



**2023-24
DELIVERY SERVICE
FINANCIAL UPDATE**



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1.0 B A C K G R O U N D

On July 11, 2022, SaskEnergy filed a combined Commodity Rate (one-year) and Delivery Service Rate (three-year) Application (Original Application) with the Saskatchewan Rate Review Panel (“Panel”) 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”). Given that the Year 1 commodity rate increase of 31.0% and average delivery rate increase of 8.0% were approved by the Government of Saskatchewan and implemented on an interim basis effective August 1, 2022, the Panel chose to concentrate on reviewing the financial and related information for implementation of proposed delivery rates for Year 2 and Year 3.

In the Mid-Application update, submitted October 3, 2022, SaskEnergy indicated that it expected to earn \$24.8 million or a return on equity of (ROE) of 5.9% in its distribution utility in Year 1. This was up from \$9.6 million or an ROE of 2.3% contained in the Original Application. 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 in excess of SaskEnergy’s long-term ROE target of 8.3%. With increasing concerns about affordability, the Panel indicated that due consideration is required to lowering the average ROE to help address affordability issues. The proposed 5.0% increase in 2023-24, assumes a lower ROE than the currently approved Local Distribution Company (LDC) long term target to reduce the rate impact to customers during a period of economic uncertainty.

In light of SaskEnergy’s stronger-than-expected financial performance in 2022-23 and concerns about affordability, the Panel recommended to the Minister of Crown Investments Corporation of Saskatchewan (Minister) that 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.

Given the volatility of natural gas prices, the Panel also recommended that SaskEnergy file an application for a commodity rate decrease as soon as the Gas Cost Variance Account (GCVA) was paid off. The GCVA account was paid off in March; therefore, SaskEnergy currently has a Commodity Rate Application before the Panel for consideration of a commodity rate decrease.

Gas Delivery Service

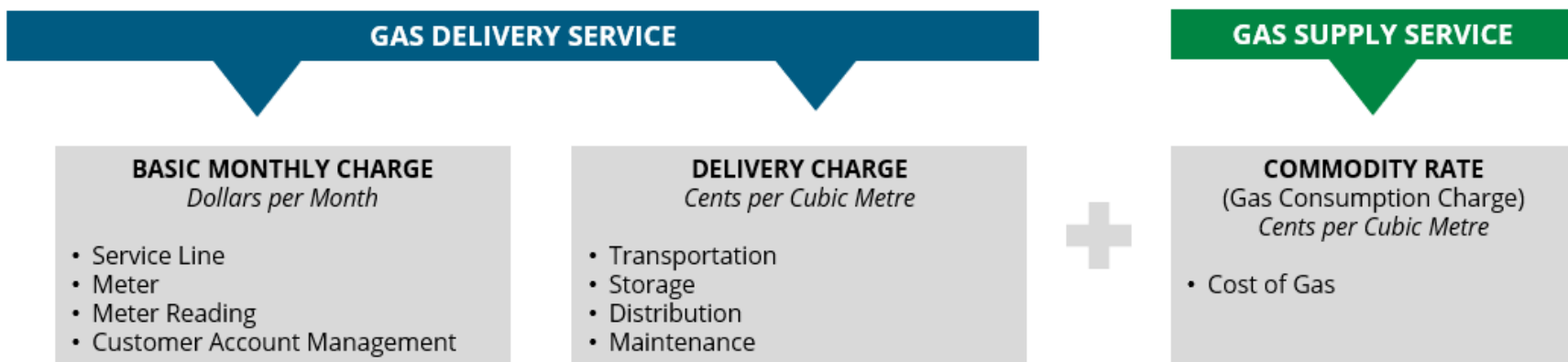
Gas Delivery Service includes storage and transportation as well as all distribution facilities and operations necessary for delivery of natural gas to customers throughout the year. SaskEnergy earns its approved return on investment through its delivery service.

The cost of the delivery service is recovered through a two-part rate:

- 1) A Basic Monthly Charge (BMC), which is 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; and
- 2) A Delivery Charge, which is a volumetric charge applied to each cubic metre of natural gas used by the customer. The Delivery Charge will vary 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 of services and the rates are illustrated in the chart below.

SASKENERGY SERVICES AND RATES



2.0 EXECUTIVE SUMMARY

Throughout the remainder of the document SaskEnergy has provided current financial forecast information and summarized the key variances to the financial forecast information contained in the Original Application for Year 2 and Year 3. The key drivers of the variances between the current forecast and the Original Application are:

- Changes to the timing of proposed rate increases; and
- A decrease in the Return on Equity forecast in the out years.

The financial forecast information contained in this document assumes a 5.0% delivery rate increase effective October 1, 2023 and no delivery rate increase in 2024-25. The Original Application considered a 5.0% increase in each of 2023-24 and 2024-25.

Delivery Service Rates

If approved, the delivery service rate increase in Year 2 will provide SaskEnergy with incremental revenue for the distribution company of \$10.0 million and a return on equity (ROE) of 2.9% in Year 2, compared to 0.6% without the proposed increase.

While the ROE in Years 2 and 3 are forecast to be lower than the current approved LDC long term target of 8.3%, the Corporation deems this to be appropriate and manageable over the short-term as it allows SaskEnergy to:

- reduce the rate impact to 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's delivery service rate increases are primarily required to support investment in the system and public safety efforts. In addition, public expectations and regulatory requirements of the Corporation's environmental and social responsibilities are increasing. SaskEnergy continues to enhance its support for customer efficiency programs, such as the residential equipment replacement rebate, to help customers reduce their heating bills, as well as their impact on the environment through purchase and installation of energy efficient equipment. SaskEnergy has also been expanding its customer experience initiatives through technology investments.

The recommended delivery service rate increase is projected to result in an overall bill decrease for customers, when combined with the commodity application currently before the Panel:

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)%

* Commodity rate decrease being considered as part of a separate application.

3.0 ECONOMIC BACKDROP

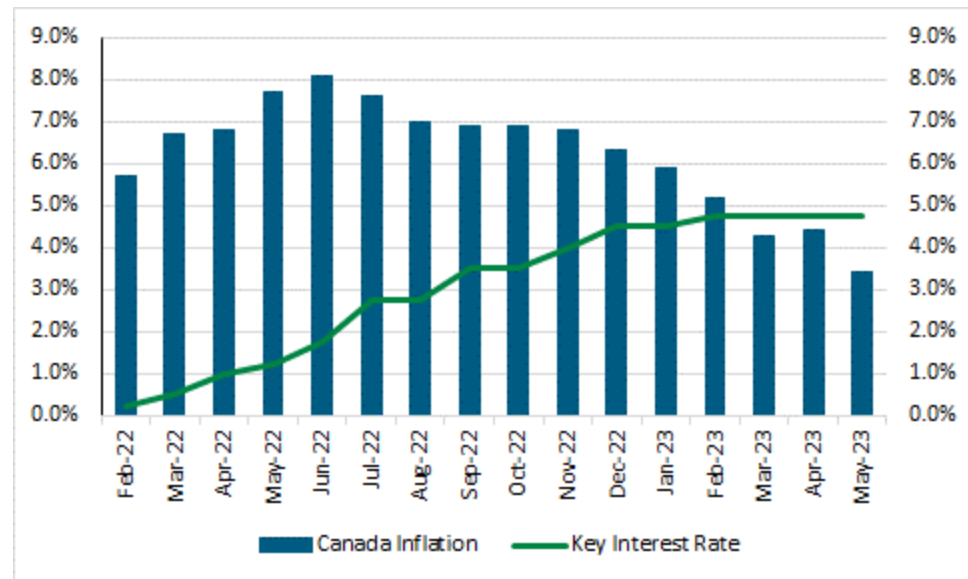
Economic Factors

The economy has proven more resilient than expected in 2023 both in Saskatchewan and across the country. Consumer spending has held despite higher interest rates and prices, and low unemployment has persisted. Nationally, the Consumer Price Index (CPI) increased by 3.4% on an annualized basis in May, down a full percentage point from April and the smallest increase since June 2021. This is primarily the result of declining energy prices. While lower than the peak of 8.1% in 2022, inflation remains well above the Bank of Canada's target rate of 2.0%.

