



Saskatchewan Rate Review Panel

Report to the Minister Responsible for Crown Investments Corporation of Saskatchewan

Regarding SaskEnergy's Proposed Natural Gas Delivery Rates for Test Years
2022-23, 2023-24, and 2024-25; and Commodity Rates for Test Year 2022-23

Report submitted December 16, 2022



SASKATCHEWAN
RATE REVIEW
PANEL

SaskEnergy

Executive Summary

SaskEnergy has submitted a multi-year application for increases in both commodity and delivery rates. Delivery rates are to increase by an average of 8% for 2022-23 and 5% effective June 1, 2023 and a further 5% effective June 1, 2024. The commodity rate is increased 31% effective August 1, 2022.

The increased commodity rate is required to reduce the Gas Cost Variance Account (GVCA) – the amount owing from customers which has grown to \$28 million at the end of July 2022. This resulted from the increase in the cost of gas, which the market continues to be quite volatile. The delivery rate increases are required to achieve a forecasted return on equity (ROE) of 2.3% for 2022-23. This has resulted from forecast increases to expenses and lower revenue from other related sources.

Since the requested rate increases have already been implemented on August 1, 2022 on an interim basis, the Panel is unable to recommend any alteration to these rates as any changes before the end of the fiscal year would have only nominal impact. Therefore, the Panel has concentrated on reviewing the financial and related information for the implementation of the proposed delivery rates as of June 1, 2023 and 2024.

The net income financial forecasts for the current year are expected to be substantially higher than those stated in the application and the five and 10 year average returns on equity (ROE) are well in excess of their required targets. With increasing concerns about affordability, the Panel is of the view that this is not the time to support rate increases of the magnitude requested in the second and third year of the application. Due consideration is required to lowering the average ROE to help address affordability issues. Upon receipt of SaskEnergy's required financial update to be filed February 15, 2023, the Panel will consider the filing and information provided to determine if a rate reduction is warranted.

We are recommending that the commodity rate be reviewed prior to June 1, 2023. SaskEnergy now forecasts that the entire GCVA will be repaid by April 2023 and it will be critical that the rate be adjusted near that time frame to ensure that it reflects forecast gas costs for the 2023-24 year. There is every expectation that the commodity rate will be significantly lower than the current rate should the current market forecasts materialize.

Some of the issues that have been identified that affect the Panel's recommendations include the following:

The quantum of the rate increases is significant for all classes of customers, but more so for the commercial and industrial customers as their consumption of gas is higher. This results in their bills increasing more in proportion with the commodity price increase. This concern has been reflected in the submissions that the Panel has received. For the first time we had representations from the commercial business sector including the Canadian Federation of Independent Business, Restaurants Canada, and the Saskatchewan Landlords Association -- all expressing concern about the significance of increased rates to their members. There was also a submission from the Renters of Saskatoon and Area, which expressed its concern about the impact of these rates on marginalized tenants.

SaskEnergy's forecast of expenses indicate significant increases for most categories, particularly operations and maintenance (O&M), which will increase approximately 17% for 2022-23 and a further increase of 1.5% for 2023-24 and a further increase of 2.2% in 2024-25. The largest increases are for wages with full-time-equivalents (FTEs) increasing 8.2 %, transportation and storage up 9.2%, depreciation expense 6.1%, tax expense 3.9%, and interest expense 0.5%. Other revenues are expected to decrease by 8.3%.

The Panel notes with concern the increasing O&M costs per customer, which is expected to increase by 18.7% from \$321 in 2021-22 to \$382 in 2022-23.

The original forecast for net income was \$9.6 million while the updated forecast as of September shows net income of \$24.8 million for a return on equity (ROE) of 5.9%. This revision was driven by expenses lower than the original forecast, but most significant was the increase in other revenue. This increase was due to asset optimization opportunities the company was able to take advantage of that were not anticipated in the forecast. With the recent weather being colder than normal and further opportunities for asset optimization materializing, the Panel expects that revenues will be even greater than originally forecasted in the Mid Application Update.

As indicated, the GCVA is forecast to be fully repaid by April of 2023, which is a repayment period by customers of only about nine months. Past repayments were typically scheduled to be 18-24 months to decrease financial pressures on ratepayers. The portion of the commodity rate increase that represents the repayment portion is approximately \$.45 per GJ or .0194 per cubic meter. If this increased rate is not adjusted in the spring period, it will likely cause the GCVA to become negative in which case the corporation will owe ratepayers. This will be assessed by the Panel as part of the financial update application scheduled to be filed in mid-February, which should lead to a commodity rate adjustment in the spring.

Recommendations to the Minister

1. That the commodity rate increase of 31% effective August 1, 2022, and the 8% increase in delivery rates effective August 1, 2022 be maintained.
2. 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 February 2023.
3. 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.
4. 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.

Recommendations to SaskEnergy

1. 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.
2. 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.
3. 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.

4. That SaskEnergy provide further consolidated updates to the Panel on its safety, reliability and environment plan as it is being developed.
5. 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 serviced with fair, just, and reasonable rates.
6. That SaskEnergy review the basis for the \$20 million threshold for triggering an application for amounts owing to or from customers.
7. 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.

