Saskatchewan Rate Review Panel

Report to the Minister Responsible for Crown Investments Corporation of Saskatchewan

Regarding SaskEnergy's Proposed 2023-24 Commodity Rate Application and Delivery Service Financial Update

Report submitted August 31, 2023

Executive Summary

This report is a continuation of the review that was initiated on July 11, 2022, when SaskEnergy submitted an application to increase its commodity rate by 31.0% and to increase its delivery service rate by an average of 8.0% in 2022-23 (Year 1), 5.0% in 2023-24 (Year 2), and 2024-25 (Year 3). During the initial review, the Panel received concerns from the public about affordability which led the Panel to recommend in its report to the Minister on December 16, 2022, that consideration be given to lowering the corporation's long-term rate of return (ROE) of 8.3% to help address this issue.

Given that the quarterly results filed during the process provided a significant improvement in the financial results for 2022-23 fiscal year from those forecasted in the original application, the Panel recommended that the proposed delivery rate increases for Years 2 and 3 could not be considered until updated financial forecasts were provided in early 2023.

The Panel also recommended that SaskEnergy file an application to reduce the commodity rate as soon as the Gas Cost Variance Account (GCVA) balance of $28 million was fully recovered.

SaskEnergy filed its delivery service financial update and commodity rate application on June 29, 2023. SaskEnergy is now proposing a 5.0% delivery rate increase effective October 1, 2023, which results in a forecast lower ROE of 2.9% for the 2023-24 fiscal year.

SaskEnergy is also applying to decrease its commodity rate from $4.20 gigajoules (GJ) to $3.30 GJ effective October 1, 2023, in order to discharge the GCVA by December 31, 2025. No further adjustment to the commodity rate is proposed in 2024 or 2025.

Commodity Rate

SaskEnergy is forecasting that the GCVA will have a balance of $12.4 million owing to customers by September 30, 2023. This application is designed to recover the forecast cost of gas sold and to discharge the balance due to customers in GCVA by December 31, 2025.

The Panel has noted in the previous application that SaskEnergy has applied to have the balance due from customers of $28.3 million be repaid by customers over a period of nine months (August 2022 to March 31, 2023) which did occur.

In this application, SaskEnergy is requesting the balance be discharged back to the customer over a period of 27 months to December 31, 2025. The Panel has traditionally strived to avoid intergenerational inequalities (the mismatch between those who used the gas and those who paid for it) as much as possible. The Panel's preferred approach is to have the outstanding amount discharged within a 12 month period, or if in the case of extreme situations, no longer than a 24 month period to provide rate stability or decrease rate volatility.

The Panel has reviewed the impact that shortening the fully repaid period from December 31, 2025, to September 30, 2025, would have on customers and the corporation. If the GCVA was cleared by September 30, 2025, the cost of gas would decrease from $3.30/GJ to $3.20/GJ. The Panel also noted that the typical commodity gas year for utilities is from October 1 to September 30 each year.

Heat Value

The Panel has noted in this and previous applications that heat value continues to be a concern. Where natural gas has a higher heat value, less gas is required to produce an equivalent amount of heating energy. SaskEnergy purchases gas in gigajoules and bills customers on a volumetric basis. This results in a mismatch between the buying and selling of the commodity.

This issue also impacts the GCVA and future delivery service revenues for the company. When the heat value is higher than forecasted, customers require smaller volumes to achieve the same heating value, decreasing commodity revenues, which are based on volume. If amounts owed by customers accrue in the GCVA, it may compound the amounts owing from customers and the required commodity rate increase in future periods.

Delivery Rate

During the review of the financial update, the Panel noted that the main driver of increased costs (aside from increasing interest costs) are total Operations, Maintenance and Administration (OM&A) expenses.

- These expenses have increased from $112 million in 2018 to $160 million in 2025 – a 42.8% increase over the 7-year period or approximately 6% per year.
- The OM&A per customer increased from $326 in 2021-22 to $395 in 2023-24 and to $407 in 2024-25, which represents an annual increase of approximately 8%.
- Full Time Equivalent (FTEs) have from 892 in 2021-22 to 922 in 2023-34 and to 922 in 2024-25.
- Labour costs have increased from $108 million in 2021-22 to $123 million in 2024-25, an annual increase of 4%.
- Capital expenditures are also increasing largely to fund the new Saskatoon facility and information technology as well as maintaining the existing infrastructure and safety standards. The extra costs in terms of ongoing rate increases due to depreciation and interest is approximately 2.4% to 2.8%.
- Funding of the new customer efficiency programs is forecast to increase from $5.9 million in 2022-23 to $9.2 million in 2023-24 and to $12 million in 2024-25 fiscal years.

As this upward trend of increases is concerning, the Panel and its ratepayers urge SaskEnergy to develop strategies that garner greater efficiencies and financial cost containment measures so future rate increases can be mitigated and this trend line of OM&A costs be reduced.

The Panel has noted that SaskEnergy's proposed investments that impact the delivery service rate all require funding either new capital expenditures with resulting depreciation and interest costs, or new labour costs resulting from additional full-time equivalents (FTEs). Implementation of these new initiatives will result in increased costs that affect rates to consumers and the company's net income.

Recommendations to the Minister

1. That the commodity cost of gas used to set the commodity rate be reduced from $3.30/GJ to $3.20/GJ which will reduce the discharge period in the GCVA from December 31, 2025, to September 30, 2025, to match the typical gas commodity year.
2. That SaskEnergy set a deadline to make the conversion to billing in energy or indicate to the Panel that it is unable to make the conversion and the reasons why.
3. That the delivery rate adjustment of 5% for the 2023-24 fiscal year be approved with the provision that no further increases occur during the 2024-25 fiscal year.
4. That SaskEnergy consider and introduce further strategies that will reduce the trend of increasing OM&A expenses.
5. That any outstanding recommendations in the Panel's report dated December 16, 2022, are carried forward with the understanding that those that have not been implemented or dealt with will continue to be a priority for the company.