In Saskatchewan, the CPI increased by 4.3% in May, higher than both the national average and the other western provinces. In an effort to bring inflation closer to the target, the Bank of Canada (BOC) increased the key interest rate to 4.75% in June. This represents nine rate increases since January 2022 when the key rate was 0.25%. Many economists predict one more interest rate high by the BOC in 2023.

In 2023, TD Bank forecasts Gross Domestic Product in Saskatchewan to increase by 2.4%, second only to Alberta, which is forecast to grow by 2.7%. The housing market continues to hold up relatively well with housing starts increasing by 53% through the first three months of 2023 compared to the same time last year. This was accompanied by robust population growth in the province. Housing affordability remains reasonable, which should support demand over the medium term.

Overall, the province's resource heavy economy points to less sensitivity to the monetary tightening cycle. Saskatchewan is not immune, however, to economic risks as evidenced by signs of cooling in both job markets and consumer spending. Additionally, a slowing U.S. economy could weigh on Canadian exports, and geopolitical uncertainty could result in further global supply chain disruptions.



4.0 FINANCIAL REQUIREMENTS UPDATE

1.0 REVENUE REQUIREMENT SUMMARY

Schedule 1.0 below provides a comparison between the delivery costs associated with providing delivery service to SaskEnergy customers included in the Original Application and the current forecast.

For Year 2 of the application period, the revised delivery cost of service is forecast at \$307.5 million, down \$2.5 million from the Original Application. In Year 3, the revised delivery cost of service is forecast at \$313.6 million, \$12.3 million lower than the Original Application. The revised forecast results in a revenue deficiency in Year 2. As such, a rate increase is requested.

SCHEDULE 1.0

DELIVERY REVENUE REQUIREMENT SUMMARY (\$000's)

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

Component	2017/18	2018/19	2019/20	2020/21	2021/22	Year 1 2022/23	Year 2 2023/24			Year 3 2024/25		
	Actual	Actual	Actual	Actual	Actual	Forecast	Original Application	Forecast	Variance	Original Application	Forecast	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

The following sections discuss the individual components of the delivery cost of service, and the variances between the financial update forecast and the Original Application.

1.1 DELIVERY TRANSPORTATION AND STORAGE EXPENSE

Schedule 1.1 below provides a comparison between the delivery transportation and storage expenses included in the Original Application to revised numbers included in this forecast.

Transportation and storage are critical to ensuring the security of supply for SaskEnergy customers.

SCHEDULE 1.1

DELIVERY TRANSPORTATION AND STORAGE EXPENSE

(\$000's)

SaskEnergy Incorporated Delivery Transportation and Storage Expense

	2017/18	2018/19	2019/20	2020/21	2021/22	Year 1 2022/23	Year 2 2023/24			Year 3 2024/25		
	Actual	Actual	Actual	Actual	Actual	Forecast	Original Application	Forecast	Variance	Original Application	Forecast	Variance
<u>TRANSPORTATION & STORAGE</u> (\$000's)												
Transportation Costs	31,986	33,861	34,185	34,036	37,172	40,689	42,082	40,772	(1,310)	42,082	40,772	(1,310)
Storage Cost	18,355	19,355	19,445	19,445	21,207	23,088	23,937	23,088	(849)	23,937	23,088	(849)
Total Transportation & Storage Expense	50,342	53,216	53,630	53,480	58,379	63,777	66,019	63,860	(2,159)	66,019	63,860	(2,159)
<u>Volume</u>												
<u>Transportation</u>												
Contracted Demand (in GJ's/day)	600,000	605,000	605,000	605,000	608,000	608,000	608,000	608,000	-	608,000	608,000	-
<u>Storage</u>												
Contracted Firm Deliverability (in GJ's/day)	393,217	393,217	393,217	393,217	393,217	393,217	393,217	393,217	-	393,217	393,217	-
Contracted Storage Volume (in PJ's)	23.4	23.4	23.4	23.4	23.4	23.4	23.4	23.4	-	23.4	23.4	-

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

The original application assumed an increase to transportation and storage expenses, mainly the result of a 2.0% TransGas rate increase in each of 2023-24 and 2024-25. In April 2023, Cabinet decided not to proceed with the TransGas rate increase in 2023-24; therefore, the 2023-24 forecast has been updated to reflect that decision. SaskEnergy is no longer forecasting an increase to the transportation and storage rates in 2024-25.

1.2 OPERATING AND MAINTENANCE EXPENSE

Schedule 1.2 below provides a comparison of the operating and maintenance expenses included in the Original Application to revised numbers contained in this forecast.

SaskEnergy manages the largest natural gas distribution system in Canada with approximately 71,900 kilometres of distribution pipeline, 1,178 pressure regulation stations and 408,000 customers distributed over a 38,000 square kilometre service area across Saskatchewan. SaskEnergy's customer density is six customers per kilometre of pipe compared to an industry average of 30 customers per kilometre.

SCHEDULE 1.2

OPERATING AND MAINTENANCE (\$000's)

SASKENERGY INCORPORATED Category Details (\$ 000's)