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Introduction

This is the first three-year application submitted by SaskEnergy. The last multi-year rate application sought by SaskEnergy was in 2013 which was a two-year application covering the 2013-14 and 2014-15 test years. The last application by SaskEnergy was in 2021 which approved a 28.1% increase in the commodity rate.

This multi-year application follows a difficult period for Saskatchewan's economy, which was significantly impacted by the COVID-19 pandemic in 2020. Key economic indicators which reflect this period include:

- After peaking in 2019, Saskatchewan employment numbers declined the following year due in part to the public health restrictions and resulting economic effects.^{1,2}
- The Saskatchewan unemployment rate declined year-over-year in 2018 and 2019, before increasing in 2020. Although it has not returned to pre-COVID 19 levels, the unemployment rate has declined from 2020 and remains below the national average (6.5% in 2021 compared to the national average of 7.5%).³
- The Saskatchewan economy experienced two consecutive years of economic contraction starting in 2019. From 2018 to 2019, over half of industrial sectors experienced declines including manufacturing, construction and natural resources.⁴

Economic growth will be dependent on commodity prices, rising inflation, geopolitical factors, and potential new COVID-19 variants. Geopolitical factors also risk creating further global supply chain disruptions, decreasing international trade and potentially weakening Saskatchewan's economy. High inflation rates are expected to put upward cost pressure on SaskEnergy's operating, maintenance and administration costs as well as capital spending. Rising interest rates will increase SaskEnergy's finance charges.

Saskatchewan's real GDP is expected to have grown by 3.5 per cent in 2021 and is expected to grow by 3.7 per cent this year, a significant recovery from the 4.9 per cent contraction in 2020 created by the pandemic. The rebound was despite a drop in crop production due to the widespread drought in 2021, although the impact of the drop in production was partially offset by increased commodity prices. Employment and retail sales rebounded in 2021, and potash and oil prices and production surged due to global demand. Housing starts, manufacturing sales, exports and wholesale trade all grew well past prepandemic levels in 2021.

Saskatchewan's Consumer Price Index (CPI) increased by 8.0% from October 2021 to October 2022. For other Western-Canadian provinces, CPI increased in Manitoba, British Columbia and Alberta by 8.4%, 7.8% and 6.8% respectively. The national average increased by 6.9% during the same period. In 2021, capital investment in

¹ Page 30, Budget 2022-23, Government of Saskatchewan. (March 23, 2022) Available at:

<https://publications.saskatchewan.ca/api/v1/products/117339/formats/134734/download>

² Page 2, Western Canada, Differences in the economic impacts of COVID-19 across the provinces and territories, Economic and Social Reports, Statistics Canada. (June 23, 2021) Available at: <https://www150.statcan.gc.ca/n1/en/pub/36-28-0001/2021006/article/00001-eng.pdf?st= Hp4MOCG>

³ Employment, Both sexes, 15 years and over, Total, all industries, Table 14-10-0023-01, Statistics Canada. (January 7, 2022) Available at: <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410002301>

⁴ Economic Review 2019, Saskatchewan Bureau of Statistics, Ministry of Finance, page 3. Available at: <https://publications.saskatchewan.ca/api/v1/products/86384/formats/127631/download>

Saskatchewan totalled \$12.26 billion, a 2.0% increase from \$12.02 billion in 2020. In 2022, capital investment in Saskatchewan is expected to be at \$14.5 billion, an 18.5% increase from 2021.⁵

SaskEnergy's application is based on economic assumptions that were compiled during June and July of 2021 and approved by the Board of Directors in November 2021. These assumptions were more than a year old when the application was filed on July 11, 2022. When SaskEnergy provided its Mid-Application Update on September 29, 2022, there were significant variations in the 2022-23 forecasts. Several of the factors that impact the 2022-23 forecasts may also impact the forecasts provided for 2023-24 and 2024-25.

The Panel has been appointed as a Ministerial Advisory Committee to conduct a review and provide an opinion on the fairness and reasonableness of the proposed changes to the Minister of the Crown Investments Corporation. The Terms of Reference instructed SaskEnergy to provide current financial statements and an update on any material changes to business factors vital to the rate application to the Panel prior to the implementation of delivery rate changes in 2023 and 2024. The commodity and delivery rate increases for 2022-23 effective August 1, 2022, were approved and implemented by the Government of Saskatchewan prior to the Panel's review process being completed.

As part of this review process, the Panel contracted an independent technical consultant to review the application and the Mid-Application Update, and to provide recommendations that would be consistent with the Panel's Terms of Reference. The Panel, with the assistance of the consultant, asked two rounds of information requests and supplementary questions, and had individual discussions with SaskEnergy staff to clarify specific answers received.

The Panel encouraged public and industry input into the review and held public meetings in Regina and Saskatoon that were broadcast to facilitate greater discussion throughout the province. Submissions were received from the Canadian Federation of Independent Business, Restaurants Canada, and the Saskatchewan Landlords Association. This input highlighted significant concern regarding the approval of a material rate increase during a global recession.

