

# *SaskEnergy 2023 Rate Adjustments*

Saskatchewan Rate Review Panel  
Public Meeting

July 17, 2023





# ***Land Acknowledgements***

## **Treaty 6 (Saskatoon)**

Acknowledgment that we are on the traditional lands referred to as Treaty 6 Territory, the original lands of the Cree, Dakota, Nakota, Saulteaux (SO-toe), Stoney, and the home of the Métis. We respect and honour the Treaties and are committed to moving forward with Indigenous Nations in the spirit of reconciliation and collaboration.



# ***Safety Moment***



# *Agenda*

- Background
- Recommendation
- 2022 Delivery Service Rate Application – Financial Update
- Commodity Application
- Bill Impact

# *Background*

*SaskEnergy* 

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# SaskEnergy's Customer Profile



Uses up to 10,000 m<sup>3</sup>

**RESIDENTIAL**  
**365,000**

- Includes urban and rural



Uses up to 100,000 m<sup>3</sup>

**COMMERCIAL SMALL**  
**41,800**

- Main street businesses
- Restaurants
- Small hospitals
- Curling rinks



Uses up to 660,000 m<sup>3</sup>

**COMMERCIAL LARGE**  
**1,500**

- Hotels
- Warehouse buildings

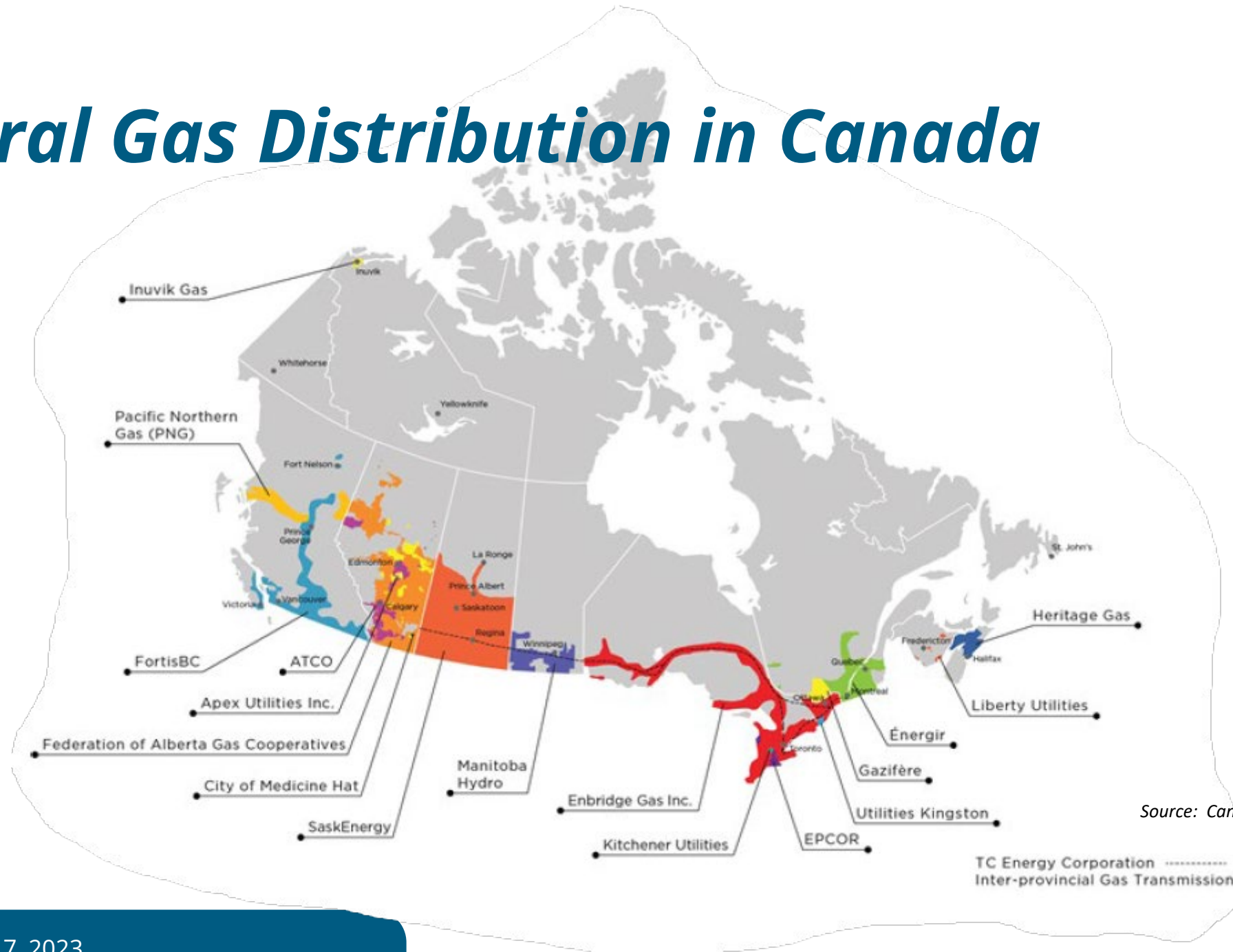


Uses over 660,000 m<sup>3</sup>

**SMALL INDUSTRIAL**  
**26**

- Manufacturing
- Large hospitals

# Natural Gas Distribution in Canada

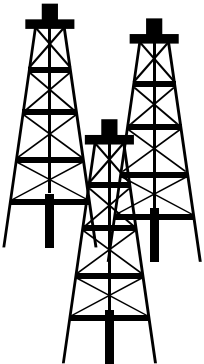


Source: Canadian Gas Association



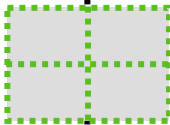
# SaskEnergy Services

## Commodity



Natural Gas Wells

High Pressure Pipeline



TransGas Energy Pool (TEP)



Underground Storage

## Delivery Service

- 408,000 Customers
- Facility Operation, Maintenance and Public Safety
- Customer Service
- Connecting New Customers