	2017/18	2018/19	2019/20	2020/21	2021/22	Year 1 2022/23	Year 2 2023/24			Year 3 2024/25		
	Actual	Actual	Actual	Actual	Actual	Forecast	Original Application	Forecast	Variance	Original Application	Forecast	Variance
Operating and Maintenance												
Labour	88,900	92,415	97,801	101,191	108,066	110,409	117,693	119,732	2,039	121,273	123,478	2,205
Pension Costs	221	249	284	87	73	188	219	19	(200)	230	19	(211)
Charges to Capital	(29,938)	(30,610)	(30,843)	(29,219)	(32,527)	(33,865)	(31,904)	(31,516)	388	(32,558)	(32,152)	406
External Services	34,156	41,521	37,502	35,295	34,884	39,146	38,199	39,647	1,448	38,216	39,652	1,436
External Recoveries	(2,422)	(2,787)	(2,157)	(3,759)	(4,990)	(4,522)	(4,460)	(4,847)	(387)	(4,550)	(4,943)	(393)
Internal Recoveries	(3,326)	(2,728)	(2,646)	(2,615)	(2,835)	(2,298)	(3,555)	(3,861)	(306)	(3,593)	(3,909)	(316)
Materials and Supplies	7,255	8,595	8,583	8,984	9,256	9,653	9,341	10,328	987	9,341	10,328	987
Energy Costs	813	806	812	803	715	819	837	837	-	837	837	-
Vehicles	7,015	7,444	7,679	8,362	9,777	11,674	9,789	10,597	808	10,082	10,597	515
Property Costs	5,280	6,460	5,223	5,978	5,184	4,762	5,532	5,693	161	5,532	5,697	165
Computer Costs	4,960	6,188	5,820	6,751	7,375	8,415	9,858	9,132	(726)	10,304	9,387	(917)
Sustenance and Transportation	2,970	3,504	3,663	2,886	3,051	3,845	3,863	4,127	264	3,787	4,127	340
Communication	2,188	1,783	1,937	2,057	2,863	2,938	3,077	2,969	(108)	3,077	2,969	(108)
Public Relations	2,790	2,551	2,560	4,345	5,136	6,832	8,623	10,544	1,921	8,623	13,319	4,696
Fees, Dues and Community Contrib	1,733	2,050	2,192	1,719	2,559	2,816	2,470	2,791	321	2,470	2,791	321
Misc Corporate Charges	881	3,014	7,882	4,563	2,229	6,818	6,613	5,929	(684)	7,100	6,334	(766)
Intercompany Allocations	(10,796)	(12,886)	(15,229)	(15,827)	(18,301)	(18,666)	(18,925)	(19,496)	(571)	(19,480)	(19,938)	(458)
Total	112,680	127,569	131,062	131,603	132,513	148,964	157,270	162,626	5,356	160,691	168,595	7,904

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

Material changes between the current 2023-24 forecast and the Original Application include:

Labour: SaskEnergy has faced challenges in filling vacancies and achieving FTE goals over the past several years. Currently, however, there is a renewed effort to fill vacant positions to ensure that SaskEnergy delivers on capital deployment plans including investments in system sustainability, and enhancements in customer experience. SaskEnergy has successfully filled 55 vacancies directly related to gas distribution in the first five months of 2023, compared to 44 in the same period in 2022.

Labour costs are forecast to be 1.7% higher in Year 2 and 1.8% higher in Year 3 than the Original Application. While increased staffing levels are a key driver of this variance, higher salary and benefits costs are expected due to inflationary pressures. SaskEnergy's Collective Bargaining Agreement (CBA) expired on January 31, 2023 and is being renegotiated in 2023-24.

While SaskEnergy has been going through a transition from contractors to FTE's, SaskEnergy believes the continued use of contractors will be required to deliver on its corporate plan. This is contributing to the increase in external service costs in Year 2 and Year 3 from the Original Application.

External Services: SaskEnergy is forecasting a \$1.4 million increase in external services compared to the Original Application. Since the Original Application was filed, SaskEnergy has heightened its focus on damage prevention and cathodic protection of natural gas pipelines. This is to ensure the safety and integrity of the distribution infrastructure, and to limit the potential of public safety risks such as natural gas leaks.

SaskEnergy is also increasing its focus on cybersecurity and physical security in 2023-24 due to a growing threat environment. This will result in increased capital expenditures and operational costs for, among other things, a larger number of security personnel and enhanced monitoring and security for both virtual and physical corporate assets.

Public Relations: SaskEnergy plays a key role in promoting customer programs designed to encourage homeowners and businesses to replace old equipment with newer, high-efficiency models to help lower gas consumption, and reduce emissions and energy bills. SaskEnergy works to ensure customer efficiency increases over time to assist the Province in meeting its emissions reduction targets. Saskatchewan's per capita spending on energy efficiency programs was \$4.63 in 2021, down from \$5.91 in 2019, and significantly lower than an average of \$47.95 across other Canadian provinces and territories. In Years 2 and 3, SaskEnergy is planning to introduce five new customer efficiency programs that target commercial energy management, new home efficiency, retrofitting existing homes and improving efficiency in indigenous communities. SaskEnergy is currently working with a consultant with expertise in energy efficiency programming to assist SaskEnergy in measuring and reporting on

the effectiveness of current and future programs. This information will help SaskEnergy plan programs that have the largest impact for customers and help meet SaskEnergy's objective of improving affordability for customers. These programs, which were not considered in the Original Application, are the key drivers contributing to increased public relations expenditures of \$1.9 million in Year 2 and \$4.7 million in Year 3.

1.3 DEPRECIATION EXPENSE

Schedule 1.3 below provides a comparison of depreciation expenses provided in the Original Application to this revised forecast.

Depreciation expense reflects the depreciation associated with plant and equipment and corporate infrastructure required to:

- connect new customers;
- undertake economically justified and safety-related system improvements;
- support safe, reliable and efficient operations; and
- manage the information, work management and customer administration needs.

SCHEDULE 1.3

DEPRECIATION EXPENSE

(\$000's)

SaskEnergy Incorporated Depreciation Expense (\$000's)

	2017/18	2018/19	2019/20	2020/21	2021/22	Year 1 2022/23	Year 2 2023/24			Year 3 2024/25		
	Actual	Actual	Actual	Actual	Actual	Forecast	Original Application	Forecast	Variance	Original Application	Forecast	Variance
Distribution Plant												
Land Costs												
Land Rights	257	173	177	177	177	169	177	177	-	177	177	-
Building and Site Improvements	2,365	2,327	2,895	3,360	3,596	3,750	4,711	4,036	(675)	5,125	4,545	(580)
Services	12,333	11,666	12,104	12,952	13,018	13,782	14,499	13,782	(717)	15,109	15,518	409
Meter and Regulator Installations	1,849	2,311	2,444	2,575	2,680	4,438	2,814	2,934	120	2,880	3,303	423
Mains	11,402	10,205	10,777	11,299	11,452	11,684	12,467	12,225	(242)	12,830	13,766	936
NGV Fueling Stations & Fuel Makers	-	(1)	19	26	26	184	26	26	-	26	26	-
Measuring and Regulating Equipment	1,528	945	987	1,082	1,137	919	1,161	1,256	95	1,178	1,414	236
Meters	3,186	6,892	5,394	5,465	5,450	9,531	6,299	5,726	(573)	6,699	6,447	(252)
Other Distribution Equipment	634	711	846	947	1,004	1,056	1,307	1,118	(189)	1,450	1,258	(192)
Distribution before Customer Contributions	33,552	35,230	35,642	37,882	38,540	45,513	43,461	41,279	(2,182)	45,474	46,454	980
Amortization of Customer Contributions	(6,212)	(6,780)	(7,229)	(7,420)	(7,854)	(8,353)	(8,095)	(8,754)	(659)	(8,273)	(9,415)	(1,142)
Sub-total	27,340	28,449	28,413	30,463	30,686	37,160	35,366	32,525	(2,841)	37,201	37,039	(162)
General Plant												
Land	-	-	-	-	-	-	-	-	-	-	-	-
Buildings and Improvements	1,579	1,361	1,752	1,928	2,265	2,564	2,135	2,742	607	2,246	3,087	841
Office Furniture and Equipment	495	496	494	475	447	2,064	426	440	14	412	496	84
Transportation Vehicles	2,350	1,377	1,435	1,381	1,369	602	1,654	1,430	(224)	1,806	1,611	(195)
Heavy Work Equipment	1,096	882	999	1,017	1,083	764	1,316	1,210	(106)	1,418	1,362	(56)
Tools and Equipment	726	781	888	913	954	1,132	938	1,048	110	958	1,180	222
Information System Assets	7,466	7,703	7,944	8,921	10,602	20,072	10,231	14,056	3,825	10,256	12,011	1,755
Leased Computers	-	650	842	962	975	1,079	896	1,145	249	994	1,157	163
Leased Buildings	-	-	2,909	2,890	2,459	505	2,871	523	(2,348)	2,871	556	(2,315)
Leased Vehicles	-	860	807	1,016	1,210	1,693	1,090	1,318	228	1,134	1,403	269
Sub-total	13,711	14,110	18,070	19,503	21,363	30,475	21,557	23,912	2,355	22,095	22,863	768
Total Depreciation	41,051	42,559	46,483	49,966	52,050	67,635	56,923	56,438	(485)	59,296	59,903	607