There were a number of issues that the Panel has identified during this review which are reflected in the recommendations that follow.

⁵ <https://dashboard.saskatchewan.ca/business-economy>

SaskEnergy's Rationale for the Application

SaskEnergy applied to the Panel on July 11, 2022 to increase its commodity rate by 31% effective August 1, 2022; as well as an 8% increase in delivery rates effective August 1, 2022; a 5% increase in delivery rates to be effective June 1, 2023; and a further 5% increase in delivery rates to be effective June 1, 2024.

The commodity and delivery rate increases for 2022-23 on August 1, 2022, were approved by the Government of Saskatchewan prior to the Panel's review process being completed. These increases resulted in the average annual commodity bill to increase by 11.3%, the average annual delivery bill to increase by 4.5%, and the total average annual bill impact was 18.2%.⁶

As part of the application process, SaskEnergy was directed by the Minister to provide current financial statements and an update on any material changes to business factors vital to the rate application to the Panel by February 15, 2023, and again on February 15, 2024. The Panel must provide its recommendations to the Minister no later than April 28, 2023, and April 29, 2024 for new rates to be effective on June 1 of each year.

The proposed commodity rate would increase the existing rate of 12.78 c/m³ (\$3.20/GJ) to 16.74 c/m³ (\$4.20/GJ). The application noted the Gas Cost Variance Account (GCVA) as at October 31, 2022 was forecast to have a balance of \$34.3 million owing from customers to SaskEnergy. The application was seeking to clear that balance over the test period ending March 31, 2023.⁷

The three-year delivery rate increase would provide \$43.3 million in additional revenues over that period to address projected revenue shortfalls and to achieve a return on equity (ROE) of 2.3% in 2022-23, 4.7% in 2023-24, and 6.9% in 2024-25 (compared to target ROE of 8.3%).⁸ This is the first time that SaskEnergy has requested a three-year delivery rate application.

The main drivers for the delivery service rate increase are summarized in the following chart:

Revenue Requirement Comparison (\$Millions)⁹

Component	Fiscal Year [Apr 1 to March 31]										
	2021/22	2022/23				2023/24			2024/25		
	Actuals Current Application (\$ millions)	Test Year Current Application (\$ millions)	Change over 2021/22 Actuals (\$ millions) (%)		Test Year Current Application (\$ millions)	Change over 2022/23 Test Year (\$ millions) (%)		Test Year Current Application (\$ millions)	Change over 2023/24 Test Year (\$ millions) (%)		
Expenses											
Operating & Maintenance Expense	132.5	155.0	22.4	16.9%	157.3	2.3	1.5%	160.7	3.4	2.2%	
Transportation and Storage Expense	58.4	63.8	5.4	9.2%	66.0	2.3	3.6%	66.0	0.0	0.0%	
Depreciation Expense	52.1	55.2	3.2	6.1%	56.9	1.7	3.1%	59.3	2.4	4.2%	
Tax Expense	8.0	8.3	0.3	3.9%	8.7	0.5	5.4%	9.0	0.3	3.6%	
Interest Expense	30.1	30.0	0.2	(0.5%)	32.2	2.2	7.5%	33.7	1.5	4.7%	
Total Expenses	281.0	312.2	31.1	11.1%	321.1	9.0	2.9%	328.8	7.6	2.4%	
Revenues											
Other Revenue	33.3	30.5	2.8	(8.3%)	31.2	0.7	2.2%	33.0	1.8	5.7%	
Net Delivery Revenue Requirement before Net Earnings	247.7	281.6	33.9	13.7%	290.0	8.3	3.0%	295.8	5.8	2.0%	
Net Earnings	34.5	9.7	(24.8)	(72.0%)	20.0	10.3	106.9%	30.1	10.1	50.6%	
Net Delivery Revenue Requirement	282.2	291.3	9.1	3.2%	310.0	18.7	6.4%	325.9	16.0	5.1%	

⁶ Ibid, P. 2-1

⁷ InterGroup Consultant's Report, P. i

⁸ Ibid

⁹ Summarized from the revised (09/09) Schedule 1.0 of the 2022 Commodity and Delivery Service Rate Application.

Key highlights in this application include: ¹⁰

- An increase in Operating and Maintenance Expense (O&M) by \$22.4 million in 2022-23 over the 2021-22 actuals, with forecast year-over-year increases of \$2.3 million in 2023-24 and \$3.4 million thereafter.