Town Border Station



Distribution Facilities





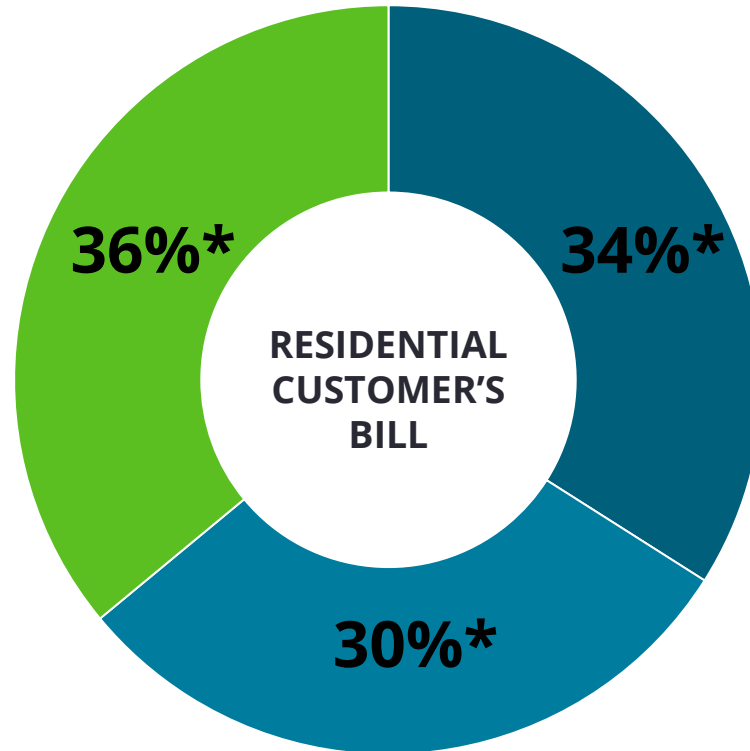


# SaskEnergy's Bill

## COMMODITY RATE

### GAS CONSUMPTION CHARGE

- Commodity Rate represents cost of natural gas
- No profit or margin - pass through cost of gas
- Gas Cost Variance Account (GCVA)
- Currently \$4.20/GJ (proposed \$3.30/GJ)



## DELIVERY SERVICE RATE

### BASIC MONTHLY CHARGE

- Service Line
- Meter
- Meter Reading
- Customer Account Management
- Currently \$24.50 per month (proposed \$26.50)

### DELIVERY CHARGE

- Transportation
- Storage
- Distribution
- Maintenance
- Currently \$0.1100 per cubic metre (proposed \$0.1113)

\* Based on proposed rates for residential customers

\*\* Gas Supply is not an exclusive franchise – customers have the option to purchase natural gas from a Gas Retailer



## *Previous Application*

On July 11, 2022, SaskEnergy filed an application for a:

- 31.0% increase to the commodity rate; and
- an increase to the delivery service rate of 8.0%, 5.0% and 5.0% in 2022-23, 2023-24 and 2024-25 respectively.

The rate increases were requested to:

- address rising natural gas prices in 2022;
- support continued investment in the system public safety efforts;
- meet increasing environment and social responsibilities;
- invest in energy efficiency programs; and
- address general inflationary cost pressures.



## ***Previous Application – cont'd***

In its December 2022 report, the Panel recommended to the Minister:

- the 31.0% commodity rate increase effective August 1, 2022 and the 8.0% increase to delivery rates effective August 1, 2022 be maintained;
- The proposed 5.0% delivery rate increases for 2023-24 and 2024-25 be considered once updated financial forecasts were provided in early 2023; and
  - The financial update currently being considered supports this recommendation.
- Given the volatility in natural gas prices, reduce the commodity rate as soon as GCVA account was discharged;
  - The GCVA was paid off in March 2023, hence SaskEnergy is now recommending a commodity rate decrease.

# *Recommendation*

*SaskEnergy* 

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# ***Recommendation***

## **Delivery Service Rate Increase**

- 5% increase effective October 1, 2023
  - Rising costs
  - Economic conditions

## **Commodity Rate Decrease**

- Decrease to 13.04 cents per cubic metre (\$3.30/gigajoule) effective October 1, 2023
  - Decline in natural gas prices since last increase
  - Maintain GCVA within \$20.0 million threshold amount. Without this change, the GCVA balance is forecast to exceed the threshold in November 2023.

*Overall average reduction in natural gas bills of 8.3%.*

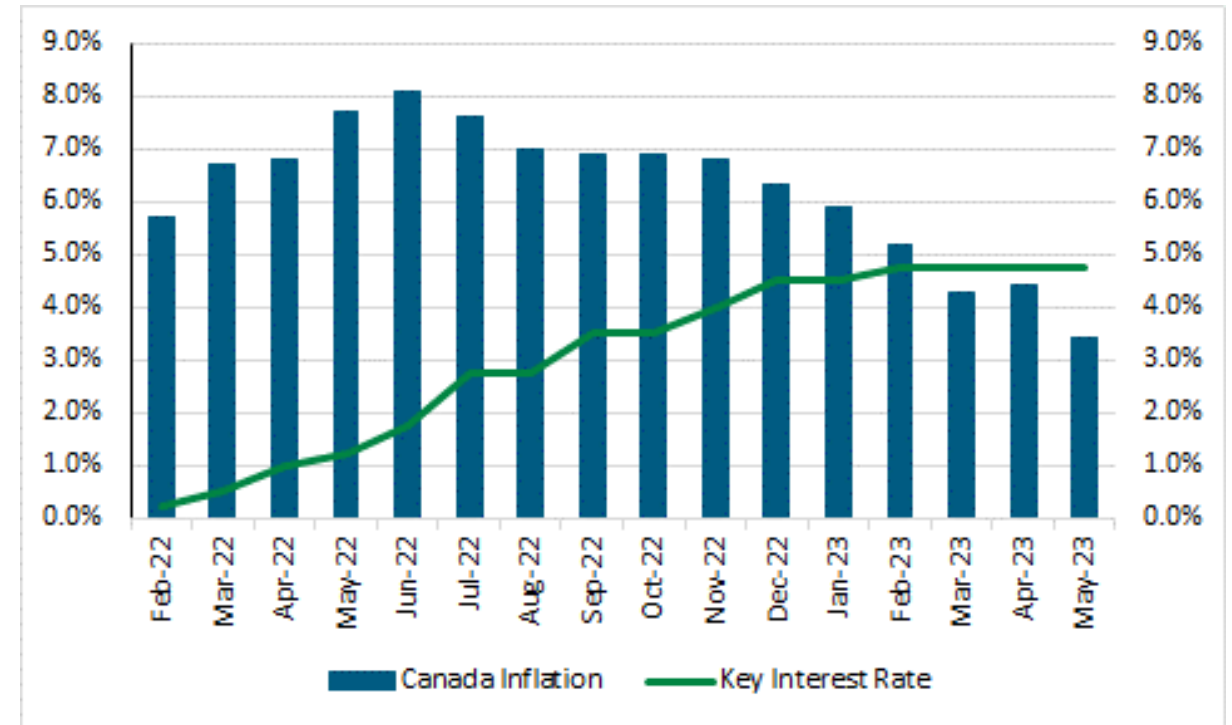
# *2022 Delivery Service Rate Application – Financial Update*





# Economic Overview

- Bank of Canada announced ten key rate increases since January 2022
- Consumer spending has held despite rate increases
- TD Bank forecasts Saskatchewan GDP to increase by 2.40%, second to Alberta
- A slowing US economy could weigh on Canadian exports