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

Material changes between the current 2023-24 forecast and the Original Application include:

Information System Assets: In conjunction with the depreciation study conducted in 2022-23, SaskEnergy reviewed the amortization period for computer software and determined that reducing it from ten to five years was a more accurate estimate of useful life for the majority of software assets. This was reviewed by the consultant who determined that the estimate was reasonable. This change resulted in increased depreciation for this line item by approximately \$3.8 million in 2023/24.

Leased Buildings: Following the submission of the Original Application, the Corporation assumed ownership of SaskEnergy Place. This allowed SaskEnergy to depreciate SaskEnergy Place over a longer period, partially offsetting the increased depreciation in information system assets.

Overall, the variance in total depreciation in Years 2 and 3 is minimal from the depreciation schedule filed in the Original Application.

1.4 TAX EXPENSE

Schedule 1.4 below provides a comparison of tax expenses provided in the Original Application to this revised forecast.

Taxes consist of Corporate Capital Tax and property taxes. Corporate Capital Tax is paid to the Province of Saskatchewan and is calculated at 0.6% of capital invested in excess of \$10 million. The expense is calculated in accordance with the formula, deductions and allowances prescribed by *The Saskatchewan Corporation Capital Tax Act*.

As a Crown Corporation, SaskEnergy is exempt from property taxes on its infrastructure within Saskatchewan. Historically, in instances where SaskEnergy purchased existing infrastructure that had a previous property tax obligation, SaskEnergy will carry forward that tax obligation by means of a grant-in-lieu of taxes. However, in its 2018-19 Provincial Budget, the government expanded the grants-in-lieu program to include all owned, non-linear real estate assets. The payment of grants-in-lieu to municipalities maintains the property tax revenue despite a transfer of ownership to a Crown Corporation.

A further breakdown of corporate capital tax is included in the Appendix.

SCHEDULE 1.4

TAX EXPENSE (\$000's)

SaskEnergy Incorporated Tax Expense (\$000's)

	2017/18	2018/19	2019/20	2020/21	2021/22	Year 1 2022/23	Year 2 2023/24			Year 3 2024/25		
	Actual	Actual	Actual	Actual	Actual	Forecast	Original Application	Forecast	Variance	Original Application	Forecast	Variance
Corporate Capital Tax	5,242	5,695	6,289	6,148	7,173	7,198	8,031	7,755	(276)	8,343	8,368	25
Grants in Lieu of Taxes	239	624	635	705	792	1,392	698	1,383	685	698	1,383	685
Total Taxes	5,481	6,319	6,924	6,853	7,965	8,590	8,729	9,138	409	9,041	9,751	710

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

The tax expense forecast for 2023-24 is relatively unchanged from the Original Application.

1.5 INTEREST EXPENSE

Schedule 1.5 below provides a comparison of interest expenses provided in the Original Application to this revised forecast.

SaskEnergy's interest expenses consist primarily of financing costs for short and long-term debt, which are off set by sinking fund earnings, capitalized interest and interest costs allocated to the cost of gas. SaskEnergy conducts its borrowing activity through the Province of Saskatchewan and benefits from rates that are favourable to market rates.

SCHEDULE 1.5

INTEREST EXPENSE

(\$000's)

SaskEnergy Incorporated Interest Expense (\$000's)

	2017/18	2018/19	2019/20	2020/21	2021/22	Year 1 2022/23	Year 2 2023/24			Year 3 2024/25		
	Actual	Actual	Actual	Actual	Actual	Forecast	Original Application	Forecast	Variance	Original Application	Forecast	Variance
Interest on Notes Payable to Holdings Division	22,489	23,714	26,592	26,520	26,268	27,504	27,768	29,511	1,743	27,809	31,011	3,202
Interest on Bank Indebtedness	1,194	1,569	547	96	309	3,028	1,767	7,160	5,393	3,188	11,651	8,463
Interest on Finance Lease	-	-	383	415	406	292	403	340	(63)	416	348	(68)
Accretion Expense	2,428	2,956	3,798	3,917	4,368	4,366	4,900	4,700	(200)	5,200	4,900	(300)
Amortization of Deferred Charges	250	230	102	(20)	(22)	152	(4)	191	195	(24)	179	203
Debt Retirement Fund Earnings	(978)	(1,323)	(1,811)	(2,212)	(1,098)	(858)	(1,987)	(2,222)	(235)	(2,201)	(2,426)	(225)
Capitalized Interest	(350)	(188)	(505)	(375)	(47)	(86)	(306)	(511)	(205)	(309)	(1,169)	(860)
Interest Allocated to Commodity Cost of Gas	(335)	(459)	(419)	(44)	(59)	(667)	(332)	(1,991)	(1,659)	(363)	(2,056)	(1,693)
Total Interest Expense	24,698	26,498	28,687	28,296	30,124	33,731	32,209	37,179	4,970	33,716	42,439	8,723

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

Material changes between the current 2023-24 forecast and the Original Application include:

Short term Interest Rates: Since the Original Application was prepared in 2022, SaskEnergy's interest rate on short term debt has risen over 3 percentage points from 1.0% to over 4.0% in the first half of 2023 (see economic backdrop section at the beginning of the report). This is the key driver associated with the increase in interest on notes payable and bank indebtedness.

1.6 NET INCOME

Schedule 1.6 below provides a comparison of the net income provided in the Original Application to this revised forecast.

The net income estimates of \$12.4 million, and \$5.9 million, for Year 2 and Year 3 respectively, reflect the level of earnings that will provide SaskEnergy with a return on investment as measured by the rate of return on equity forecast at 2.9% and 1.3% respectively.

While 2022-23 was positively impacted by colder than normal weather and a lower than budgeted heat value, the forecast for Year 2 and Year 3 is based on normalized weather which is a standard practice in rate setting.