Table of Contents

Introduction

SaskEnergy filed a combined commodity rate (one-year) and delivery service rate (three-year) application (original application) with the Saskatchewan Rate Review Panel (the Panel) on July 11, 2022, to increase its commodity rate by 31.0% and increase its delivery service rate by an average of 8.0% in 2022-23 (Year 1), 5.0% in 2023-24 (Year 2) and 5.0% in 2024-25 (Year 3). The Government of Saskatchewan approved the Year 1 commodity and delivery rates on an interim basis effective August 1, 2022.

Since the interim rate was to be implemented in advance of the Panel's final report, the Panel concentrated on reviewing the forecasted financial statements and related information at that time for implementation of the proposed delivery rates for the 2023-24 and 2024-25 fiscal years.

In the mid-application update submitted on October 3, 2022, less than 3 months following their original application, SaskEnergy indicated that if current financial forecasts were to materialize, the corporation expected to earn $24.8 million or a return on equity (ROE) of 5.8% on its distribution utility in the 2022-23 fiscal year. This was an increase from the original forecast of $9.7 million or an ROE of 2.3% in the original application. The Panel determined that the improved financial forecasted results were significant and material.

As part of its initial review, the Panel also noted that SaskEnergy's five-year average ROE of 14.2% (11.9% weather-normalized) and ten-year average ROE of 10.7% (9.9% weather normalized) were well above SaskEnergy's long-term ROE target of 8.3%.

With increasing concerns about affordability, the Panel recommended to the Minister of the Crown Investments Corporation of Saskatchewan on December 16, 2022, that due consideration was required to lower the average ROE to help address this issue. The Panel also recommended that the proposed delivery rate increases for 2023-24 and 2024-25 would not be considered until updated financial forecasts were provided in early 2023. Due to the volatility of natural gas prices and the potential for further significant market price adjustments, the Panel also recommended that SaskEnergy file an application for a commodity rate decrease as soon as the Gas Cost Variance Account (GCVA) of $28 million was fully repaid.

SaskEnergy provided a delivery service financial update and commodity rate application on June 29, 2023, in accordance with the Panel's previous report. SaskEnergy is now proposing a 5.0% delivery rate increase effective October 1, 2023, assuming a lower ROE (2.9% if the proposed rate change is approved) than the currently approved long-term target of 8.3% to reduce the rate impact on customers.

The GCVA account was fully repaid by the end of March, which has led SaskEnergy to submit a commodity rate application to decrease the commodity rate since the GCVA has now been discharged and the current market price of natural gas has modestly decreased. SaskEnergy is applying to decrease its commodity rate from 16.59 ($ 4.20/gigajoule (GJ)) to 13.04 cents per cubic metre ($3.30/GJ) effective October 1, 2023.

This rate application is designed to recover the forecast cost of gas to be sold; and maintain the balance in the Gas Cost Variance Account (GCVA) within SaskEnergy's +/- $20.0 million threshold through 2025.

If the proposed commodity rate adjustments are approved as presented by SaskEnergy, the rates will result in an average bill decrease for customers as follows without the proposed delivery rate increase of 5%:

	Commodity Rate Decrease ($4.20/GJ to $3.30/GJ)		**Total Bill Impact**
	$/Month	**% Decrease**	**% Decrease**
Residential	$(7.94)	(22.1)%	(9.4)%
Commercial Small	$(37.59)	(22.1)%	(12.5)%
Commercial Large	$(483.72)	(22.1)%	(14.6)%
Small Industrial	$(1,990.60)	(22.1)%	(17.1)%
Average		(22.1)%	(10.8)%

[1]

For the residential, commercial small, and commercial large rate classes, an increase to the basic monthly charge and volumetric delivery charge is being recommended in Year 2. The following table summarizes the proposed rate change compared to the current rates and the original application.

Rate Class	Current Rates		Original Application (5%) Effective June 1, 2023		Recommended Rates Effective (5%) October 1, 2023	
	Basic Monthly Charge $	Delivery Charge $/m^3	Basic Monthly Charge $	Delivery Charge $/m^3	Basic Monthly Charge $	Delivery Charge $/m^3
Residential	$24.50	$0.1100	$25.80	$0.1154	$26.50	$0.1113
Commercial Small	$41.50	$0.0874	$44.50	$0.0905	$47.50	$0.0887
Commercial Large	$159.50	$0.0732	$174.50	$0.0764	$171.50	$0.0772
Small Industrial	$216.00		$216.00		$226.50	
First 40,000 m^3/month		$0.0482		$0.0519		$0.0507
Balance		$0.0421		$0.0458		$0.0446

[2]

[1] SaskEnergy Commodity Rate Application 2013, P. 1
[2] 2023-24 Delivery Service Financial Update, P. 22

The commodity rate decrease to $3.30 GJ combined with the delivery rate increase of an average 5% is expected to result in an overall bill decrease for customers:

Year 2 Effective October 1, 2023	Commodity Rate Decrease*		Delivery Rate Increase		Total Bill Impact	
	Month	Commodity Decrease %	$/Month	Delivery Increase %	$/Month	% Decrease
Residential	$(7.94)	(22.1)%	$2.28	4.7%	$(5.66)	(6.7)%
Commercial Small	$(37.59)	(22.1)%	$7.32	5.6%	$(30.27)	(10.1)%
Commercial Large	$(483.72)	(22.1)%	$64.29	5.8%	$(419.42)	(12.7)%
Small Industrial	$(1,990.60)	(22.1)%	$145.00	5.6%	$(1,845.60)	(15.9)%
Average		(22.1)%		5.0%		(8.3)%

[3]

Commodity Rate Application

SaskEnergy purchases natural gas on the open market on behalf of its customers, and passes on the cost of natural gas to customers at the same price it pays suppliers, including all expenses. SaskEnergy uses the GCVA as the mechanism which tracks the difference between actual commodity sales revenue and actual natural gas costs. The net differences are accumulated for the period of time between rate adjustments. The balance is then applied to a future commodity rate adjustment.

SaskEnergy is forecasting that the GCVA as of September 30, 2023, will have a balance of $12.4 million owing to customers. SaskEnergy is applying to decrease its commodity rate from 16.59 cents to 13.04 cents per cubic metre ($3.30/gigajoule) effective October 1, 2023. This application is designed to recover the forecast cost of gas to be sold; and to discharge the balance due to the customers in the GCVA by the end of December 2025.

