



# THE COST OF SERVICE MODEL

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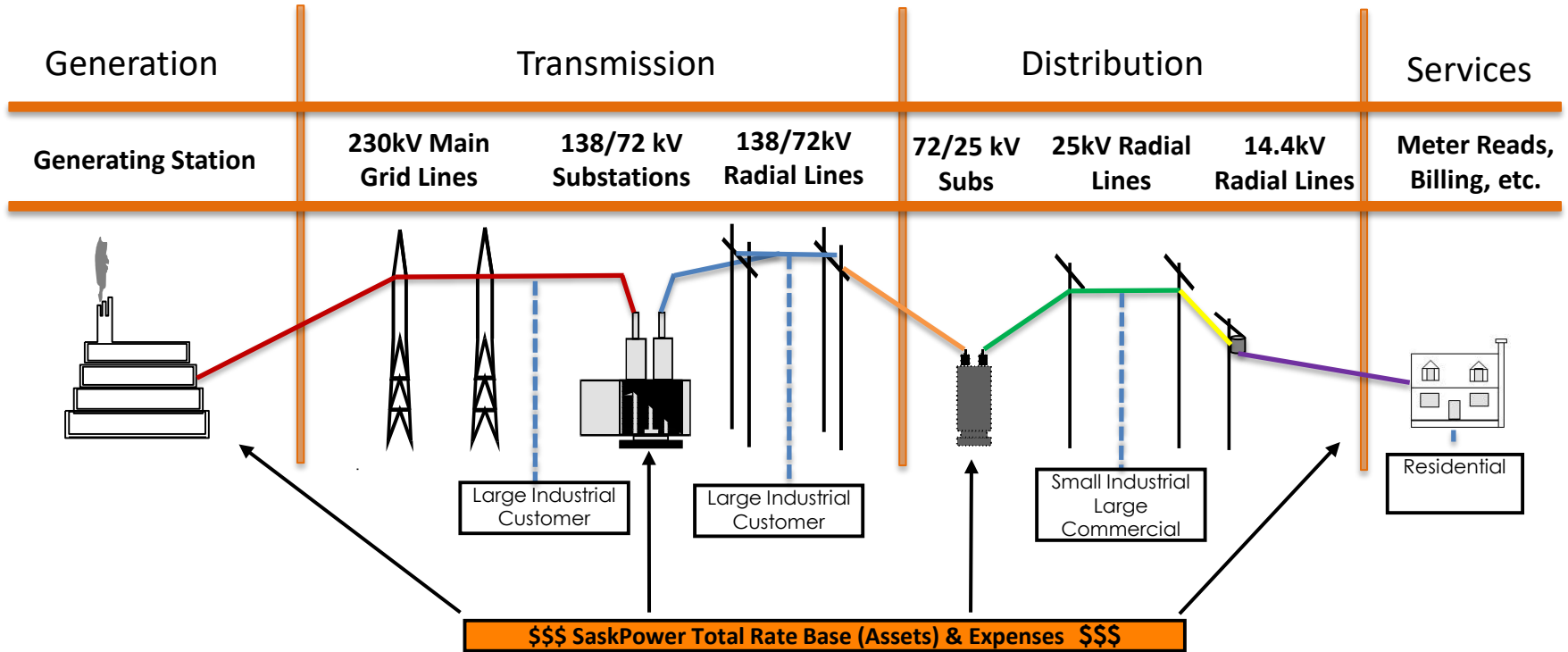
Feb 2023

# COST OF SERVICE MODEL

- Cost of service is a methodology used by SaskPower to allocate our rate base (assets) and expenses to each customer class.
- This is a commonly used approach in the utility industry.
- Any increase in SaskPower's expenses are passed along to our customers under the model (assuming achievement of our target ROE).
- SaskPower's methodology is regularly reviewed by independent consultants to ensure it is appropriate.



# ALLOCATION OF COSTS TO RATE CLASSES



- The cost of service model allocates costs in accordance with the type of assets / expenses required to serve each class.