SCHEDULE 1.6

NET INCOME (\$000's)

SaskEnergy Incorporated Net Income (\$000's)

	2017/18	2018/19	2019/20	2020/21	2021/22	Year 1 2022/23	Year 2 2023/24			Year 3 2024/25		
	Actual	Actual	Actual	Actual	Actual	Forecast	Original Application	Forecast	Variance	Original Application	Forecast	Variance
Net Income before Market Value Adjustments on Asset Optimization	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 Net Income	70,220	68,117	41,904	40,201	34,468	21,362	19,994	12,448	(7,546)	30,118	5,898	(24,220)

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

Material changes between the current 2023-24 forecast and the Original Application include:

Return on Equity Target (ROE): In the Original Application, SaskEnergy was targeting achievement of its long-term regulated ROE of 8.3% by 2025-26. While this level of return is comparable to industry, as evidenced by ROE levels allowed by various regulatory oversight bodies for natural gas utilities operating in other jurisdictions in Canada, SaskEnergy believes achievement of a lower ROE in the short term could help address current affordability challenges facing SaskEnergy rate payers. SaskEnergy believes it can continue to deliver safe, reliable service to its customers while earning a lower return over the short-term.

The combination of the change in the timing of rate adjustments and targeting achievement of a lower ROE has significantly decreased SaskEnergy's Net Income forecast over the application period.

1.7 OTHER REVENUE

Schedule 1.7 below provides a comparison of the other revenue provided in the Original Application to this revised forecast.

Other Revenue consists of Distribution Tolls, Asset Optimization through commodity activities, Connect Fees, Service Alteration Fees, Late Payment Charges, Miscellaneous Revenue and Customer Financing.

SCHEDULE 1.7

OTHER REVENUE (\$000's)

SaskEnergy Incorporated Other Revenue (\$000's)

	2017/18	2018/19	2019/20	2020/21	2021/22	Year 1 2022/23	Year 2 2023/24			Year 3 2024/25		
	Actual	Actual	Actual	Actual	Actual	Forecast	Original Application	Forecast	Variance	Original Application	Forecast	Variance
Connect Fees	(1,983)	(2,338)	(2,358)	(1,782)	(2,631)	(2,495)	(1,820)	(2,600)	(780)	(1,820)	(2,600)	(780)
Margin on Asset Optimization *	(16,197)	(16,753)	(6,391)	(3,391)	(4,097)	(6,549)	(1,881)	(2,900)	(1,019)	(1,881)	(2,900)	(1,019)
Late Payment Charges	(1,112)	(2,123)	(2,293)	(1,816)	(2,934)	(3,102)	(1,500)	(2,500)	(1,000)	(1,500)	(2,500)	(1,000)
Customer Financing	(115)	(82)	(68)	(49)	(46)	(42)	(42)	(39)	3	(42)	(39)	3
Miscellaneous Revenue	(568)	(640)	(767)	(744)	(690)	(746)	(643)	(670)	(27)	(643)	(670)	(27)
Distribution Tolls	(18,414)	(19,165)	(18,767)	(22,507)	(22,889)	(24,344)	(25,291)	(25,513)	(222)	(27,075)	(28,163)	(1,088)
Total 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)

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

* Beginning in 2022-23, 50% of asset optimization income over and above budget, will be allocated to the GCVA on March 31. Prior years have not been restated.

Material changes between the current 2023-24 forecast and the Original Application include:

Margin on Asset Optimization: To ensure safe and reliable service, SaskEnergy must contract enough storage and transportation to ensure customers have natural gas throughout the winter months - particularly on the coldest days of the

year. Given the potential for extreme variation in temperatures in Saskatchewan, there are times during normal business operations that these contracts would not be fully utilized. SaskEnergy optimizes the utilization of its assets through its asset optimization activities by purchasing and selling natural gas to earn a margin. SaskEnergy's budgeted margin on asset optimization is included in other revenue which is netted against its cost of service in the determination of delivery rates. Market conditions changed significantly following development of the Original Application in early 2022, resulting in additional opportunities for Asset Optimization activity. SaskEnergy's forecast for 2022-23 includes \$6.5 million in asset optimization margin.

The market opportunities that were present in the summer of 2022 were caused by worldwide storage being lower than normal, a very cold winter weather forecast, NGTL pipeline infrastructure delays as well as concerns regarding access to supply due to the Ukraine/Russia conflict. These concerns have been rectified or are not present for the upcoming gas year and therefore have reduced asset optimization revenue projections in Year 2 and Year 3. SaskEnergy continues to seek out opportunities, where possible, to utilize its assets to return additional revenue; however, asset optimization revenue in Year 2 and Year 3 are forecast to be below 2022-23 levels.

In response to recommendations by the Saskatchewan Rate Review Panel and to ensure customers share in the upside of asset optimization activity, SaskEnergy will share 50% of any asset optimization net income over and above the amount budgeted in delivery rates with customers. This amount will be credited to the Gas Cost Variance account (GCVA) at the end of each fiscal year. The other 50% over and above the budget would be retained by the shareholder in recognition that SaskEnergy bears the risk of not achieving budget.

Late Payment Charges: In March 2020, in response to the global pandemic, SaskEnergy implemented the Government of Saskatchewan's Crown Utility Interest Waiver Program. Under this program, any late payment charges a customer accrued were waived. For customers with existing arrears, collections activities (including disconnections for non-payment) were temporarily put on hold. This resulted in additional time to actively manage customer repayments. The program ended in September 2020 and management has been actively managing arrears and account collections.

5.0 R A T E D E S I G N P R I N C I P L E S

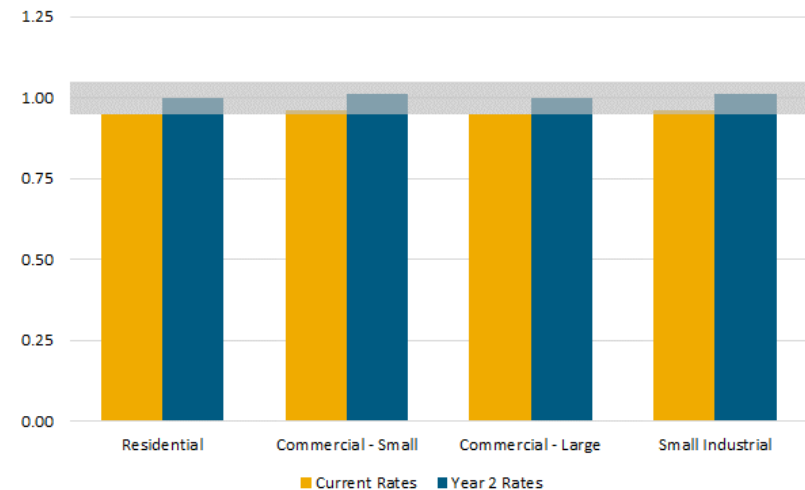
Revenue Requirement

Delivery rates should fully recover the cost of providing service to allow the utility the opportunity to achieve its approved financial targets as well as provide revenue stability over time. For SaskEnergy to maintain financial integrity, it requires an additional \$10.0 million beginning in Year 2. Even though it maintains financial integrity, this results in a ROE less than target.

Fairness between Rate Classes

Rate adjustments should be fair and equitable to all customers. Revenue-to-cost ratios provide a measure of the fairness of rates between various classes. The premise is that a fair rate should recover a dollar of revenue for each dollar of cost incurred in providing service. Thus, the ratio of revenue compared to the cost of providing service would be 1.00.

The adjacent chart summarizes how well each of the rate classes recover the allocated cost of delivery service as measured by the revenue to cost ratio, both at current rates and at the recommended rates. If approved, the recommendation would result in a revenue-to-cost ratio in each class within the stated objective of 0.95 to 1.05.