Commodity Rate

The last commodity rate adjustment was on August 1, 2022, when the commodity price was increased to reflect the rapid rise of natural gas prices due to extreme weather events across North America, higher liquefied natural gas exports and greater demand. The proposed commodity rate is intended to recover the cost of gas sold over the application period (to the end of December 2025). The cost of gas sold for the application period starting October 1, 2023, through 2025 is forecast to be $485.1 million. The factors which impact the cost of gas include:

- Cost of Purchase Gas – the cost to buy natural gas on the open market, which is purchased in units of energy called gigajoules (GJs).
- Transportation Costs – the costs to move natural gas from the producing gas fields or outside of Saskatchewan to the TransGas Energy Pool.

[3] 2023-24 Delivery Service Financial Update, P. 6

- Natural Gas from Storage – gas is purchased and injected into storage during the summer and subsequently withdrawn and sold during the winter months. Since this gas is purchased and then stored, the price is fixed prior to the sale of gas. The gas is sold at cost to customers, regardless of the market price of winter gas.
- Interest and Operating Expenses – consists of direct operating costs, overheads, capital related costs, bad debt expense, and gas in storage carrying costs related to the acquisition of the gas supply.
- Cost of Internal Usage – represents the cost of the natural gas consumed by SaskEnergy within the gas distribution system to provide delivery service. The costs are included in the cost of gas sold calculation and subsequently allocated from commodity to delivery operating expenses and recovered through delivery rates.

Based on SaskEnergy's updated load forecast for the next two years, the following natural gas purchases have been hedged based on normal weather volumes:

- 92% of the winter period November 2023 to March 2024;
- 80% of the summer period April 2024 to October 2024;
- 92% of the winter period November 2024 to March 2025;
- 61% of the summer period April 2025 to October 2025; and
- 95% of the winter period November 2025 to March 2026.

The unhedged purchases remain subject to change in prices on a monthly basis.

SaskEnergy monitors its cost of gas throughout the year and typically targets its commodity rate adjustments for the fall to align with the November to October gas year. As a result of the GCVA recovering faster than expected following the August 1, 2022, rate increase, SaskEnergy now requires a reduction to the commodity rate to ensure the GCVA remains at an acceptable level.

The Panel has noted that in the previous application SaskEnergy applied to have the balance due from customers of $28.3 million repaid over a period of nine months (August 2022 to March 31, 2023). In this application, SaskEnergy is requesting the balance be discharged back to the customer over a period of 27 months to December 31, 2025. The Panel has traditionally strived to avoid intergenerational inequalities (the mismatch between those who used the gas and those who paid for it) as much as possible. The basic principle is to have the outstanding amount discharged within a 12-month period, or in the case of extreme situations, no longer than a 24-month period to provide greater rate stability.

In response to the interrogatories posed by the Panel during the process, it was noted that the GCVA balance at the end of October 2023 is forecasted to be $11.6 million due from SaskEnergy to customers. The balance on September 30, 2025, is still forecasted to be $8.2 million due to the customers. This indicates that only $3.4 million of the $11.6 million due to customers is forecasted to be returned in the first 24 months of this application. The remaining $8.2 million is forecasted to be repaid in the 25–27 months' time period.

Heat Value

The Panel has again noted in this application that heat value continues to be a concern and that the corporation's progress to bill in energy is slower than the Panel had hoped. Natural gas is a mix of hydrocarbon gases and contains different energy content (or heat value) depending on the composition of natural gas. Where natural gas has a higher heat value, less volume of gas is required to produce an equivalent amount of heating energy. SaskEnergy purchases gas in gigajoules and bills customers on a volumetric basis. This results in a mismatch between the buying and selling of the commodity.

This issue also impacts the GCVA. When the heat value is higher than forecast, customers require smaller volumes to achieve the same heating value, decreasing commodity revenues, which are based on volume. If amounts owed by customers accrue in the GCVA, it may compound the amounts owing from customers and the required commodity rate increase in future periods.

In its previous application, SaskEnergy noted a total heat value variance impact to the GCVA from 2017-18 to 2021-22 was $9.6 million (owing to the corporation from customers). The actual impact that heat value variance has had on SaskEnergy commodity and delivery revenues is summarized in the table below. This indicates ongoing impacts to SaskEnergy revenues from 2019-20 due to the variation between forecast and actual heat values.

Actual Heat Value Revenue Impacts, 2019-20 to 2021-22 ($Millions)[4]

	Heat Value			Actual	
	Actual	Forecast Delivery	Forecast Commodity*	Delivery Revenue Impact	Commodity Revenue Impact
2019/20	39.19	38.75	38.75	(1.89)	(2.20)
2020/21	39.63	38.75	38.75	(3.66)	(2.80)
2021/22	39.44	38.75	39.90	(2.86)	3.20

* The commodity heat value forecast was updated in the 2021 Commodity Rate Application from 38.75 to 39.90.

As noted in the foregoing table, the impact to the delivery revenue from 2019-22 totals $8.4 million (this results in $8.4 million less income for SaskEnergy). Billing in energy would correct this revenue loss. It would also eliminate the need for forecasting heat value and the associated risks and fairness issues related to heat value variance and variances in customer bills, and improve the net income of the corporation. This would place SaskEnergy in the same category as most other major Canadian utilities.

[4] 1st Round Information Request 24 (c) and 2nd Round Information Request 20 (a) (iii), 2022 Delivery Service and Commodity Rate Application. Revenue impacts for 2019/20 to 2021/22 use a heat value rate of 38.75 m^3/MJ and 2022/23 to 2024/25 test years use a heat value of 39.50 m^3/MJ from the Mid-Application Update, September 29, 2022.