# Key Delivery Service Cost Drivers

Cost Component	Key Drivers	Comment
Operating & Maintenance	Labour Costs	<ul style="list-style-type: none"> <li>▪ Inflationary pressure</li> <li>▪ Additional resources to focus on improving operational, process efficiencies and customer experience</li> </ul>
	Public Relations	<ul style="list-style-type: none"> <li>▪ Efficiency programming</li> </ul>
Depreciation	Information System Assets	<ul style="list-style-type: none"> <li>▪ 2022-23 depreciation study impacting 2022-23 and 2023-24</li> </ul>
Interest Expense	Short Term Interest Rates	<ul style="list-style-type: none"> <li>▪ Rising interest rates on short term debt</li> </ul>
Net Earnings	Return on Equity (ROE)	<ul style="list-style-type: none"> <li>• Accepting reduced ROE of 2.9%; below long-term target of 8.3%</li> </ul>



# *Labour Costs – Customer Service Operations*

## Operational Effectiveness

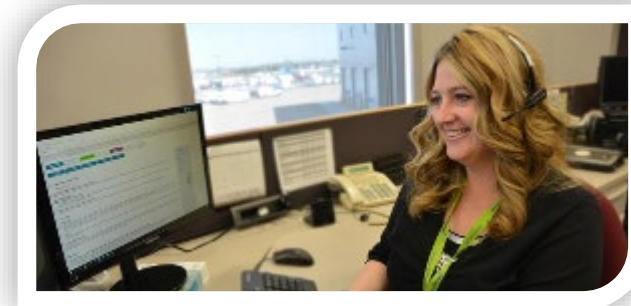
New customer service department created in 2022-23 accountable for leading the most important priorities, such as:

- Structured approach to continuous improvement
- Data-driven business performance



## Customer Experience

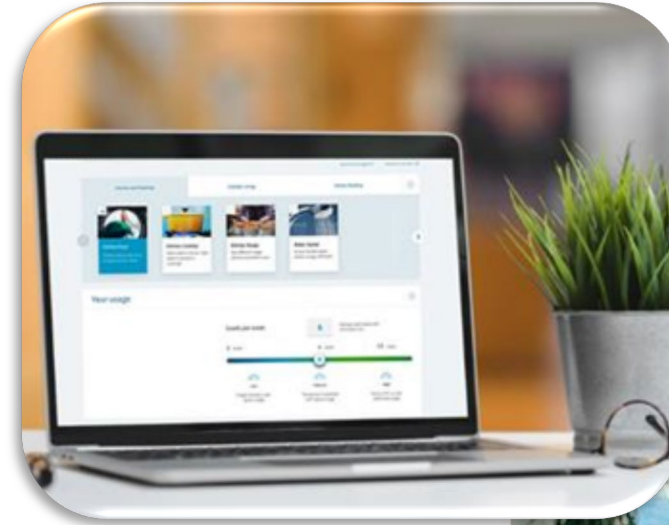
- Contact centre modernization
- Addition of self-service options associated with new online customer portal
- Online account enhancements
  - Mobile applications
  - Online appointment booking
  - Landlord module



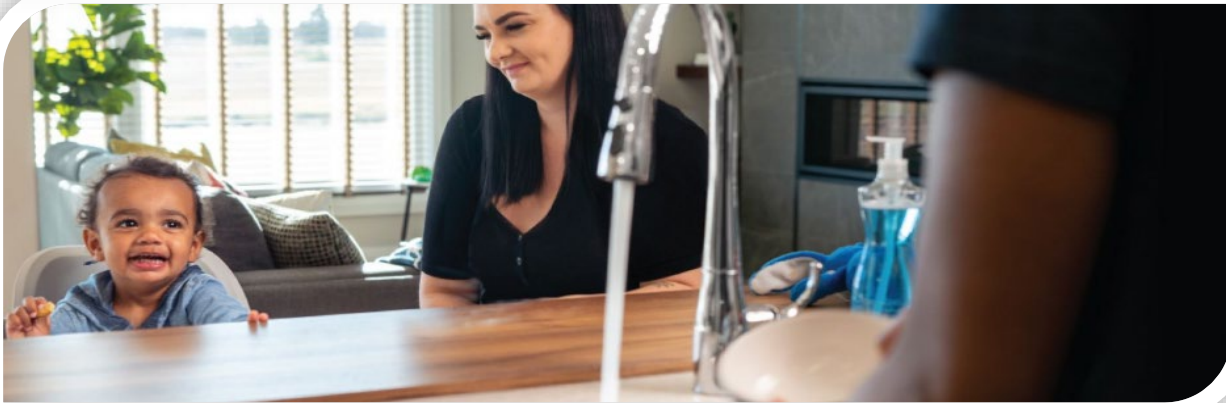
# *Labour Costs – Digital Technology & Security*

Additional staff advancing projects in the following areas:

- Data Analytics to improve decision making
- Modernize systems and processes
  - Enterprise assets appropriate to industry standards
  - Enable future competitiveness and effective prioritization of capital plans
  - Electronic processing of documents



# Public Relations



The largest driver of increased public relations spending is related to customer efficiency programming.

- Ultimate goal to reduce energy bills and emissions.
- Working with a consultant to measure and report on the effectiveness of current and future programs.
- Plans to roll out a number of new customer efficiency programs.



# Depreciation

SaskEnergy undertook a depreciation study in 2022-23.

