adjustment are one time in nature. If these adjustments are one time events, the impact on rates should be extended over a period of time smooth costs. The submission does little to assist the reader to understand the pension challenge of SaskPower because SaskPower’s 2009 Financial Statements are not yet published. If the pension adjustments are single events in nature, they should not be embedded in a permanent rate increase. If they are permanent, pension costs of 17% of wages are extraordinarily high and the pension must be redesigned.

Another component of the OM & A increase discusses contracted external services for the carbon sequestration project design and Demand Management activities. The SaskPower narration on page 23 also states that the increased costs attached to Demand Management will be recovered over time and that design costs relating to the carbon sequestration project will be recovered from the federal government. If these statements are correct, the costs attributed to these initiatives should not be embedded into the cost base to justify a rate increase.

SaskPower in this submission as well as previous submissions has stated that fuel costs are part of the reason for this increase. Purchased power and fuel costs in 2003 were \$507 million while in 2009 these costs were \$510 million, essentially the same. For 2010 these costs are forecast to be \$559 million but natural gas prices continue to fall and U.S. priced purchased power will be less because of higher Canadian dollar. The submission also states that SaskPower expects a higher proportion of its power in 2010 to be derived from hydro generation which should reduce fuel costs. Since 2003 when fuel and purchased power costs were \$507 million, there have been price increases of over 25% most of which have been used to fund overhead maintenance and administration increases not increased fuel costs. This most recent submission is consistent with this trend.

As we understand the application, wage and pension increases represent the largest single portion of the costs that underly the requested increase, but the explanation of the pension adjustment and its permanency is not discussed. Future pension expense is also described as being part of the 19%

one-year increase in “other administration.” It is not clear if this is double counting of pension costs or if this too is a one-time event thusly negating the need for a permanent rate adjustment.

With regard to the target rate of return that is being proposed, our Chamber has consistently stated in our submissions to this panel that the benchmark comparators that SaskPower is using in determining its required rate of return is determined by comparing SaskPower a state-owned utility to taxable power providers. SaskPower is exempt from income tax.

We submit that SaskPower’s required rate of return should compare its rate of return to the after tax-rate of return basis to the other company comparatives. This would lower the targeted rate of return for SaskPower by approximately 25% and require lower power rates.

We also submit that the wage costs and the pension adjustments should be better understood concerning their permanence or transitory nature before a permanent rate increase that embeds these costs be approved. In 2006, there were 2,600 full time employees. In 2009, there were 2,790 permanent employees. The 2010 submission states that there are 3,379 budgeted employees. This substantial increase in employees is not explained.

Maintenance and Administration Operations in \$Millions sourced from previous submissions:

	2004	2005	2006	2007	2008	2009	2010
ACTUAL	317	336	360	416	430	522	?
FORECAST	299	310	366	386	416	492	611

In 2007, SaskPower was granted an increase of 4.2 % which was twice the rate of inflation. In 2009, SaskPower was granted an increase of 8.5% again, twice the rate of inflation over a two-year period. SaskPower is now requesting an increase of 7% more than three times the rate of inflation. Increases at these rates are not justified in advance of future but undefined environmental costs for CO2 emissions. The previous increases are significantly absorbed by payroll and pension costs rather than true emission reductions or true fuel cost increases.

A review of previous SaskPower submissions for rate increases on your website show a reasonably consistent over-estimation of fuel cost and a reasonably consistent underestimation of overhead, maintenance and administration. This level of forecast performance should not be accommodated through rate increases.

From an overall rate design perspective, the SRRP has, in the past, kept the Revenue/Required Revenue for resellers to a 1.00 ratio. We understand that the City of Saskatoon supports the changes as it applies to 2010 rate application and our Chamber accepts this position. However, our Chamber continues to support the principal underlying the 1.00 Revenue/Required Revenue ratio for any future rate requests and future rate increases should consider a return to the Revenue/Required Rate ratio for resellers of 1.00 in order to be consistent with the principals that underly SaskPower’s rate design process.