Operating & Maintenance Cost per Average Number of Customer¹¹

	Fiscal Year [Apr 1 to March 31]														
	2022/23						2023/24			2024/25					
	2019/20 Actual	2019/20 Forecast	2020/21 Actual	2020/21 Forecast	2021/22 Actual	2021/22 Forecast	Test Year Current Application	Change over 2021/22 Actual		Test Year Current Application	Change over 2022/23		Test Year Current Application	Change over 2021/22	
OM&A Expense (\$000's)	131,062	136,229	131,603	142,045	132,513	129,542	154,962	22,449	16.9%	157,268	2,306	1.5%	160,691	3,423	2.2%
Avg. Number of Customers	399,826	402,069	402,827	401,405	405,672	402,791	405,791	119	0.0%	408,457	2,666	0.7%	410,957	2,500	0.6%
O&M per Customer (\$/Customer)	327.8	338.8	326.7	353.9	326.7	321.6	381.9	55.2	16.9%	385.0	3.2	0.8%	391.0	6.0	1.6%
Annual Change in Forecast				15.0		(32.3)									
Annual Change, %				4.4%		(9.1%)									
Actuals vs Forecast Change, %		11.0		27.2		(5.0)									
		3.4%		8.3%		(1.5%)									

*This table reflects information provided in the Original Application and does not reflect the updated forecasts

The above table outlines the O&M costs per average number of customers. Although forecast average O&M per customer decreases by 9.1% from 2020-21, it will increase by 16.9% in the 2022-23 test year forecast. Further increases in the the average O&M cost per customer are forecast in 2023-24 at 0.8% and in 2024-25 at 1.6%.

- An increase in Transportation and Storage Expenses for services rendered by TransGas of \$5.4 million in 2022-23 over the 2020-21 actuals with a forecast year-over-year increases of \$2.3 million in 2023-24 and no forecast increase in 2024-25.
- An increase in Depreciation Expense of \$3.2 million in 2022-23 over the 2021-22 actuals with forecast year-over-year increases of \$1.7 million in 2023-24 and \$2.4 million in 2024-25.
- An increase in Tax Expense of \$0.3 million in 2022-23 over the 2021-22 actuals with forecast year-over-year increases of \$0.5 million in 2023-24 and \$0.3 million in 2024-25.
- Interest Expense was originally forecasted to be \$30 million or marginally less (\$0.1 million) in the 2022-23 test year compared to the actual expenses of \$30.1 million in 2021-22. The Mid Application Update forecasted interest costs to be \$32.1 million or 7.2% higher (\$2.1 million). Interest Expense forecasts for 2023-24 (\$32.2 million) and 2024-25 (\$32.7 million) were not revised in the update.
- Other Revenues are forecast to decrease by \$2.8 million (or 8.3%) in the 2022-23 test year over the 2021-22 actuals, with forecast increase of \$0.7 million (2.2%) in 2023-24 (over 2022-23) and a forecast increase of \$1.8 million (5.7%) in 2024-25 (over 2023-24).
- A decrease in Net Earnings of \$24.8 million in the 2022-23 test year over the 2021-22 actuals, with year-over-year increases of \$10.3 million in 2023-24, and \$10.1 million in 2024-25.

¹⁰ Ibid 3-1

¹¹ 2nd Round Information Request 1 (c) (iii) of the 2022 Commodity and Delivery Service Request.

Mid-Application Update

SaskEnergy provided a Mid-Application Update on September 29, 2022, which provided an update on the most recent financial forecast. The following table provides a comparison of the changes in the forecast revenue requirement for 2022-23:

Component	Application	Mid-Application Update	Change	% Change
Operating & Maintenance Expense	154,962	152,901	(2,061)	-1.3%
Transportation and Storage Expense	63,753	63,753	0	0.0%
Depreciation Expense	55,207	52,107	(3,100)	-5.6%
Tax Expense	8,278	9,267	989	11.9%
Interest Expense	29,963	32,128	2,165	7.2%
Net Earnings	9,663	24,812	15,149	156.8%
Total Delivery Revenue Requirement	321,826	334,968	13,142	4.1%
Other Revenue	(30,517)	(37,739)	(7,222)	23.7%
Net Delivery Revenue Requirement	291,309	297,229	5,920	2.0%

The most significant changes in the update include:¹³

- \$2.1 million (1.3%) lower O&M Expense;
- \$3.1 million (5.6%) lower Depreciation Expense;
- \$7.2 million (23.7%) higher Other Revenues;
- \$1.0 million (12%) higher Tax Expense;
- \$2.2 million (7%) higher Interest Expense; and
- \$15.1 million (125%) higher Net Earnings.

The net impact of these changes results in a materially higher overall ROE compared to the forecast provided in the application (increasing from 2.3% to 5.8%). A financial update for the 2023-24 and 2024-25 test years were not provided in the Mid Application Update.

¹² Prepared based on Mid-Application Update filed on September 29, 2022.

¹³ Intergrup Consultant's Report, P. 3-7

Role of the Saskatchewan Rate Review Panel

Authority

Through Order-in-Council dated December 22, 2018, the Minister of Crown Investments Corporation (the Minister) appointed a Ministerial Advisory Committee known as the Saskatchewan Rate Review Panel (the Panel), with the mandate that it shall:

... conduct a review and provide an opinion of the fairness and reasonableness of proposed Crown corporation rate changes, referred to the Panel by the Minister of Crown Investments Corporation; and incorporate as part of its mandate specific terms of reference for particular Crown corporation rate change reviews that may be attached by further Minister's Order.

Whether in the original Order-in-Council establishing the Panel (437/2000 dated July 27, 2000), or in the Terms of Reference for particular reviews, the Panel has always been instructed to consider: “...the interests of the customer, the Crown corporation, and the public.”