- Resulted in a change in treatment of information system assets

## 2022-23 Impact

- Significant one-time adjustments,

## 2023-24 Impact

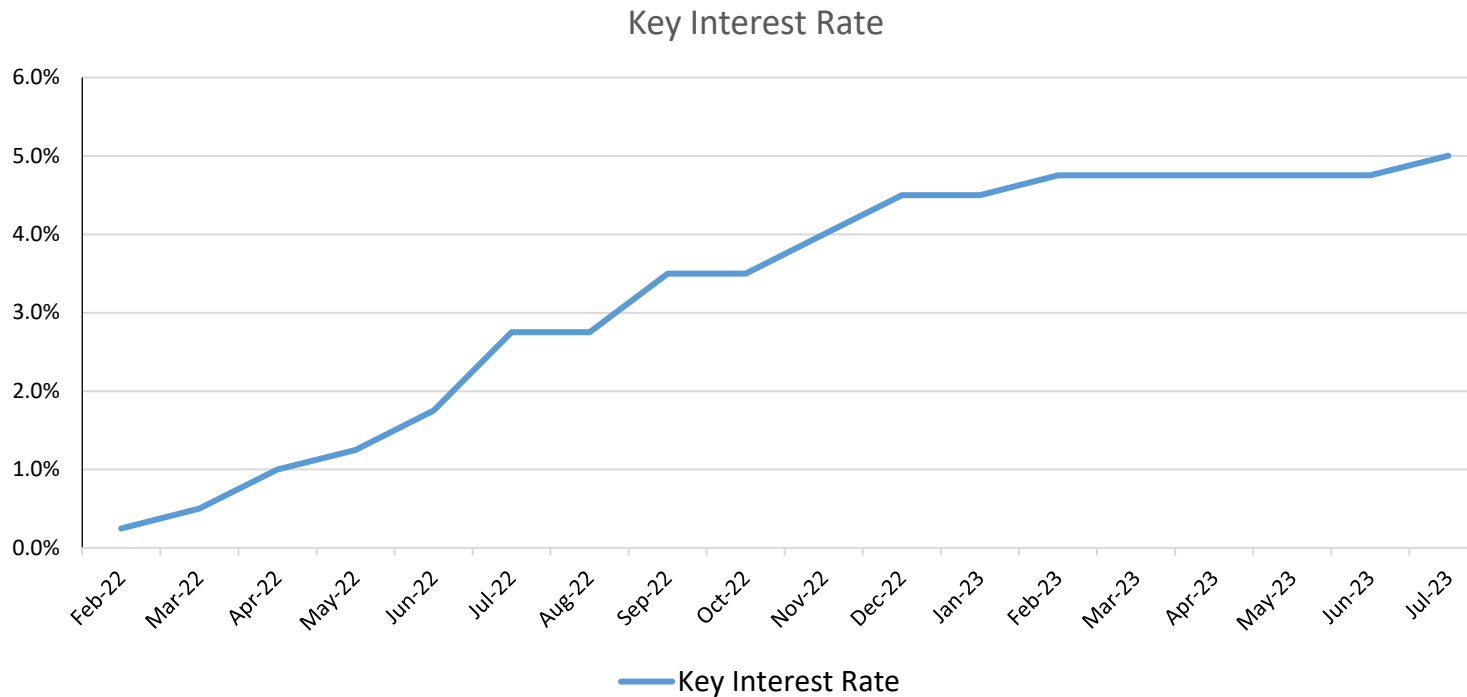
- Slightly higher annual expense





# Interest Expense

Short term interest rates increased by over four percentage points since January 2022 from less than 1.0% to 5.0%.





# *Net Earnings*

- Accepting reduced return on equity (ROE) of 2.9% temporarily
  - Reducing customer impact during economic uncertainty
  - Maintaining long-term target ROE of 8.3%
- ROE of 2.9% can be maintained in the short-term as SaskEnergy is able to:
  - Maintain dividend payout ratio of 35%
  - Maintain debt ratio within approved target range (58% to 63%)

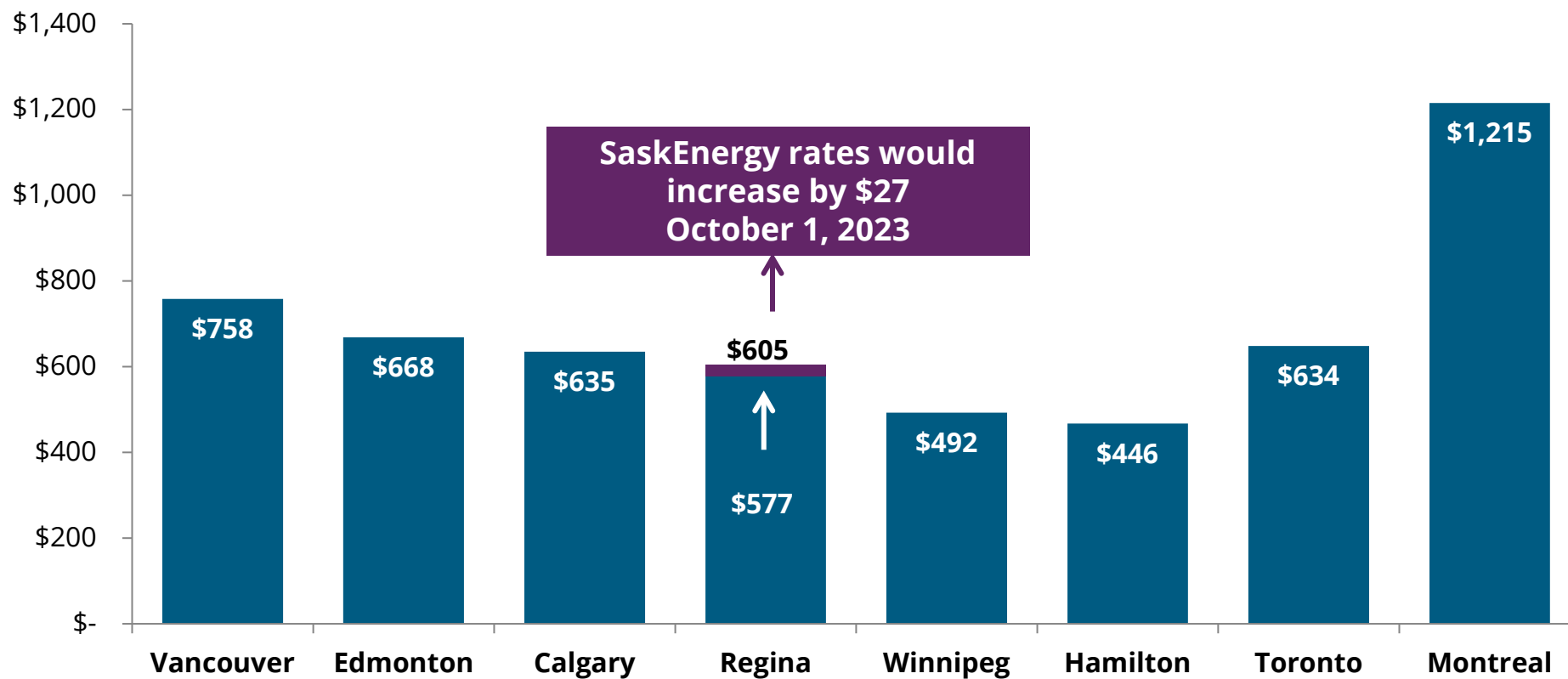
# *Delivery Rate Summary*





# Competitive Delivery Service Rates

RESIDENTIAL FORECASTED ANNUAL DELIVERY RATE  
AT JULY 2023 RATES





# Delivery Rate Schedule

Rate Class	Current Rates		Recommended Rates Effective (5%) October 1, 2023	
	Basic Monthly Charge \$	Delivery Charge \$/m <sup>3</sup>	Basic Monthly Charge \$	Delivery Charge \$/m <sup>3</sup>
<b>Residential</b>	\$24.50	\$0.1100	\$26.50	\$0.1113
<b>Commercial Small</b>	\$41.50	\$0.0874	\$47.50	\$0.0887
<b>Commercial Large</b>	\$159.50	\$0.0732	\$171.50	\$0.0772
<b>Small Industrial</b>	\$216.00		\$226.50	
First 40,000 m <sup>3</sup> /month		\$0.0482		\$0.0507
Balance		\$0.0421		\$0.0446

