

2023 Cost of Service Methodology Review

QUESTIONS & ANSWERS

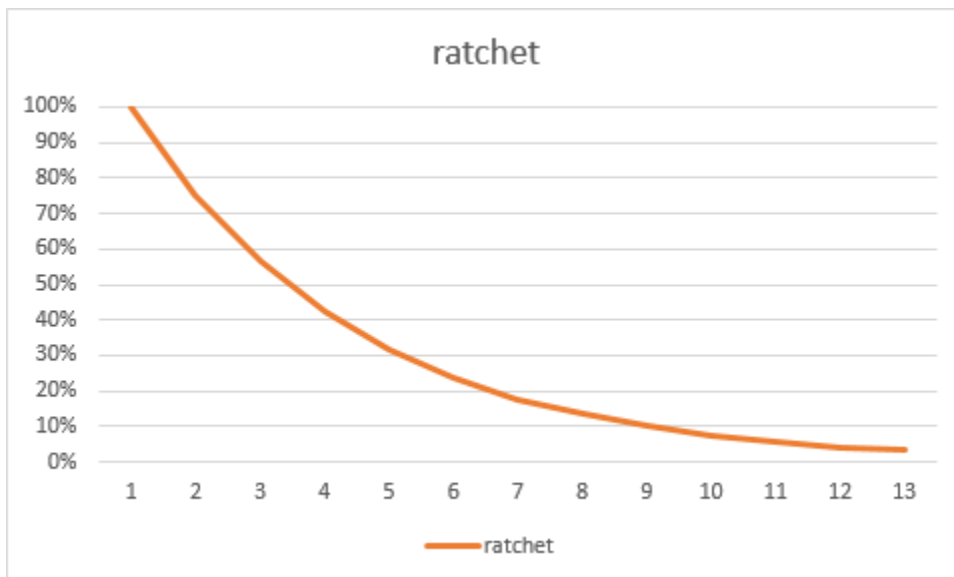
1. Cenovus Energy Inc.

SaskPower has several rates that essentially set ratchets on ratchets, for a site that has a rate of reduction in their load of greater than 25% per year over several years. The wording of the billing demand definition below (seen in multiple rates) results in a multi-year ratchet based on year one's metered demand. The graph below shows how the ratchet is equal to 75% of year one's metered demand in year 2, 56% of year one's metered demand in year 3, 42% of year one's metered demand in year 4, and so on.

Can you explain what the objectives are for this multi-year ratchet and if there are other ways to achieve those objectives?

BILLING DEMAND

The monthly billing demand is the monthly recorded demand, but the billing demand shall not be less than 75 per cent of the maximum billing demand in the preceding 11 months.



The table below shows the percentages graphed in the y-axis of the graph above for the first eight years.

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	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8
Ratchet on year x based on year 1 metered demand	100%	75%	56%	42%	32%	24%	18%	13%

SASKPOWER RESPONSE:

Demand ratchets are a common rate design tool used by electric utilities to reduce the risks of serving certain types of customers who have volatile demand throughout the year. A utility invests in lines and other facilities to meet the customer's expected demand. A significant decline in their demand severely diminishes the utility's ability to recover the fixed costs related to the installation of these facilities. The imposition of a demand ratchet allows SaskPower to recover the cost of its investment to serve that customer, even when the customer's demand falls below expectations and by establishing a minimum bill that covers a portion of fixed costs regardless of the customer's actual energy consumption.

Ratchets have several objectives:

- 1) They tend to encourage customers to increase their annual load factor, which often promotes favourable system load characteristics.
- 2) They can improve the equity of a utility's rate design by protecting other customers from additional costs due to stranded generation, transmission and distribution assets when a customer reduces load.

For example, a transformer may be for the use of one customer who has a large load for only two months and is inoperative the rest of the year. If a demand ratchet is not imposed, the fixed costs of that transformer will be recovered through other customers during the 10 months that the customer is off the system. A ratchet provides a mechanism to protect other customers by ensuring a customer with variable demand pays its causal costs.

- 3) They help stabilize revenues and ensure utilities recover enough revenue from customers whose demands fluctuate throughout the year.

The demand ratchet is applied differently to different types of customers based on risk. Smaller General Service and Farm customers have smaller demand ratchets because the

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risk of stranded generation and transmission assets from this class is less than when compared to larger Power class customers. For Power and Large Oilfield classes, the demand ratchet is applied to their Billing Demand, which is their monthly Recorded Demand, but it cannot be less than 75 per cent of the maximum Billing Demand in the preceding 11 months.

As noted in the question, since the ratcheted minimum demand charge is 75 per cent of Billing Demand rather than Recorded Demand, the ratchet impacts may extend beyond 11 months if the customer sustains prolonged load reductions. This is done for the following reasons:

- There is a larger risk of stranded generation and transmission assets from the large loads.
- The lead times for new generation and transmission assets are long.
- We are obligated to hold customer's capacity for planning purposes for two years.

An alternative measure to achieve these objectives would be to charge the customer more for their initial connection to SaskPower's grid when they apply for service. This way, if the customer fails to meet their planned load requirements or leaves the system prematurely, the risk exposure to our remaining customers remains relatively low.

It should be noted that it is rare for a customer in this rate class to incur a large load reduction over a prolonged period that would result in the ratchet being applied beyond 11 months and SaskPower reserves the right to reset a demand ratchet.