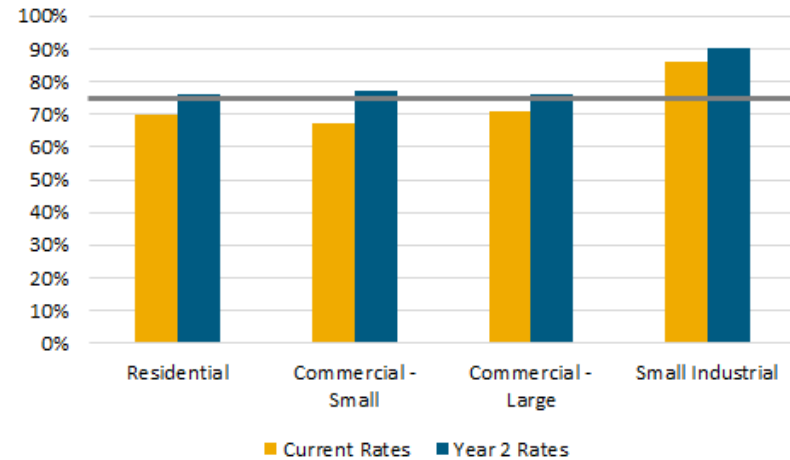
SaskEnergy's long-term objective is to have rates that achieve a revenue-to-cost ratio between 0.95 and 1.05, which is the industry acceptable range. Ratios outside this range could be an indication that some cross-subsidization exists between rate classes. The revenue-to-cost ratios remain in line with the Original Application.

Fairness within Rate Classes

Ideally, for each rate class, the BMC and the Delivery Charge should be set as close as possible to their corresponding average unit costs. This ensures there is little, if any, cross-subsidization between smaller users versus larger users within the same rate class. This issue also affects the utility's ability to achieve its targeted earnings. Proper customer care related cost recovery helps to mitigate the impact of weather variations upon earnings.

However, most utilities have a BMC that is too low and a Delivery Charge that is too high. Customers tend to oppose fixed charges, particularly in months of low or no usage.

SaskEnergy has a long-term objective to recover at least 75% of the fixed customer care related costs through its BMC. The chart summarizes the percent of customer care related costs SaskEnergy is forecast to recover through the BMC in each customer class. This rate application remains in line with the Original Application and will meet SaskEnergy's objective of recovering at least 75% through BMC.



RECOMMENDED DELIVERY RATES

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

A detailed delivery service rate schedule can be found in [Schedule 1.8.1 \(section 7.0\)](#).

The recommended rate increases would result in an additional \$10.0 million for SaskEnergy in Year 2 and \$14.9 million in Year 3. The increased revenue from the Delivery Charge is weather dependent and may be reduced by periods of warm weather and/or by further gains in customer's energy efficiency.

[Schedule 1.9](#) summarizes, on a monthly basis, the revenues by rate class for the current and the recommended rates.

SCHEDULE 1.9

2023-24 FORECAST DELIVERY REVENUES

(\$millions)

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	
Residential	15.5	11.8	11.0	10.7	10.7	12.3	16.5	22.0	26.3	28.2	24.2	21.8	210.9
Farms	-	-	-	-	-	-	-	-	-	-	-	-	-
Small Comercial	5.1	3.3	2.7	2.7	2.6	3.3	4.7	7.0	9.1	9.4	8.7	6.5	65.0
Large Commercial	1.6	1.4	0.9	0.7	0.7	0.7	1.6	2.0	2.6	3.0	2.6	2.8	20.7
Small Industrial	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.2	0.1	0.1	0.9
	22.2	16.5	14.7	14.1	14.1	16.3	23.0	31.1	38.1	40.8	35.5	31.1	297.5

Delivery Revenue at Recommended Rates

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	
Residential	15.5	11.8	11.0	10.7	10.7	12.3	17.4	23.1	27.6	29.6	25.4	22.9	217.8
Farms	-	-	-	-	-	-	-	-	-	-	-	-	-
Small Comercial	5.1	3.3	2.7	2.7	2.6	3.3	5.0	7.4	9.5	9.9	9.1	6.8	67.3
Large Commercial	1.6	1.4	0.9	0.7	0.7	0.7	1.7	2.1	2.7	3.1	2.7	2.9	21.5
Small Industrial	-	-	0.1	-	0.1	-	0.1	0.1	0.1	0.2	0.1	0.1	0.9
	22.2	16.5	14.7	14.1	14.1	16.3	24.1	32.7	40.0	42.8	37.3	32.7	307.5

Rate Change	-	-	-	-	-	-	1.1	1.6	1.9	2.0	1.8	1.6	10.0
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2024-25 FORECAST DELIVERY REVENUES

(\$millions)

	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	
Residential	16.4	12.4	11.7	11.5	11.4	13.1	17.5	23.1	27.6	29.5	25.4	22.9	222.5
Farms	-	-	-	-	-	-	-	-	-	-	-	-	-
Small Comercial	5.4	3.5	2.9	2.8	2.7	3.4	5.0	7.4	9.5	9.8	9.0	6.8	68.3
Large Commercial	1.7	1.5	1.0	0.8	0.8	0.7	1.7	2.2	2.7	3.1	2.7	2.9	21.8
Small Industrial	-	-	0.1	-	0.1	-	0.1	0.1	0.1	0.2	0.1	0.1	0.9
	23.5	17.5	15.7	15.1	15.0	17.3	24.3	32.7	39.9	42.7	37.2	32.7	313.6

Delivery Revenue at Recommended Rates

	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	
Residential	16.4	12.4	11.7	11.5	11.4	13.1	17.5	23.1	27.6	29.5	25.4	22.9	222.5
Farms	-	-	-	-	-	-	-	-	-	-	-	-	-
Small Comercial	5.4	3.5	2.9	2.8	2.7	3.4	5.0	7.4	9.5	9.8	9.0	6.8	68.3
Large Commercial	1.7	1.5	1.0	0.8	0.8	0.7	1.7	2.2	2.7	3.1	2.7	2.9	21.8
Small Industrial	-	-	0.1	-	0.1	-	0.1	0.1	0.1	0.2	0.1	0.1	0.9
	23.5	17.5	15.7	15.1	15.0	17.3	24.3	32.7	39.9	42.7	37.2	32.7	313.6

Rate Change

	-	-	-	-	-	-	-	-	-	-	-	-	-
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DELIVERY SERVICE BILL IMPACT

The customer bill impact below includes the impact of only the delivery service rate increase. The delivery service rate change will result in an increase of \$2.28 per month, for Residential customers.

If approved, an average Residential customer would receive an annual average bill increase of 2.7% (excluding impact of any commodity rate decrease being considered). Commercial Small customers would receive an average annual bill increase of 2.4%, while Commercial Large customers would receive an average annual bill increase of 2.0%. The Small Industrial customers would have an average bill increase of 1.3%.