Delivery Rate Financial Update

In its original application, SaskEnergy applied to increase its delivery service rate by an average of 8.0% in 2022-23 (“Year 1”), 5.0% in 2023-24 (“Year 2”) and 5.0% in 2024-25 (“Year 3”). Due to SaskEnergy’s stronger-than-expected financial performance in 2022-23 and increasing concerns about affordability, the Panel recommended that the proposed delivery rate increases for Year 2 and Year 3 would not be considered until updated financial forecasts were provided in early 2023. This submission contains SaskEnergy’s most recent financial forecast information and summarizes key variances to the financial forecast information contained in the original application.

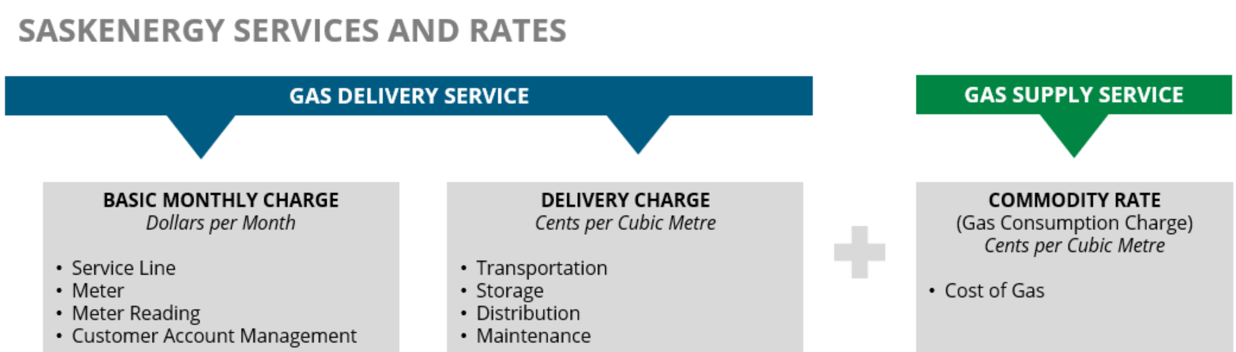
Gas Service Rate

Gas Delivery Service includes storage and transportation as well as all distribution facilities and operations necessary for delivery of natural gas to customers throughout the year. SaskEnergy earns its approved return on investment through its delivery service. The cost of the delivery service is recovered through a two-part rate:

Basic Monthly Charge (BMC): a fixed dollar amount per month, designed to recover the fixed costs attributed to cover customer care related costs including the customer service line, meter reading and customer account administration.

Delivery Charge: a volumetric charge applied to each cubic metre of natural gas used by the customer. The delivery charge varies from month-to-month based on a customer’s consumption. The delivery charge attempts to recover capacity related costs associated with the distribution system including storage and transportation.

The relationship between services and the rates are illustrated in the chart below.



[5]

[5] 2023-24 Delivery Service Financial Update, P. 4

Delivery Service Rates

The proposed delivery service rate increase in Year 2 is forecast to provide SaskEnergy with incremental revenue of $10 million and a ROE of 2.9% compared to 0.6% without the proposed increase. Although the ROE in Years 2 and 3 are forecast to be lower than the approved long term ROE target of 8.3%, SaskEnergy deems this to be appropriate and manageable over the short-term as it allows the corporation to:

- Reduce the rate impact on customers during a period of economic uncertainty;
- Maintain a dividend payout ratio of 35%; and
- Maintain the debt ratio within the approved target range of 58% to 63%.

SaskEnergy indicated that its delivery service rate increases are primarily required to support investment in the system and public safety efforts, heightened public expectations and regulatory requirements, as well as support for customer efficiency programs and enhanced customer experience through technology investments. These include the following:

- Capital spending on the new Saskatoon facility to consolidate previous locations to one new building with gains in productivity and efficiency.
- Enhanced spending on new IT projects to gain efficiency and better customer experience.
- New emphasis on operational effectiveness, customer experiences, and digital technology and security.
- Creation of an operational effectiveness team to identify opportunities to eliminate inefficient processes and enhance customer value.
- Procure to Pay system to process supplier documents and eliminate manual transaction processing.
- New data strategy to help build policies and processes for how data is managed throughout the company.
- New programs to promote customer efficiency.

The key drivers of the variances between the current forecast and the original application are changes to the timing of the proposed rate increase; a decrease in the ROE forecast in the latter year; additional OM&A associated with additional staff resources; increases in capital spending; and higher interest costs. The financial forecast information provided by SaskEnergy assumes a 5.0% delivery rate increase effective October 1, 2023, and no delivery rate increase in 2024-25 fiscal year. The original application considered a 5.0% increase in each of 2023-24 and 2024-25 fiscal years.

Below is SaskEnergy's delivery revenue requirement summary as stated in the financial update. Note the Year 1 was confirmed to be actual results and the current forecasts, compared to the original application dated July 2022.

SCHEDULE 1.0

DELIVERY REVENUE REQUIREMENT SUMMARY
($000's)

SaskEnergy Incorporated
Delivery Revenue Requirement Summary
($000's)

Component	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Actual	Year 1 2022/23 Forecast	Year 2 2023/24 Original Application	Year 2 2023/24 Forecast	Year 2 2023/24 Variance	Year 3 2024/25 Original Application	Year 3 2024/25 Forecast	Year 3 2024/25 Variance
Operating & Maintenance	112,680	127,569	131,062	131,603	132,513	148,964	157,268	162,626	5,358	160,691	168,595	7,904
Transportation & Storage	50,342	53,216	53,630	53,480	58,379	63,777	66,019	63,860	(2,159)	66,019	63,860	(2,159)
Depreciation Expense	41,051	42,559	46,483	49,966	52,050	67,634	56,921	56,438	(483)	59,296	59,902	606
Tax Expense	5,481	6,319	6,924	6,853	7,965	8,590	8,729	9,138	409	9,041	9,751	710
Interest Expense	24,698	26,498	28,687	28,296	30,124	33,730	32,208	37,179	4,971	33,716	42,439	8,723
Net Earnings	70,220	68,117	41,904	40,201	34,468	21,362	19,994	12,448	(7,546)	30,118	5,898	(24,220)
Total Delivery Revenue Requirement	304,471	324,279	308,690	310,399	315,499	344,057	341,139	341,689	550	358,881	350,445	(8,436)
Other Revenue and Adjustments												
Other Revenue	(38,390)	(41,101)	(30,644)	(30,290)	(33,287)	(37,278)	(31,177)	(34,222)	(3,045)	(32,961)	(36,872)	(3,911)
Net Delivery Revenue Requirement	266,080	283,178	278,046	280,110	282,213	306,779	309,962	307,467	(2,495)	325,920	313,573	(12,347)

*Based on SaskEnergy's fiscal year April 1 - March 31
[6]

During the review of the financial update, the Panel noted that the main driver of increased costs (aside from increasing interest costs) are total Operations, Maintenance and Administration (OM&A) expenses.