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. The final decision about these applications continues to rest with the Saskatchewan government.

Members of the Panel

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

Panel’s Terms of Reference

The Minister issued an Order on July 8, 2022 establishing the Terms of Reference guiding the Panel’s review of SaskEnergy’s Rate Application. 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. The parameters for the **delivery rate review** include:

- The reasonableness of the proposed rate changes in the context of SaskEnergy’s forecasted cost of service over the periods 2022-23 through 2024-25, comprised of:
 - Load forecast
 - Contracted transportation and storage service
 - Planning maintenance programs
 - Operating, maintenance, administrative, depreciation, and finance expenses
 - Corporate capital tax
- The revenue requirement resulting from the delivery cost of service
- The following parameters are as givens:
 - The rate structure (i.e. components and classification)
 - The budgeted capital allowance, rate base, and established corporate policies over the period 2022-23 through 2024-25
 - SaskEnergy’s long-term return on equity target of 8.3% for its local distribution operations

- Existing service levels
- Transportation and storage rates set by TransGas
- The target revenue-to-cost ratio range of 0.95 to 1.05.

The parameters for the **commodity rate review** include:

- The reasonableness of the proposed commodity rate change in the context of:
 - The cost of gas anticipated by SaskEnergy for the effective term.
 - The gas purchase contracts entered into by SaskEnergy and the supply of gas.
 - The natural gas commodity market conditions at the time of SaskEnergy's contractual commitments.
- The impact changing market prices will have on the commodity rate proposed by SaskEnergy.
- Ensure that the SaskEnergy natural gas price management strategy is executed as approved by the SaskEnergy Board of Directors, and its practices are aligned with the SaskEnergy Board of Directors-approved policy and procedures for engaging in gas price management activities.
- Consider the principle that SaskEnergy passes on the cost of gas to consumers without discount or mark-up as a given.

The Minister's Order for this review called for the Panel to complete its work no later than December 16, 2022.

Review Process for the Application

Consultant

InterGroup Consultants Ltd. (the consultant) was engaged by the Panel as an independent technical adviser to review the fairness and reasonableness of SaskEnergy's proposed rate change, and to provide an independent report including recommendations that would be consistent with the Terms of Reference for the Panel's review of the application.

The consulting team was led by Mona Pollitt-Smith, a principal at InterGroup Consultants Ltd. She has considerable experience with utility regulation in a variety of jurisdictions in Canada, including Manitoba and Yukon.

At the direction of the Panel, the consultant conducted a detailed analysis of the application, asked two rounds of information requests and supplementary questions (all posted on the Panel's website), and had individual discussions with SaskEnergy staff to clarify specific points. The consultant reviewed public comments and submissions to the Panel, and participated in several meetings and conference calls with the Panel during the review process before presenting its final report to the Panel on November 7, 2022.

Public Consultations

In reviewing SaskEnergy's application, the Panel invited public comment. The public consultation process included:

- Submissions received by mail;
- Online messages received through the Panel's website;
- Messages received directly through the Panel's email address;
- Messages received through the Panel's toll-free voice mailbox; and
- Messages posted to the Panel's Facebook and Twitter accounts.

Public meetings were held in Saskatoon on October 11, 2022, and in Regina on October 12, 2022. Members of the public were also invited to view the meeting both in-person and online where they could type their questions 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 were a limited number of public comments on this application.

Public Comments and Submissions

The Panel encouraged written and online submissions and hosted two public meetings to encourage feedback. The Panel heard from several organizations and individuals who opposed the rate increases. Public comments indicated significant concern regarding the approval of material rate increases during a global recession.¹⁴ Submissions were received from the following organizations:

Canadian Federation of Independent Business (CFIB): noted that the rate increase comes “with next to no notice”, and citing “concerns regarding SaskEnergy’s proposal to increase energy rates by 24 per cent for the small commercial sector over the next three years.” In particular, the CFIB noted “following two years of pandemic restrictions, declining revenues and rising debt, businesses are now facing the cost pressures of record high gas prices, the expansion of PST, rising payroll costs” and concern that higher energy costs “will ... further hinder small business recovery, meaning business owners will have fewer resources to create jobs, invest in their businesses, and contribute to the growth of the provincial economy.”

Restaurants Canada: urged that “the proposed rate increase should not be considered in a policy vacuum” since the restaurant industry is “grappling with a number of challenges as operators shift their focus towards a fragile economic recovery including severe labour shortages, supply chain disruptions, incurring large debt levels¹⁵ as a result of the pandemic, and rising inflationary cost pressures.”

Saskatchewan Landlords Association: outlined concerns that “the rates being put forward by SaskEnergy are significant both for rental housing providers and their tenants.” The submission noted “rising utility costs will impair a provider’s ability to maintain the property due to shrinking profit margins and will undoubtedly impact tenants as they navigate higher costs on all aspects of their lives, including rent and utilities”, and “lower, more reasonable increases could maintain stability while also protecting Saskatchewan people against high energy costs.”