# 2023-24 Rate Change Summary

Rate Class	Increase to BMC \$/month	Increase to Delivery Charge \$/m <sup>3</sup>	Delivery Rate Impact %	Total Bill Impact Annual % Change	Average Monthly Increase
RESIDENTIAL	2.00	0.0013	4.7%	2.7%	\$2.28
COMMERCIAL SMALL	6.00	0.0013	5.6%	2.4%	\$7.32
COMMERCIAL LARGE	12.00	0.0040	5.8%	2.0%	\$64.29
SMALL INDUSTRIAL	10.50	0.0025	5.6%	1.3%	\$145.00
SYSTEM AVERAGE			5.0%	2.6%	

Average 5% increase effective October 1, 2023

# *Commodity Rate Application*

*SaskEnergy* 

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# Commodity Rate

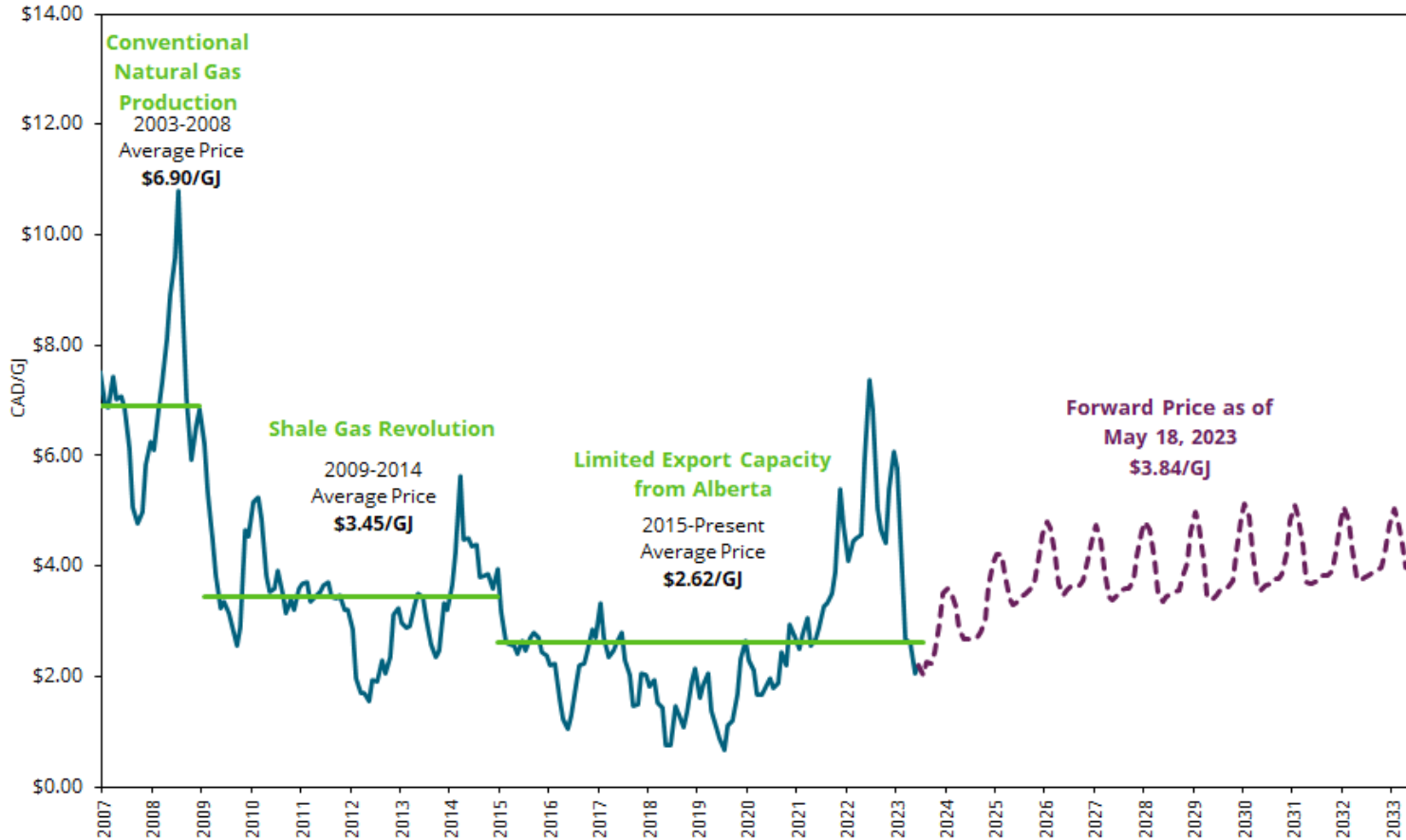
- Pass through of natural gas costs (no mark-up)
- Reflects lowering trend in natural gas prices
- The last commodity rate change was August 1, 2022 when the rate increased from \$3.20/GJ to \$4.20/GJ

***Decrease the commodity rate to \$3.30/GJ (13.04 cents/m<sup>3</sup>) effective October 1, 2023***

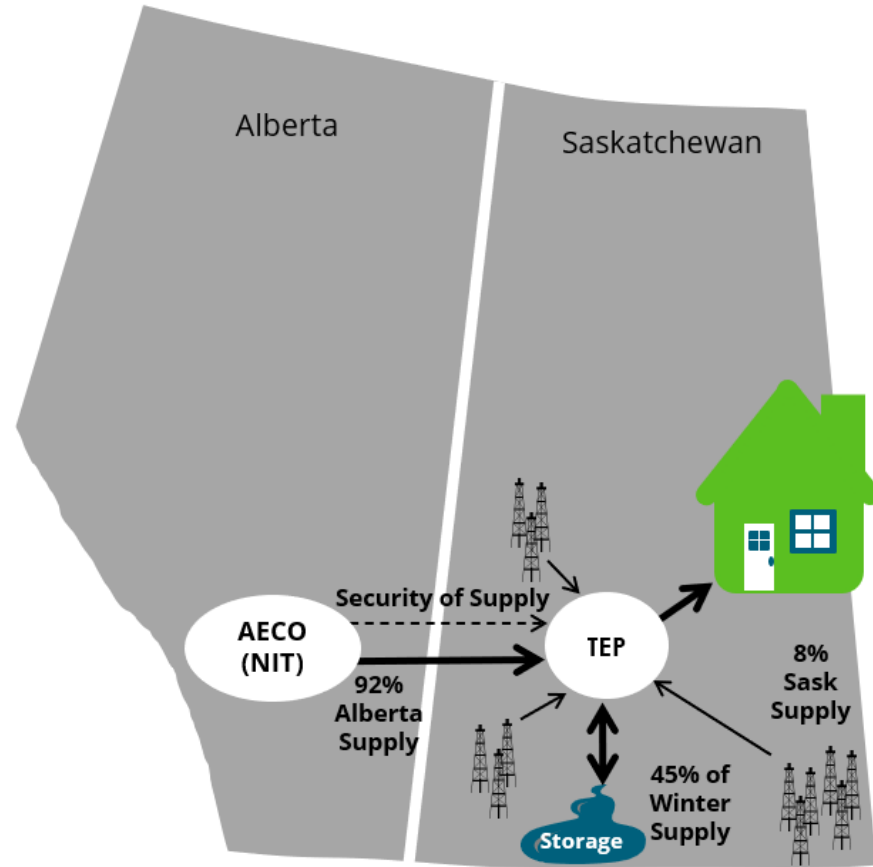
***Current Rate is \$4.20/GJ (16.74 cents/m<sup>3</sup>)***