- These expenses are forecast to increase from $112 million in 2018 to $160 million in 2025 – a 42.8% increase over the 7-year period or approximately 6% per year.
- The OM&A per customer increased from $326 in 2021-22 to $395 in 2023-24 and $407 in 2024-25, which represents an annual increase of approximately 8%.
- Full Time Equivalent (FTEs) have increased from 892 in 2021-22 to 922 in 2023-34 and 922 in 2024-25.
- Labour costs have increased from $108 million in 2021-22 to $123 million in 2024-25, an annual increase of 4%.
- Capital expenditures are also increasing largely to fund the new Saskatoon facility and information technology as well as maintain existing infrastructure and safety standards. The extra costs in terms of ongoing rate increases due to depreciation and interest are approximately 2.4% to 2.8%.
- Funding of new customer efficiency programs is forecast to increase from $5.9 million in 2022-23 to $9.2 million in 2023-24 and to $12 million in 2024-25 fiscal years.

The Panel has noted that SaskEnergy's proposed investments that impact the delivery service rate all require funding either new capital expenditures with resulting depreciation and interest costs, or new labour costs resulting from additional FTEs. Implementation of these new initiatives will result in increased costs that affect rates to consumers and the company's net income.

[6] 2023-24 Delivery Service Financial Update, P. 8

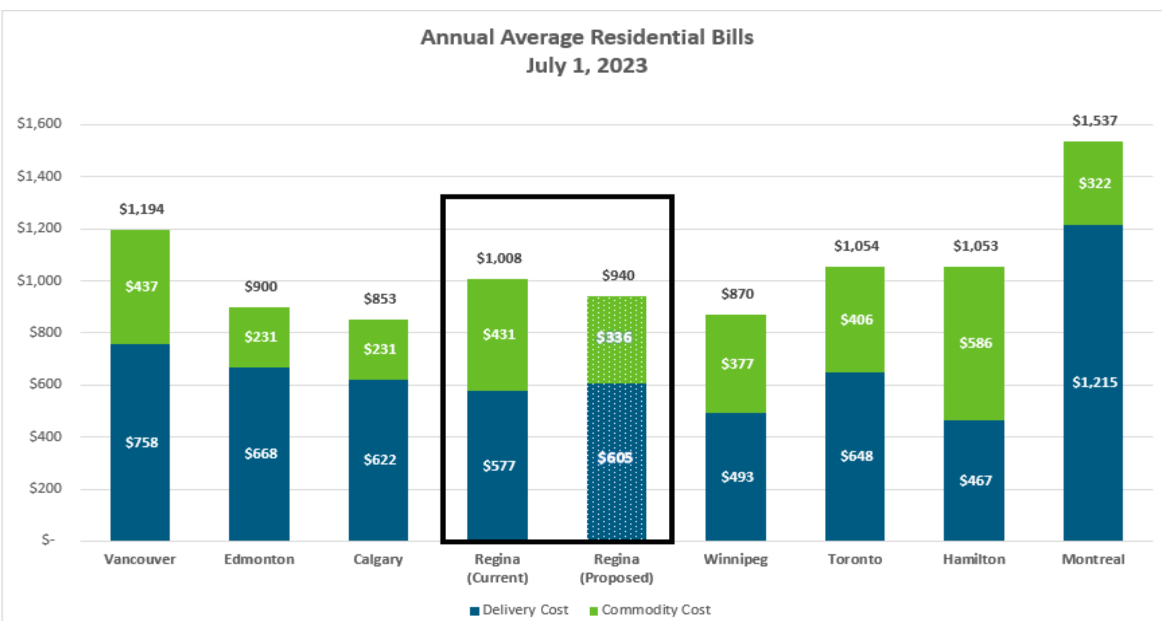
Although SaskEnergy has indicated that the objective behind these investments is to make the organization more efficient and resilient, and enhance the customer experience, the associated cost savings that result from these expenditures is not necessarily evident in the original application and the financial update. SaskEnergy also stated some benefits will be realized in the short term, while others will require a longer horizon as systems are upgraded, tested and ultimately implemented in the most logical order.

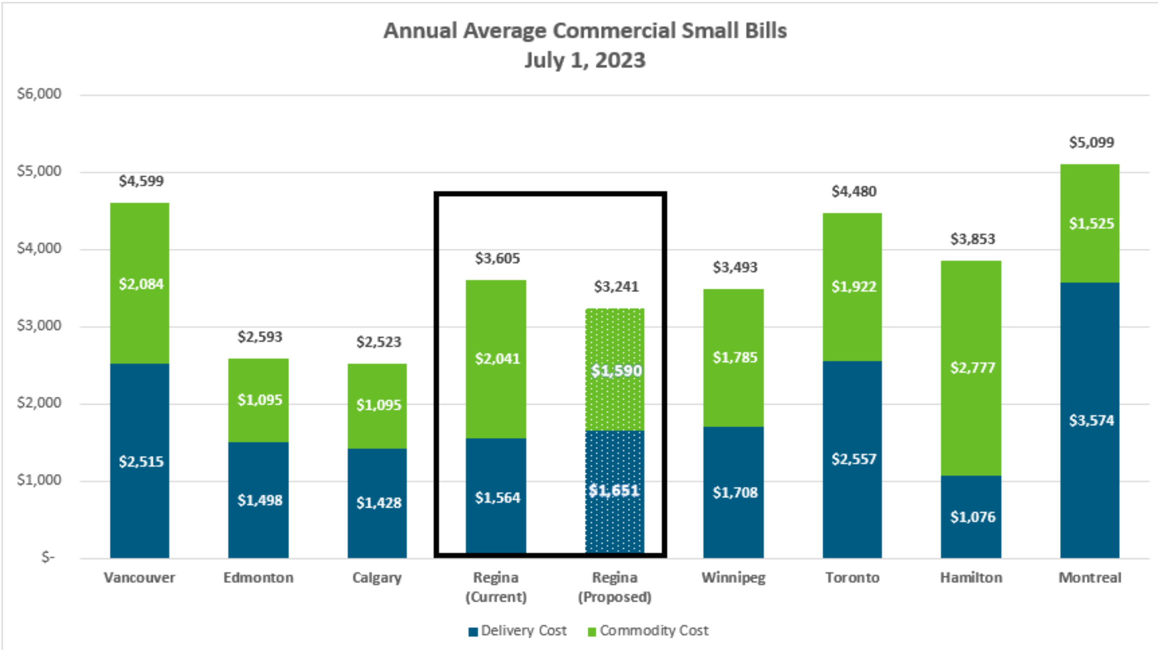
SaskEnergy confirmed these projects and initiatives are included in the latest corporate plan which has been reviewed and approved at several levels both in the organization and beyond. The Panel will be following the reporting on these initiatives to ensure that the resulting savings are reflected in future rate applications.