Renters Association of Saskatoon and Area (ROSA): raised concerns that “SaskEnergy’s extreme rate increase proposal to balance their books by charging permanently unaffordable rates to the most vulnerable marginalized tenants in deep poverty, is unsustainable overreach.” The submission added that low income tenants tend to lack any benefit or realistic access to retrofit improvements to their rental property without risking unaffordable rent increases, displacement or homelessness.

Please note that the complete submissions and public comments can be found on the Panel’s website.

¹⁴ See submissions provided on the Panel’s website at: https://www.saskratereview.ca/secuap.php?apn=jul_11_22_se

¹⁵ The submission cites February 2022 survey information which notes that “eight out of 10 restaurants have taken out debt due to COVID-19 and at least two thirds of these businesses will need at least a year and a half to recover”.

Issues Identified During the Review

Multi-Year Applications

This application marks the first time that SaskEnergy has requested rate changes over a three-year period. In reviewing this application, the Panel has noted several concerns regarding multi-year applications and supports an approach of more frequent applications for smaller increases.

SaskEnergy has indicated that it typically begins its business planning process in June of each year and submits its business plan to the Board of Directors for approval in November each year. This means that the economic assumptions used for the application were as of June/July 2021 – over a year old by the time the application was filed. During this time only a limited number of updates were made to the application prior to filing.

The Mid-Application Update noted several variances in the 2022-23 forecasts which led to an updated ROE increase from 2.3% to 5.8%. This is a material change from the forecast provided by SaskEnergy to support the 8% delivery rate increase that was approved by the Government of Saskatchewan and implemented effective August 1, 2022. The updated information was provided on September 29, 2022, which was late in the process and, as such, the updates were not able to be fully canvassed or reviewed as part of the process.

There are also several factors in the 2022-23 forecast that may also impact the forecasts provided for 2023-24 and 2024-25 including:

- SaskEnergy's ownership of SaskEnergy Place was not anticipated in the 2022 Delivery Rate Application and this change had led to a much lower actual depreciation compared to the application forecast. It is assumed that this lower rate would also reduce Depreciation Expense in 2023-24 and 2024-25, and that the change in ownership also increased Tax Expense.
- SaskEnergy borrowed an additional \$50 million of long-term debt in May 2022 which was not anticipated in the application. There was also an increase in short-term borrowing than forecast and higher short-term interest rates.
- SaskEnergy also understated connect fees and late payment charge revenues in 2022-23 which impacted the corporation by \$2.3 million. The forecast for 2023-24 and 2024-25 will also likely be impacted.

The Mid Application Update did not provide any updated financial information for the subsequent years of this application. With the uncertainty of the current economic circumstances going forward, including interest rates, inflation, rising input costs, and affordability issues, the lack of updated financial information for those years does not provide the Panel with adequate data to recommend or confirm rates for the second and third years of this application.

In order for the Panel to make a recommendation on those rates, SaskEnergy is required to provide the following information on February 15, 2023 and again on February 15, 2024:

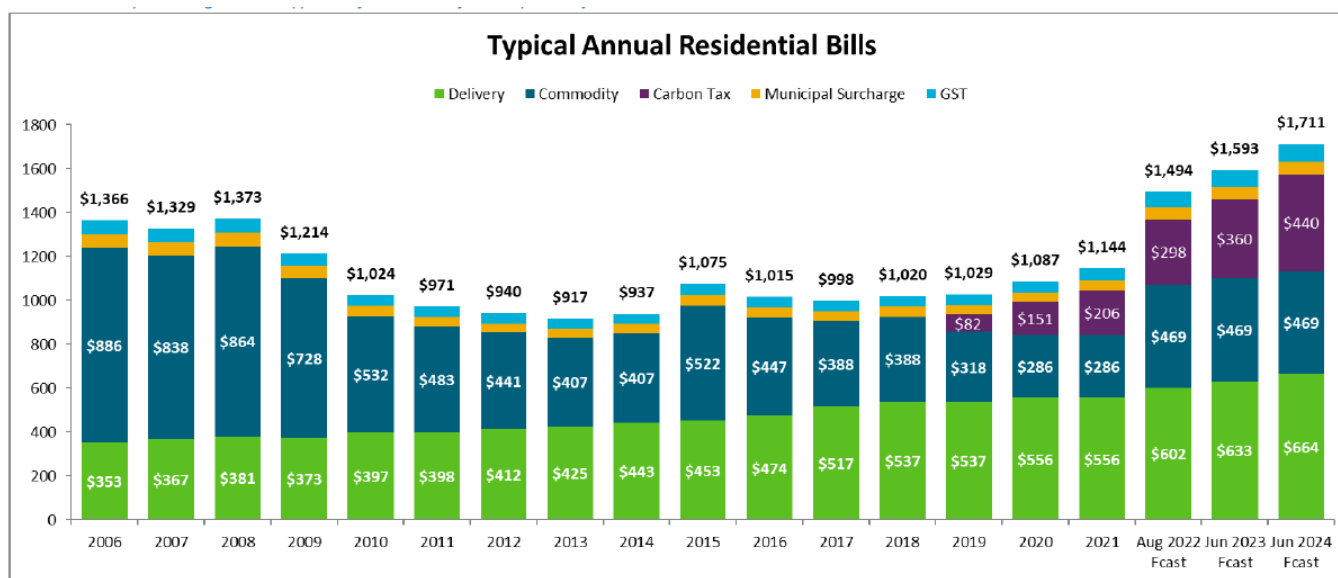
- Updated O&M forecasts
- Updated depreciation expense forecasts for 2023-24 and 2024-25
- The new depreciation study, along with the corporation's response to the study. While the outcomes of the study will not be able to inform the 2023-24 update, it should be confirmed whether or not it can inform 2024-25.
- Additional information on the impact that the accounting treatment for customer contribution has on corporate capital tax calculations.