# Market Update

AECO Monthly Index Historical Prices



# Raw Cost of Natural Gas Purchases



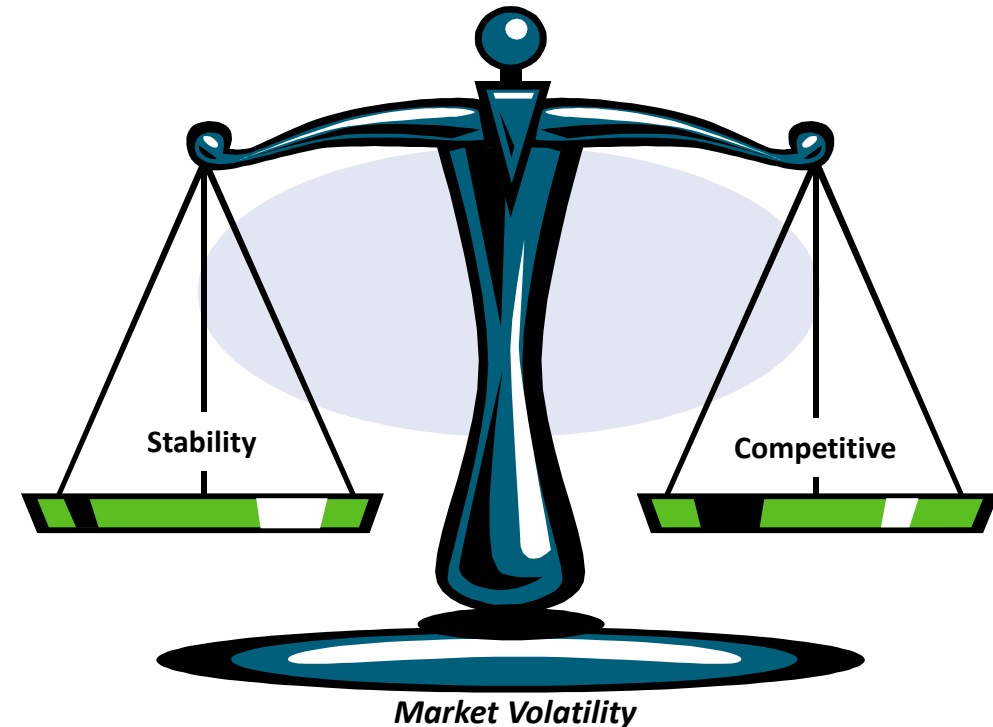
- Saskatchewan base load purchases 6 PJ @ AECO plus \$0.50/GJ
- Alberta base load purchases 55 PJ @ AECO plus \$0.42/GJ transport
- Incremental contracted transport for security of supply \$7.5 Million

Raw Cost of Gas	
Saskatchewan Premium	\$0.04/GJ
Alberta Premium	\$0.39/GJ
Transport Insurance	\$0.10/GJ
<b>Total Premium to AECO</b>	<b>\$0.53/GJ</b>

*SaskEnergy forecasts to pay a weighted average price of AECO plus \$0.53/GJ for its gas purchase requirements associated with normal/average weather.*

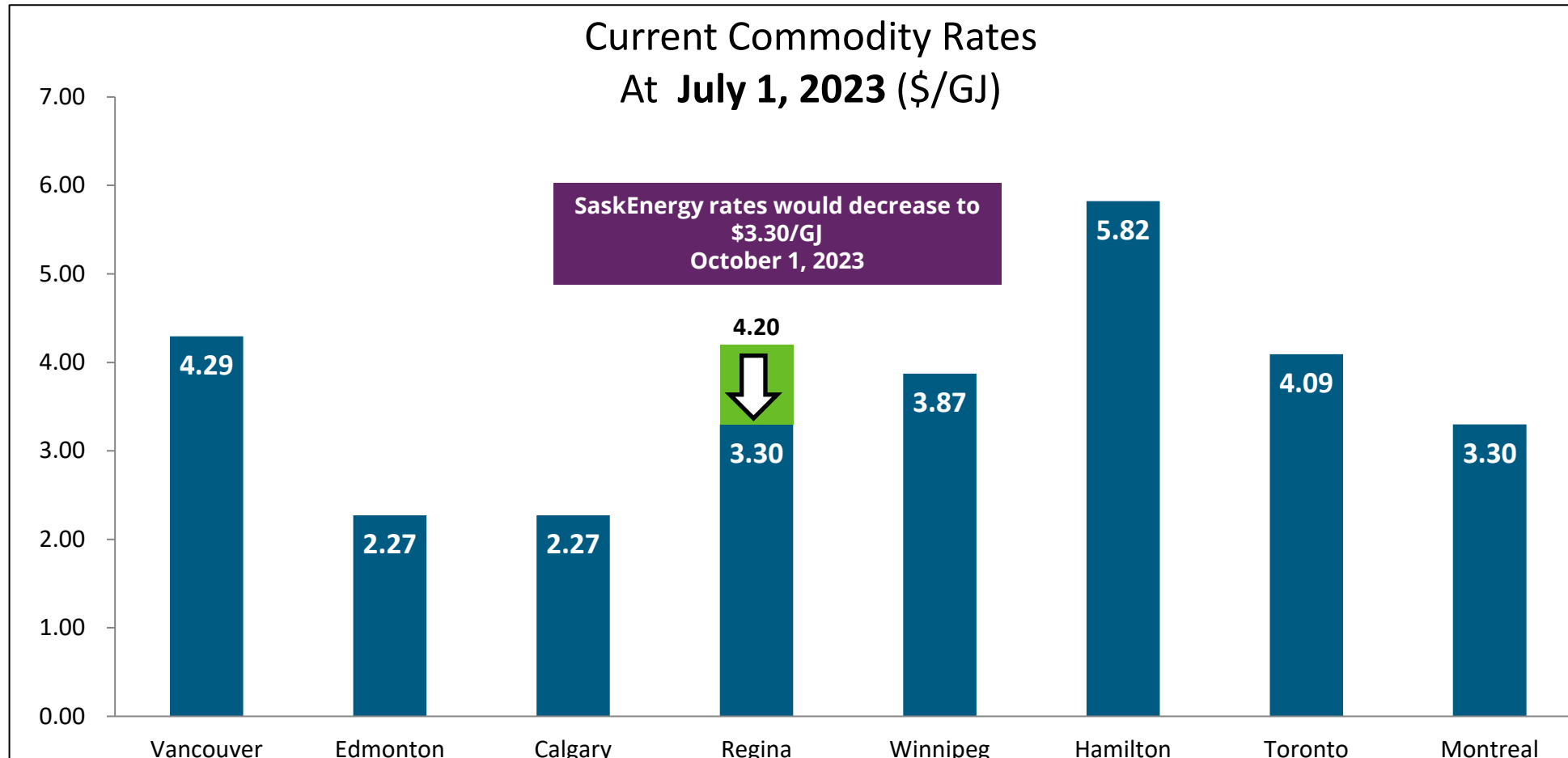
# Commodity Price Risk Management Objectives