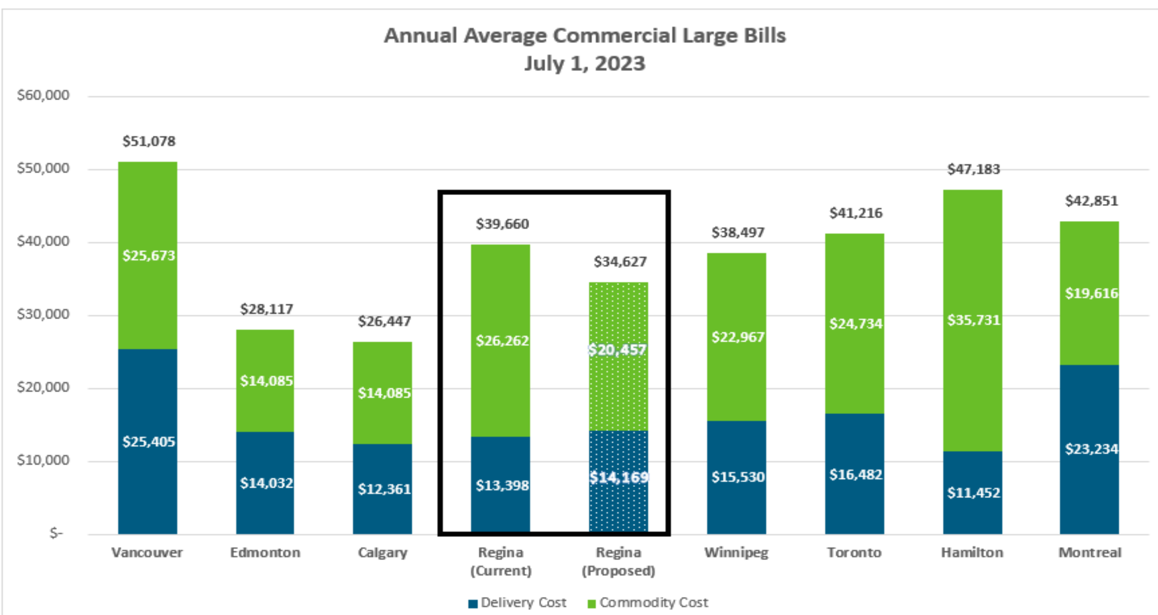
The Panel notes interest costs and depreciation expense will continue to increase as capital is reinvested in aging infrastructure and capital expenditures associated with customer growth and development will increase the revenue requirement. SaskEnergy's capital spending plan is also increasing in magnitude and as a result these two cost drivers alone will put further upward pressure on the delivery rate.

Competitiveness of the Proposed Rates

SaskEnergy provided updated information on the effect of its proposed rate changes on customer bills relative to other jurisdictions. These comparisons are developed during a specific moment in time and these charts can change depending on factors such as the price of natural gas, hedging strategies, weather patterns, etc. This information is based on rates in effect as of July 1, 2023, and does not include taxes and municipal surcharges for more accurate comparisons between jurisdictions.