Rate Class	Original Application (5%) Effective June 1, 2023			Proposed Rates (5%) Effective October 1, 2023		
	Delivery Service % Increase	Average Monthly Increase	Annual Bill Impact % Increase	Delivery Service % Increase	Average Monthly Increase	Annual Bill Impact % Increase
Residential	5.1%	\$2.43	2.9%	4.7%	\$2.28	2.7%
Commercial Small	4.7%	\$6.27	2.0%	5.6%	\$7.32	2.4%
Commercial Large	5.1%	\$57.56	1.7%	5.8%	\$64.29	2.0%
Small Industrial	7.6%	\$182.06	1.7%	5.6%	\$145.00	1.3%
Average	5.0%		2.6%	5.0%		2.6%

All Bill Impacts shown are based on average customers and will vary depending on individual customer usage.

* Does not consider the impact of the proposed commodity rate adjustment currently being considered.

6.0 P A N E L R E C O M M E N D A T I O N S

On December 16, 2022 the Panel provided a number of recommendations to both the Minister and SaskEnergy based on the review of the original application. SaskEnergy has considered these recommendations and provides the following updates:

RECOMMENDATIONS TO THE MINISTER

Panel Recommendation	SaskEnergy Update
That the commodity rate increase of 31% effective August 1, 2022 and the 8% increase in delivery rates effective August 1, 2022 be maintained.	August 1, 2022 rate adjustments were maintained.
That given the significant improvement in the financial results of the current year, the proposed delivery rate increases for 2023-24 and 2024-25 cannot be considered until updated financial forecasts are provided by SaskEnergy in 2023.	SaskEnergy prepared a 2023-24 financial update to support the Panel in making a recommendation on a 2023-24 delivery rate increase.
That with the updated forecast it is expected that the GCVA will be discharged by April 2023 and an application should be brought forward at that time to reduce the commodity rate.	SaskEnergy filed an application for an adjustment to the commodity rate with the Panel on June 29, 2023.
That the effective date for the proposed delivery rate increase for 2023-24 be deferred from June 1, 2023 to July 1, 2023; and for 2024-25 be deferred from June 1, 2024 to July 1, 2024 to provide the Panel with a sufficient review period to consider the required updated information and financial forecasts.	SaskEnergy has assumed an October 1 effective date for 2023-24 delivery rate adjustment based on direction from Cabinet. SaskEnergy will reevaluate the need for a 2024-25 adjustment later in 2023-24.

RECOMMENDATIONS TO SASKENERGY

Panel Recommendation	SaskEnergy Update
<p>In light of the current economic and cost environment for ratepayers, that SaskEnergy in selecting energy efficiency programs, develop measures that will consider rate impacts for customers, and ensure that programs selected provide benefits to SaskEnergy, ratepayers generally, and individual program participants.</p>	<p>SaskEnergy is in the process of establishing cost effectiveness tests and associated decision-making criteria for its portfolio of energy efficiency programs. Consideration will be given to the factors recommended by the Panel, along with acknowledgement of approaches used in other provinces.</p>
<p>That SaskEnergy continue to work with the Panel to determine information that can be made available to ensure greater transparency regarding the need for, and drivers of, transportation and storage rate increases.</p>	<p>SaskEnergy's rates team will have further discussions with the Panel regarding what this information might look like and the potential timing.</p>
<p>That SaskEnergy continue to collaborate with other Crown corporations on initiatives that enhance productivity and efficiencies. As part of this process, SaskEnergy is to provide an update on the collaboration initiative with other Crown corporations and the Ministry of Finance regarding the Corporate Capital Tax once it has been completed. SaskEnergy should also continue to collaborate with SaskPower on their forward-looking strategies and implementation plans and encourage both corporations to collaborate on climate change initiatives related to carbon emissions investments. This collaboration should ensure that these plans and strategies are developed in an efficient, integrated and holistic manner that considers the energy system in Saskatchewan; each utility's role and focus; and the most cost effective and beneficial approach to emissions reductions for each utility and its customers.</p>	<p>SaskEnergy actively participates in the Collaboration initiative led by CIC, which has been expanded to include Treasury Board Crowns, Ministries and Agencies.</p> <p>SaskEnergy and SaskPower planning teams continue to work closely in developing future plans.</p> <p>SaskEnergy continues to participate in discussions with the other Crowns and the Ministry of Finance regarding revisions to the Corporate Capital Tax program; however, the work has not yet been finalized. SaskEnergy will provide an update once the work is completed.</p>

<p>That SaskEnergy provide further consolidated updates to the Panel on its safety, reliability and environment plan as it is being developed.</p>	<p>SaskEnergy will continue to provide updates related to its safety, reliability and environment plans.</p>
<p>That SaskEnergy continue efforts to bill in energy, which would eliminate the need for forecasting heat value and the associated risks related to heat value variance to ensure all customers on SaskEnergy's distribution system are services with fair, just and reasonable rates.</p>	<p>SaskEnergy will continue to advance its efforts to bill in energy as higher priority rate matters are completed.</p>
<p>That SaskEnergy review the basis for the \$20 million threshold for triggering an application for amounts owing to or from customers.</p>	<p>SaskEnergy will consider reviewing the \$20 million threshold as part of the 2023-24 work plan, with the goal of completing the review prior to the next rate application coming forward. This review may be deferred, if higher priority rate matters arise.</p>
<p>That SaskEnergy consider a mechanism for customers to share in the financial gains/losses of the asset management optimization revenues similar to the program available to TransGas customers.</p>	<p>In order to ensure customers share in the upside of asset optimization activity, SaskEnergy's Board of Directors has approved a process to credit an amount equal to 50% of any asset optimization net income over and above the amount budgeted in delivery rates to the GCVA at the end of each fiscal year. This will ensure commodity customers have an opportunity to share in asset optimization activity. The other 50% over and above the budget would be retained by the shareholder in recognition of the risk they hold that they may not make budget at all.</p>

7.0 G L O S S A R Y O F T E R M S

AECO

A market center in Alberta located at the storage facility AECO “C” operated by Niska Gas Storage. It is the most commonly referenced pricing point for natural gas purchased in Alberta.

Annual Load Factor

The ratio of the average daily volume of natural gas shipped (or consumed) over a year to the daily contract demand volume. Load factors are usually expressed in percent. Gas producers want to sell gas at 100% load factor, or at a constant rate. Residential consumers use gas at an annual load factor of approximately 30%.

Basis Differential

The price differential between two locations or pricing points (hubs) as determined by the marketplace (as opposed to the fixed cost of transportation between the two locations). For SaskEnergy, the basis differential between AECO and the TransGas Energy Pool is important in determining the price paid to gas producers.

Distribution System

Facilities used to receive natural gas from a high-pressure transmission system and provide pressure reduction, regulation and piping to deliver natural gas to end use customers. A natural gas distribution system includes the following major components:

- Pressure Regulating Station (Town Border Station) - A facility which receives natural gas from a transmission pipeline and reduces pressure for entry into the distribution mains.
- Main - The piping which delivers natural gas from the pressure regulating station (Town Border Station) to the point of connection to the service pipe which serves as individual customer.
- Service - The piping which delivers natural gas from point of connection at the main to the meter on the customer's premise.
- Meter - An instrument for measuring or recording the volume of gas that has passed through it.

Gas Cost Variance Account (GCVA)

A regulatory accounting mechanism that captures the difference between actual Cost of Gas Sold and the actual revenues from the Commodity Rate. The net differences are accumulated for a period of time. The balance is then applied to a future Commodity Rate or the current years Commodity Rate may be adjusted.

