
To:

Alberta Securities Commission
Autorite des marches financiers
British Columbia Securities Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Nova Scotia Securities Commission
Ontario Securities Commission

Re: Model Rules and Appendix A – SaskPower Comments

SaskPower would like to outline a few examples of activities that it feels should be exempt from being classified as a derivative and that could be incorporated in future guidance documents, as follows:

1. Electricity transactions – see examples in attached document
2. Inter-government transactions – SaskPower is owned by the province of Saskatchewan and designated as a provincial crown corporation. In some cases SaskPower will request that the Province undertake a transaction for SaskPower purposes. In effect what occurs is the province will then go to the market and enter into a transaction with a financial institution under the parameters outlined by SaskPower. The province will then enter into the exact same transaction with SaskPower to make the net effect of the activities zero for the province. SaskPower feels in these cases the transaction between SaskPower and the province should not be reported given that the financial institution will already have reported the transaction and there shouldn't be a further need to burden SaskPower with having to report the transaction that has been executed with the province (parent). From a market risk perspective the market is exposed to the province as they are listed as the counterparty with the financial institution and if SaskPower were to not make good on the transaction any failure would be borne by the province, not the market, as the province would still be required to make good on the transaction. An example of a transaction would be SaskPower requesting the province to enter into a bond forward on our behalf to hedge a future fixed rate borrowing at a forward yield of no more than x. The province would then execute the transaction with a financial institution of its choosing (one of the major Canadian banks), which would be reported by the financial institution. Once executed the province would share the details of the transaction with SaskPower (we account for the transaction on our financials as though we did the transaction ourselves) as we have essentially done an equivalent transaction with the province and we don't feel this 'leg' should need to be reported. Any settlement on the transaction would then be (1) between the province and the financial institution and (2) an equivalent settlement between SaskPower and the province with the net effect to the province being zero.

Thank you for your consideration of these examples.

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Treasurer

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Comments on Power Purchase Agreements For The Canadian Securities Administrators OTC Derivatives Committee

The Canadian Securities Administrators (“CSA”) is looking for feedback on their proposed rules related to the regulation of OTC derivatives.

SaskPower has Power Purchase Agreements (“PPAs”) with a variety of independent power producers (“IPPs”). None of the IPPs are a Financial Institution.

The PPAs are in place to provide SaskPower with a source of supply of a physical commodity. The physical commodity is electricity. SaskPower will then use this electricity to serve its customers. The intent is to always take delivery of physical electricity and the PPAs are not designed to be financially settled (where physical delivery would not occur and a payment would be based on market prices).

All SaskPower PPAs should be considered a “physical commodity exception” under the proposed rules. Further clarification regarding certain PPA elements is listed below for your reference.

Take or Pay

Certain PPAs include a take or pay option. In the event that SaskPower decides to not take full delivery of electricity there may be a requirement to compensate the IPP for lost revenue due to reduced production. The payment is based on the capacity portion, essentially capital cost recovery, of the tariffs. These tariffs are outlined in the PPA and are not based on a market price or a market index. Even in this scenario SaskPower is still purchasing a physical product because capacity, or the ability to produce electricity, has value in an electrical system. SaskPower needs to be capable of replacing its largest generation unit in the event it fails within 15 minutes and having units available to produce is important for the reliability of the system.

Payments Linked to an Index

Certain PPAs include tariff payments that are linked to an index price, usually a natural gas price index. This arrangement is established to reflect the actual cost of the physical commodity being purchased and consumed (natural gas) in the process of producing electricity.

Ability to Settle Financially

Saskatchewan does not have an electricity market that would be comparable to Alberta or Ontario. Electricity purchased under a PPA in Saskatchewan cannot be sold to the market or financially settled because a market does not exist. Purchases under the PPAs are for a physical commodity and the production is intended to meet SaskPower’s requirements to serve customer load.