- To provide rate stability to customers
- To offer rates comparable to the market and competitive with other Canadian utilities





# Competitive Commodity Rates





# Commodity Bill Impacts

Commodity Rate  
 Effective October 1, 2023  
 13.04 Cents Per Cubic Metre (\$3.30/GJ)

Rate Class	Commodity Rate % Decrease	\$/Month*	Annual Bill % Decrease
<b>RESIDENTIAL</b>	(22.1)%	\$(7.94)	(9.4)%
<b>COMMERCIAL SMALL</b>	(22.1)%	\$(37.59)	(12.5)%
<b>COMMERCIAL LARGE</b>	(22.1)%	\$(438.72)	(14.6)%
<b>SMALL INDUSTRIAL</b>	(22.1)%	\$(1,990.60)	(17.1)%
<b>OVERALL</b>	(22.1)%		(10.8)%

\* The average monthly increase is based on an average customer's annual consumption and will vary depending on customer usage.

# *Bill Impact*

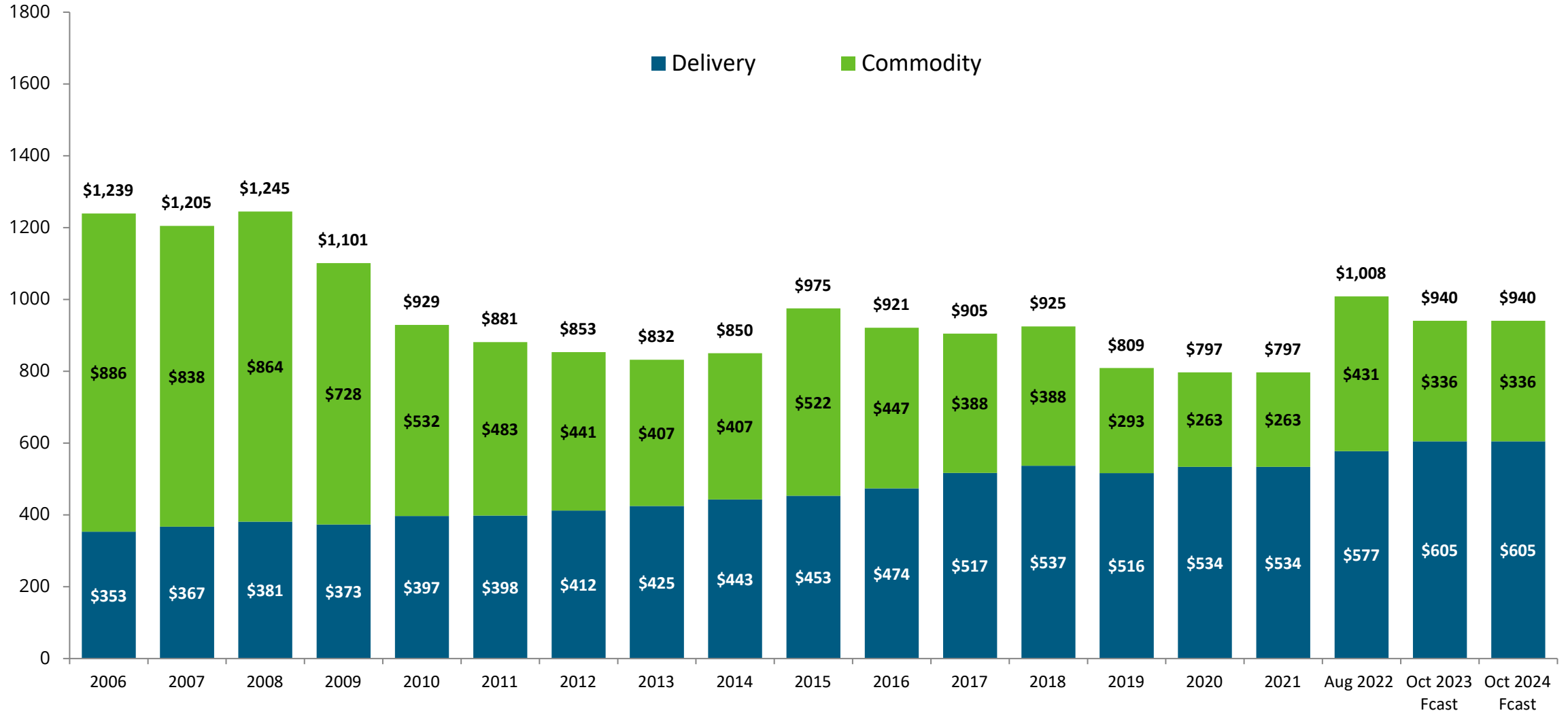


# Customer Total Bill Impact

Rate Class	Commodity Rate		Delivery Rate		Total Bill	
	\$/month	Bill Impact	\$/month	Bill Impact	\$/month	Bill Impact
Residential	\$(7.94)	(9.4)%	\$2.28	2.7%	\$(5.66)	(6.7)%
Commercial Small	\$(37.59)	(12.5)%	\$7.32	2.4%	\$(30.27)	(10.1)%
Commercial Large	\$(483.72)	(14.6)%	\$64.29	2.0%	\$(419.42)	(12.7)%
Small Industrial	\$(1,990.60)	(17.1)%	\$145.00	1.3%	\$(1,845.60)	(15.9)%
Average		(10.8)%		2.6%		(8.3)%