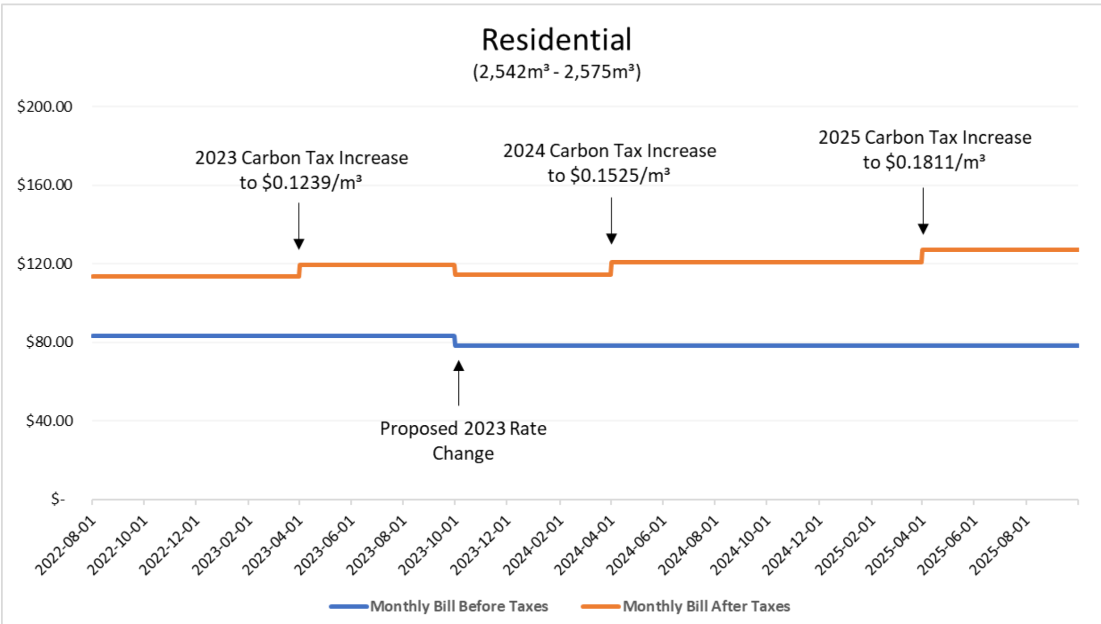


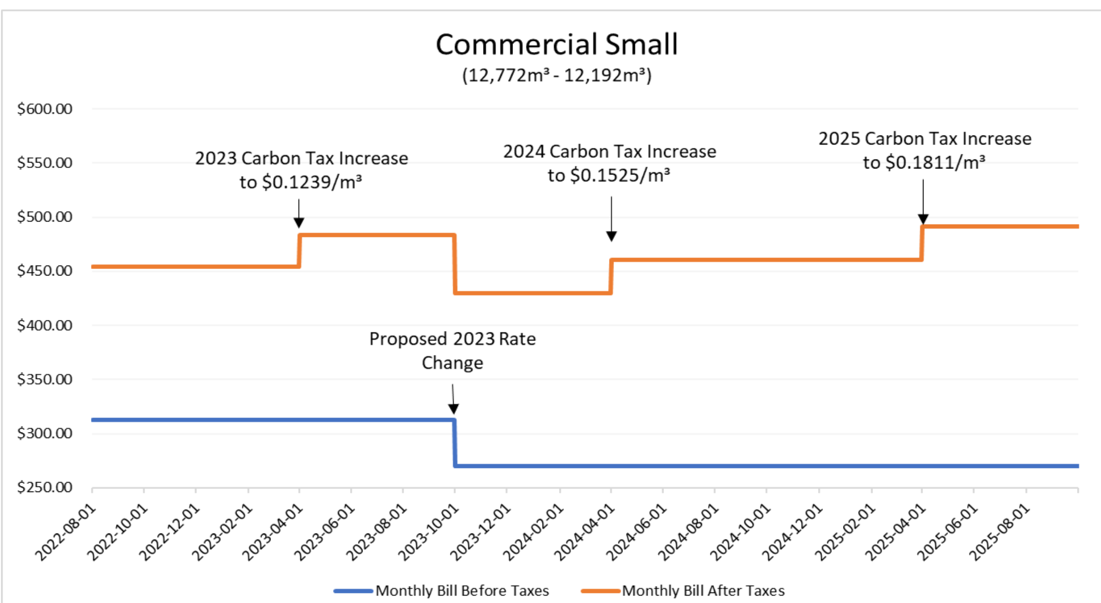


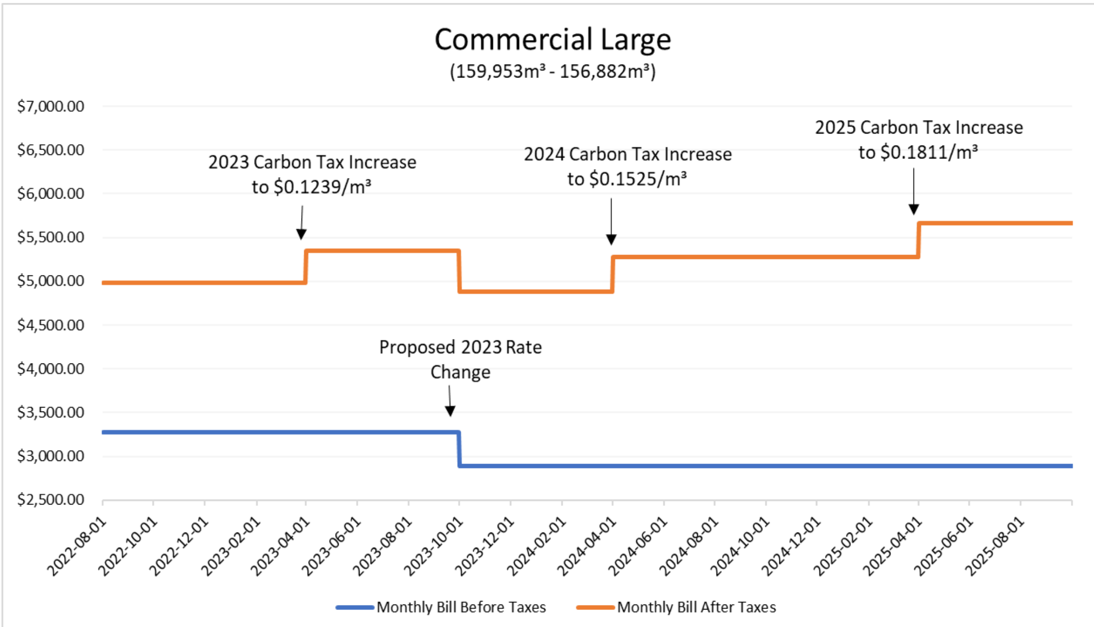
These figures indicate that despite the rate adjustments, SaskEnergy will continue to have competitive rates relative to other jurisdictions.

Customer Impacts of the Proposed Rates

Customer bills include a commodity rate, a delivery rate, and a basic monthly charge before and after taxes and surcharges apply. The impacts on each customer's bill will depend on the customer class and usage levels.







The Panel also requested customer impacts on the proposed rates compared to the recommended commodity rate which reduces the cost of gas from $3.30/GJ to $3.20/GJ. The differences can be noted in the final columns which outline the percentage total average bill change.