# CROSS-SUBSIDIZATION

- Cost of service is a zero sum process.
- SaskPower uses the revenue to revenue requirement (R/RR) ratio to measure cross-subsidization:
  - R/RR = 1.0** Class is paying its fair share
  - R/RR < 1.0** Class is receiving a subsidy from other classes
  - R/RR > 1.0** Class is providing a subsidy to other classes
- SaskPower sets customers' R/RR ratios between 0.95 to 1.05
- Special rates provided to a particular customer or class are paid for by all other customers.
- The cross-subsidization between classes is disclosed through the published R/RR ratios.



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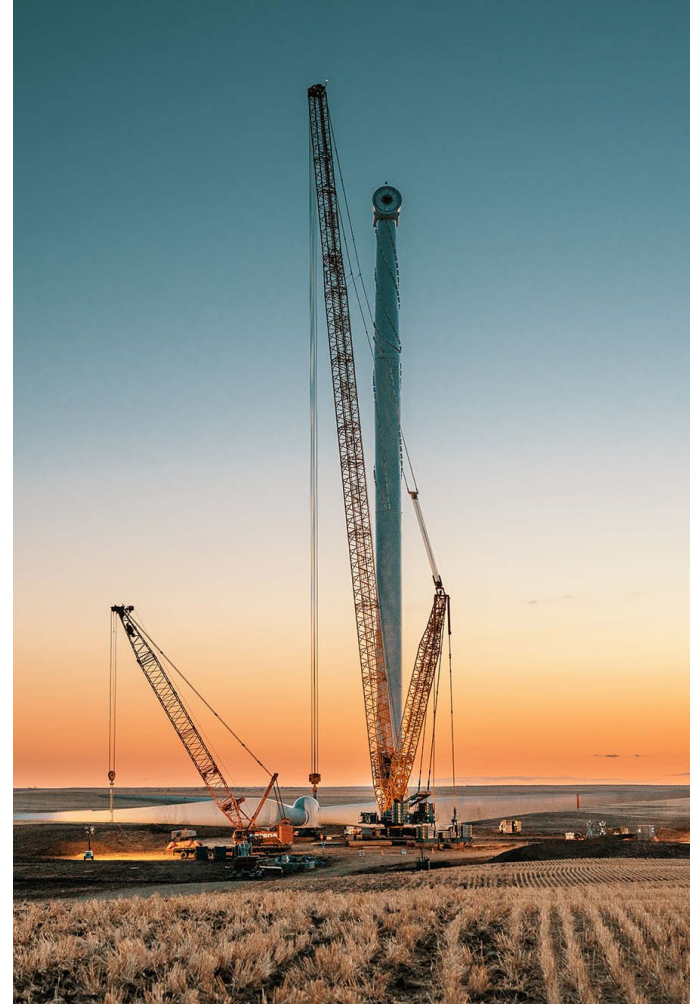
April 1, 2023 (4.0% system increase) – Revised Revenue to Revenue Requirement (R/RR) Results

Customer class	R/RR Ratio
Residential	0.96
Farm	0.97
Commercial	1.02
Power	1.01
Oilfield	1.03
Streetlights	0.97
Resellers	1.00
Total	1.00



# RATE DESIGN

- **Rate Code Structure:**
  - ✓ **Basic Monthly Charge:**
    - Covers the fixed administrative costs associated with being connected to the system with zero consumption (e.g., Billing)
  - ✓ **Energy Charge:**
    - Covers the variable costs associated with energy generation (e.g., Fuel & Purchased Power)
  - ✓ **Demand Charge:**
    - Covers the fixed infrastructure costs associated with producing & transmitting electricity (e.g., Transmission system)



# RATE DESIGN

- **Energy Metered Customers:**
  - ✓ Includes all Residential, Small Farm and Small Commercial customers
  - ✓ Rate includes an **energy charge** and **basic monthly charge**
  - ✓ The energy charge collects **both** the **energy** and **demand** related revenue requirement



# RATE DESIGN

- **Demand Metered Customers:**
  - ✓ Applies to larger Farm and Commercial Customers, and all Oilfield, Power and Reseller Customers
  - ✓ These customers have a meter which measures **both energy** consumed in kWh and maximum monthly **demand** in kVA.