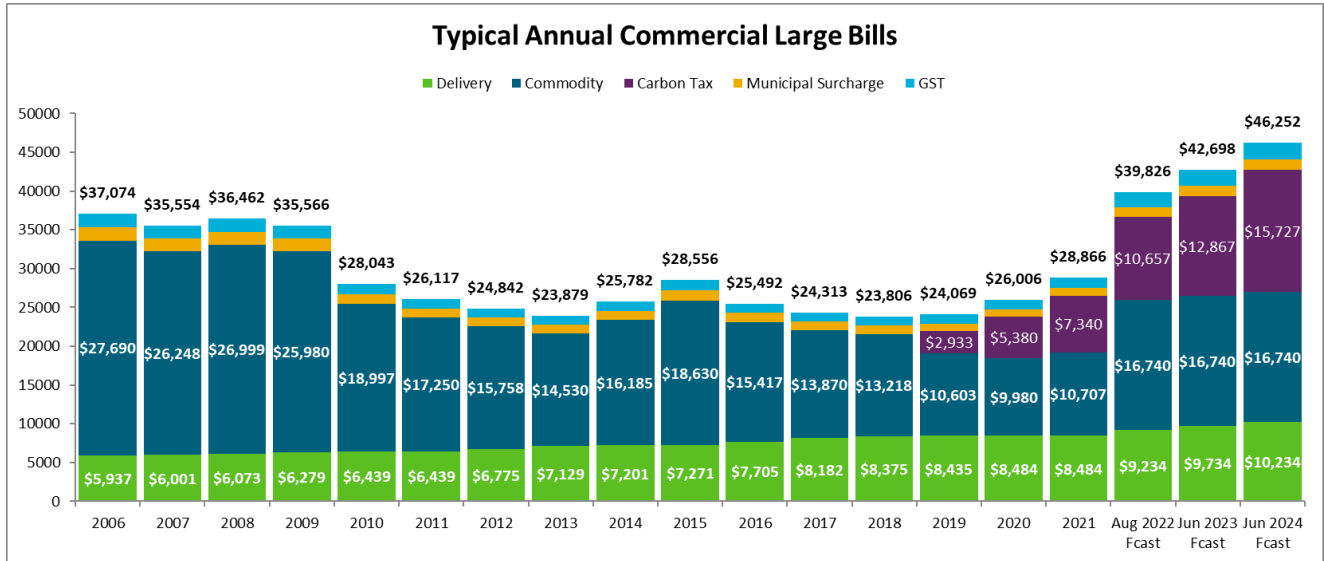
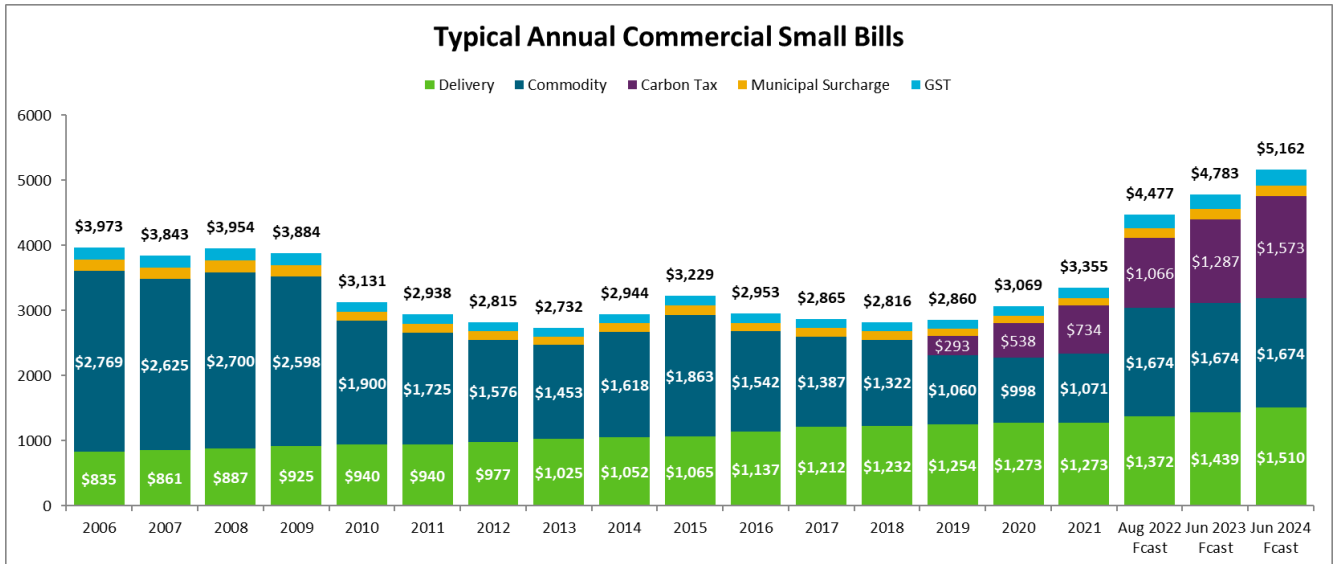
- Updated interest expense forecast
- Updated net income forecast
- Updated other revenue forecasts
- An update on whether the cost of service recommendation will be implemented during the next update. If a change is recommended, the impact to distribution tolls (both in terms of risk profile and financial risk to distribution ratepayers) should be provided.
- A cost of service study update which assesses the feasibility of implementing cost of service study changes within the next year; or an outline why this cannot be done.
- And lastly, an update on any material changes to business factors vital to the rate application including the recently approved Saskatchewan provincial carbon pricing plan.