	2023/24 at Proposed Rates										
	Percentage of Customers within Class	Annual Usage Interval (m3)	Average Annual Use (m3)	Current Average Annual Bill, $/year	Average Bill with Proposed Commodity Rate Change		Average Bill with Porposed Delivery Rte Change		Total Average Bill Change		
					change, $/year	change %	change, $/year	change %	$/year	change, $/year	change, %
Residential	72%	(0 - 3,000)	2,043	$ 861	$ (76)	-9%	$ 27	3%	$ 812	$ (49)	-6%
	27%	(3,001 - 7,000)	3,922	$ 1,382	$ (145)	-11%	$ 29	3%	$ 1,266	$ (116)	-8%
	2%	(Over 7,000)	9,687	$ 2,981	$ (358)	-12%	$ 37	1%	$ 2,659	$ (322)	-11%
Commercial Small	65%	(0 - 10,000)	4,388	$ 1,616	$ (162)	-10%	$ 78	5%	$ 1,531	$ (85)	-5%
	31%	(10,000 - 50,000)	21,036	$ 5,858	$ (778)	-13%	$ 99	1%	$ 5,179	$ (679)	-12%
	5%	(Over 50,000)	84,447	$ 22,015	$ (3,125)	-14%	$ 182	1%	$ 19,072	$ (2,943)	-13%
Commercial Large	75%	(0 - 200,000)	102,373	$ 26,545	$ (3,788)	-14%	$ 553	2%	$ 23,311	$ (3,234)	-12%
	20%	(200,001 - 400,000)	272,630	$ 67,509	$ (10,087)	-15%	$ 1,235	2%	$ 58,656	$ (8,853)	-13%
	5%	(Over 400,000)	529,373	$ 129,281	$ (19,587)	-15%	$ 2,261	2%	$ 111,956	$ (17,325)	-13%
Small Industrial			695,551	$ 151,239	$ (25,735)	-17%	$ 2,915	1%	$ 128,419	$ (22,820)	-16%

	2023/24 with $3.20/GJ Commodity Rate										
	Percentage of Customers within Class	Annual Usage Interval (m3)	Average Annual Use (m3)	Current Average Annual Bill, $/year	Average Bill with Proposed Commodity Rate Change		Average Bill with Porposed Delivery Rte Change		Total Average Bill Change		
					change, $/year	change %	change, $/year	change %	$/year	change, $/year	change, %
Residential	72%	(0 - 3,000)	2,043	$ 861	$ (84)	-10%	$ 27	3%	$ 804	$ (57)	-7%
	27%	(3,001 - 7,000)	3,922	$ 1,382	$ (160)	-12%	$ 29	3%	$ 1,251	$ (131)	-9%
	2%	(Over 7,000)	9,687	$ 2,981	$ (396)	-13%	$ 37	1%	$ 2,622	$ (359)	-12%
Commercial Small	65%	(0 - 10,000)	4,388	$ 1,616	$ (179)	-11%	$ 78	5%	$ 1,514	$ (102)	-6%
	31%	(10,000 - 50,000)	21,036	$ 5,858	$ (860)	-15%	$ 99	2%	$ 5,097	$ (761)	-13%
	5%	(Over 50,000)	84,447	$ 22,015	$ (3,454)	-16%	$ 182	1%	$ 18,743	$ (3,272)	-15%
Commercial Large	75%	(0 - 200,000)	102,373	$ 26,545	$ (4,187)	-16%	$ 553	2%	$ 22,911	$ (3,634)	-14%
	20%	(200,001 - 400,000)	272,630	$ 67,509	$ (11,151)	-17%	$ 1,235	2%	$ 57,593	$ (9,916)	-15%
	5%	(Over 400,000)	529,373	$ 129,281	$ (21,651)	-17%	$ 2,261	2%	$ 109,891	$ (19,390)	-15%
Small Industrial			695,551	$ 151,239	$ (28,448)	-18%	$ 2,915	1%	$ 125,706	$ (25,533)	-17%

Review Process for the Application

The Panel met with representatives from SaskEnergy to discuss their rationale for the rate adjustments. This was followed by a detailed set of information requests from the Panel and supplemental questions that are all posted on the Panel's website. The Panel also held individual discussions with SaskEnergy staff to clarify specific points.

The Panel also invited public comment on the adjustments through the Panel's mailbox, on-line messages on the website, directly through email, the toll-free voice mailbox, and social media accounts. A public meeting was held in Saskatoon on July 17 and members of the public were invited to view the meeting either on-line or in person. Those interested could ask their questions at the meeting or from their computers, tablets or smartphones during the live broadcast.

All methods for public input were advertised in the two major daily newspapers, and information was disseminated through Facebook and Twitter. SaskEnergy's application received news coverage immediately after it was announced. Copies of the application were available to the public at its offices and on the Panel's website. There was a limited number of public comments on this application.

About the Panel

The mandate of the Panel extends to three Crown corporations in Saskatchewan – SaskEnergy, SaskPower and SGI's Saskatchewan Auto Fund. Serving as an advisory body to the Minister Responsible for Crown Investments Corporation, the Panel provides independent advice on rate proposals from the above-noted corporations. When conducting its review the Panel considers the interests of the customer, the Crown corporation and the public. The final decision about these applications continues to rest with the Saskatchewan government.

The following members have been appointed to serve on the Saskatchewan Rate Review Panel:

Chair	Albert Johnston, Saskatoon
Vice-Chair	Duane Hayunga, Prince Albert
Members	Glenn Dutchak, Canora; Bonnie Guillou, Saskatoon; Kim Hartl, Lake Lenore; Keith Moen, Saskatoon; and Sid Katzman, Saskatoon

The Minister issued an Order on June 28, 2023, establishing the Terms of Reference guiding the Panel's review of SaskEnergy's Rate Adjustments. The Minister's Order and the Terms of Reference for this application identified several factors that the Panel is to consider in conducting its review, as well as various parameters that are outside the Panel's purview. This information is available on the Panel's website.

In Appreciation

Thank you to SaskEnergy for the timely and helpful assistance it provided throughout this application.

Thank you to Gerry Forrest, general consultant, for his ongoing assistance in the work of the Panel.

Thank you to technical writer Pat Rediger for his assistance in preparing this report.

Thank you to all Panel Members who diligently committed to completing this review in the timeframe provided.

For More Information

For more information on this review, please visit the Saskatchewan Rate Review's website at www.saskratereview.ca. The site contains SaskEnergy's requested Rate Adjustments, SaskEnergy's public presentation, the Panel's terms of reference, information requests to SaskEnergy and the responses, videos of the public meeting, and the Panel's media releases.