Gas Year

Begins on November 1 of one year and ends October 31 of the following year.

Gigajoule (GJ)

A metric measure of energy used to express the heating value of natural gas or of energy consumed. A typical home uses about 103 gigajoules per year.

1 Terajoule (TJ) = 1,000 Gigajoules, 1 Petajoule (PJ) = 1,000,000 Gigajoules.

Heat Value

The amount of energy produced through combustion by a specified quantity of fuel. Heat value of natural gas produced in Saskatchewan is quoted in megajoules per cubic metre. Natural gas with a high heat value produces more energy relative to natural gas with a lower heat value.

Heating Degree Day

The average daily temperature (Celsius) subtracted from 18 degrees. For example, if the daily high is +5 and the low is -15 the average daily temperature is -5. The degree-days for that day are $18 - (-5) = 23$.

Market Hub

An interchange where multiple pipelines interconnect creating physical and pricing liquidity. AECO/NIT is the market hub in Alberta.

Receipt Point

The location where gas enters a transporter's system from a well, gas plant or pipeline interconnect.

TransGas Energy Pool (TEP)

Acts like a market hub in Saskatchewan on the TransGas system. SaskEnergy and all gas suppliers use the TransGas Energy Pool (TEP) as the common reference point where natural gas commodity is priced. In addition, SaskEnergy's storage and delivery transportation commence at TEP.

8.0 A D D I T I O N A L S C H E D U L E S

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SCHEDULE 1.2.1

OPERATING AND MAINTENANCE (\$000's)

SaskEnergy Incorporated Operating and Maintenance (\$ 000's)

	2017/18	2018/19	2019/20	2020/21	2021/22	Year 1 2022/23	Year 2 2023/24			Year 3 2024/25		
	Actual	Actual	Actual	Actual	Actual	Forecast	Original Application	Forecast	Variance	Original Application	Forecast	Variance
Operations												
Costs Incurred	120,431	134,398	136,427	134,839	135,519	151,855	159,738	165,653	5,915	163,165	171,748	8,583
Capitalized & Recovered	(9,578)	(8,816)	(8,179)	(6,096)	(5,759)	(5,502)	(5,899)	(6,197)	(298)	(6,000)	(6,296)	(296)
Subtotal Operations	110,852	125,582	128,248	128,744	129,760	146,353	153,839	159,456	5,617	157,165	165,453	8,288
Engineering and Construction												
Costs Incurred	27,935	29,296	30,281	32,356	37,346	37,794	37,450	37,197	(253)	38,227	37,849	(378)
Capitalized & Recovered	(26,107)	(27,309)	(27,467)	(29,497)	(34,593)	(35,183)	(34,021)	(34,027)	(6)	(34,701)	(34,707)	(6)
Subtotal Engineering & Construction	1,828	1,987	2,814	2,859	2,753	2,611	3,429	3,170	(259)	3,526	3,142	(384)
Total 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

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

SCHEDULE 1.4.1

TAX EXPENSE

(\$000's)

SaskEnergy Incorporated Calculation of Corporate Capital Tax

	2017/18	2018/19	2019/20	2020/21	2021/22	Year 1 2022/23	Year 2 2023/24			Year 3 2024/25		
	Actual	Actual	Actual	Actual	Actual	Forecast	Original Application	Forecast	Variance	Original Application	Forecast	Variance
Net Book Value	1,099,944	1,186,539	1,260,724	1,307,896	1,363,604	1,390,032	1,580,763	1,513,923	(66,840)	1,698,004	1,656,636	(41,368)
less UCC (1)	706,848	756,752	789,475	811,778	844,690	857,707	1,033,168	911,052	(122,116)	1,124,147	975,858	(148,289)
Income Tax Deduction	393,096	429,787	471,249	496,118	518,914	532,325	547,595	602,871	55,276	573,857	680,778	106,921
Retained Earnings and Equity	465,178	560,962	607,949	639,332	763,787	735,988	711,477	759,932	48,455	734,447	770,450	36,003
Loans and Advances	1,337,817	1,401,502	1,599,313	1,663,330	1,781,474	1,831,798	1,936,852	1,974,255	37,403	1,990,526	2,141,031	150,505
Interest Payable	11,601	13,087	14,595	15,238	15,923	16,888	22,753	21,137	(1,616)	24,360	23,911	(449)
less: Income Tax Deduction	(393,096)	(429,787)	(471,249)	(496,118)	(518,914)	(532,325)	(547,595)	(602,871)	(55,276)	(573,857)	(680,778)	(106,921)
Total Paid up Capital	1,421,501	1,545,765	1,750,608	1,821,782	2,042,271	2,052,348	2,123,486	2,152,453	28,967	2,175,475	2,254,615	79,140
less: Standard Exemption	(10,762)	(10,782)	(10,810)	(10,845)	(10,845)	(10,872)	(10,000)	(10,000)	0	(10,000)	(10,000)	0
Taxable Paid up Capital	1,410,739	1,534,983	1,739,798	1,810,936	2,031,426	2,041,476	2,113,486	2,142,453	28,967	2,165,475	2,244,615	79,140
less Investment Allowance including adjustment	(537,043)	(585,816)	(691,631)	(786,269)	(835,978)	(841,812)	(775,000)	(850,000)	(75,000)	(775,000)	(850,000)	(75,000)
Taxable Paid up Capital	873,697	949,167	1,048,167	1,024,667	1,195,448	1,199,664	1,338,486	1,292,453	(46,033)	1,390,475	1,394,615	4,140
Rate	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.0%	0.6%	0.6%	0.0%
Corporate Capital Tax Expense	5,242	5,695	6,289	6,148	7,173	7,198	8,031	7,755	(276)	8,343	8,368	25

Note: UCC refers to Undepreciated Capital Cost

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

SCHEDULE 1.8.1

RECOMMENDED DELIVERY RATES

SaskEnergy Distribution Division

Rate Class & Components	Units	Year One Aug 1, 2022	Rate Increase/ (Decrease)	Year Two October 1, 2023
Residential				
Basic Monthly Charge	\$/Mo.	24.50	2.00	26.50
Delivery Charge	\$/m ³	0.1100	0.0013	0.1113
Commodity Rate*	\$/m ³	0.1674	(0.0370)	0.1304
Commercial Small				
Basic Monthly Charge	\$/Mo.	41.50	6.00	47.50
Delivery Charge	\$/m ³	0.0874	0.0013	0.0887
Commodity Rate*	\$/m ³	0.1674	(0.0370)	0.1304
Commercial Large				
Basic Monthly Charge	\$/Mo.	159.50	12.00	171.50
Delivery Charge	\$/m ³	0.0732	0.0040	0.0772
Commodity Rate*	\$/m ³	0.1674	(0.0370)	0.1304
Small Industrial				
Basic Monthly Charge	\$/Mo.	216.00	10.50	226.50
Delivery Charge				
- First 40,000 m ³ /Mo.	\$/m ³	0.0482	0.0025	0.0507
- Balance	\$/m ³	0.0421	0.0025	0.0446
Commodity Rate*	\$/m ³	0.1674	(0.0370)	0.1304

Notes:

- **Bold Figures** identify the changes from the current rates

- m³ = cubic metres

* Proposed commodity rate decrease being considered in separate application