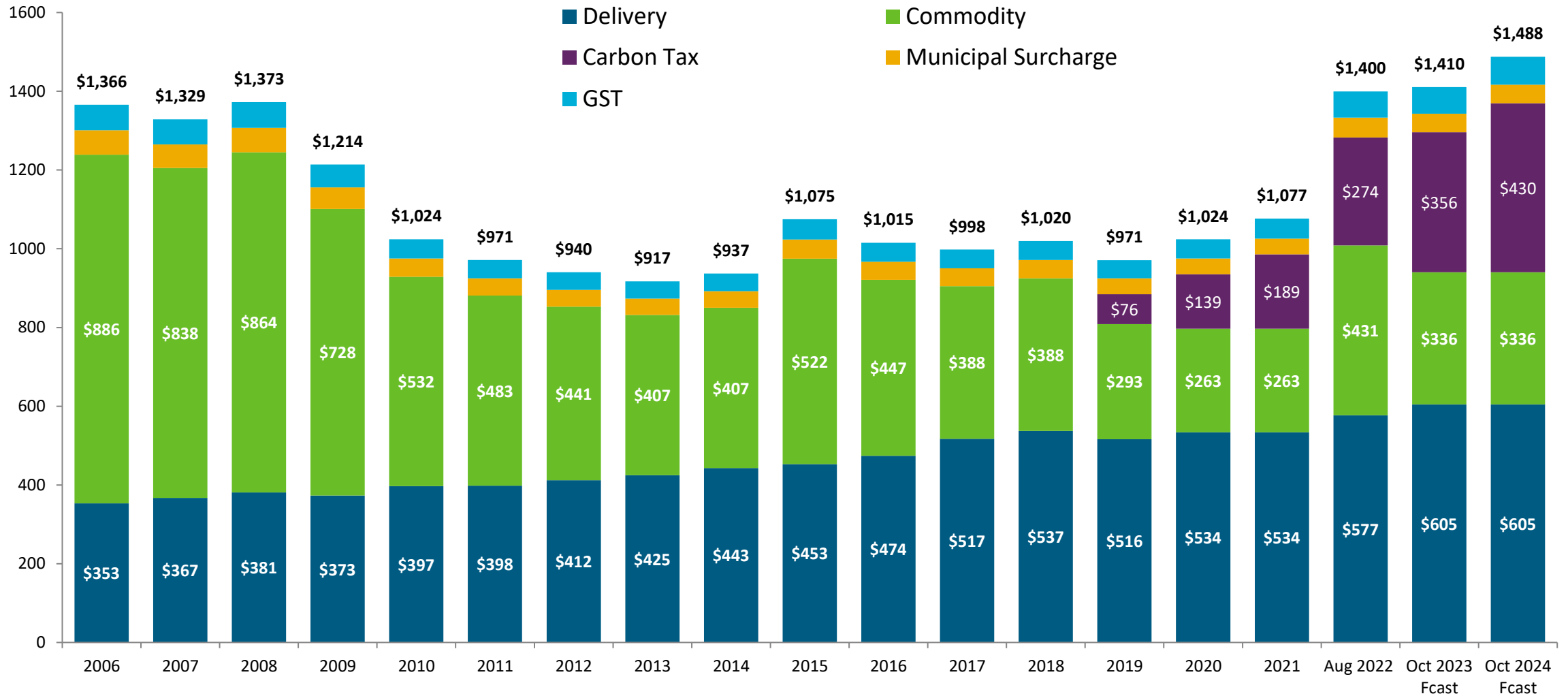


# Residential Bills



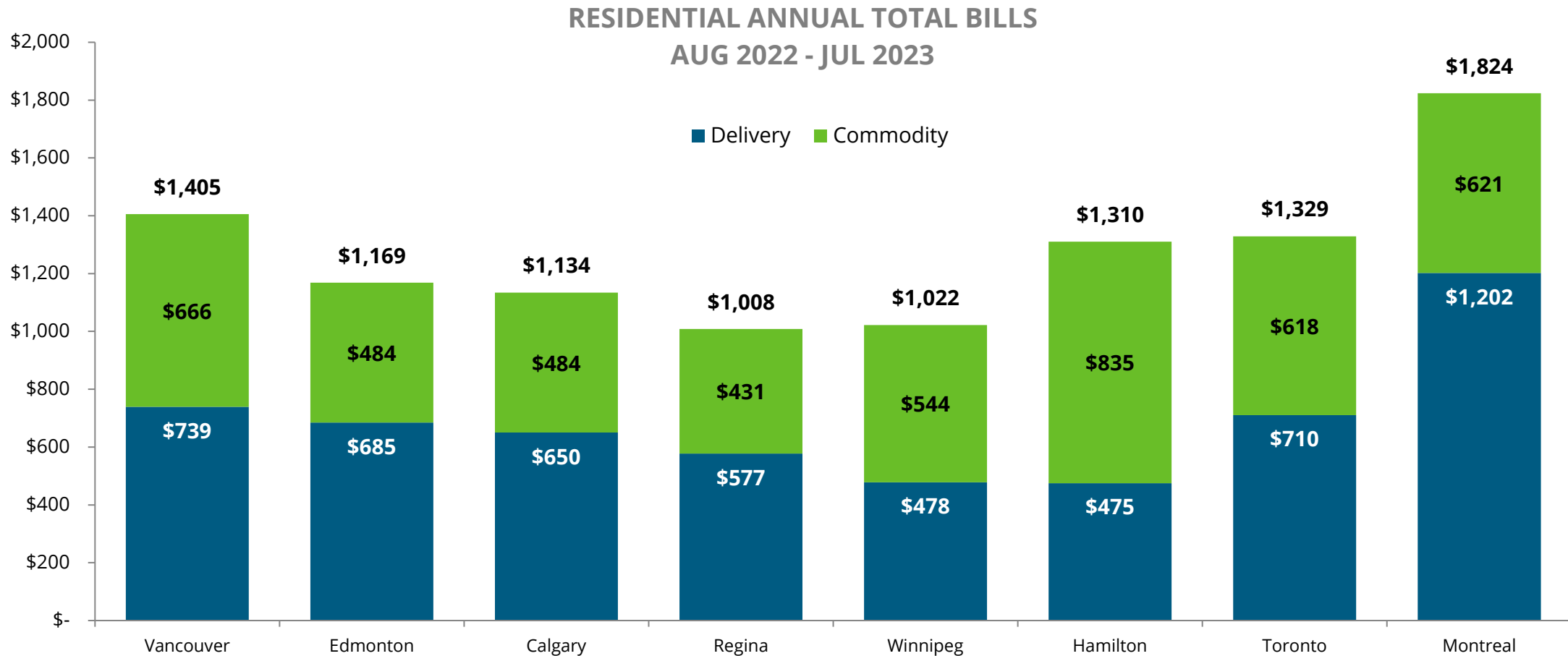


# Residential Bills





# 12-Month Bill Costs to July 2023



*SaskEnergy*