Carbon Tax

The Government of Canada passed the Greenhouse Gas Pollution Pricing Act in 2018, which has become known as the federal carbon tax. The impetus for the Act was for Canada to reduce its carbon emissions to address climate change. The federal carbon tax began on April 1, 2019 at \$20/tonne and increased to \$30/tonne on January 1, 2020. It increased to \$50/tonne by 2022 and is forecast to increase to \$65/tonne in 2023, and \$80/tonne in 2024.

SaskEnergy estimates that in 2022-23, with a \$50/tonne carbon tax, customers will see a charge of \$0.0979/m³ for natural gas. In 2023, SaskEnergy estimates customers will see a charge of \$0.1239/m³ and in 2024 the carbon tax will reach \$0.1525/m³. The following charts outlines the impacts that the carbon tax will have on overall typical annual customer bills.





The key highlights from the carbon tax include:

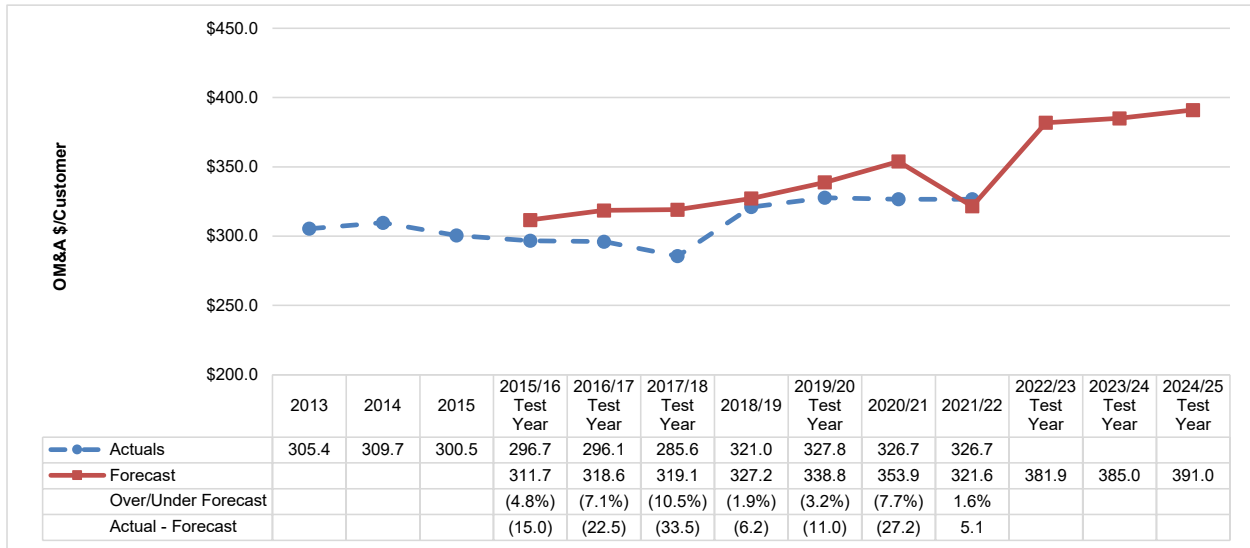
- In 2022, with a \$50/tonne carbon tax, residential customers would see a 25% bill increase; commercial small customers would see a 33% bill increase; and commercial large customers would see a 39% bill increase.
- In 2023, with a \$65/tonne carbon tax, residential customers would see a 31% bill increase; commercial small customers would see a 42% bill increase; and commercial large customers would see a 49% bill increase.
- In 2024, with a \$80/tonne carbon tax, residential customers would see a 36% bill increase; commercial small customers would see a 50% bill increase; and commercial large customers would see a 58% bill increase.

The carbon tax, when combined with other taxes and surcharges that customers must pay on their bills, raises material concerns regarding customer affordability and competitiveness.

Operations and Maintenance (O&M)

SaskEnergy’s O&M expense includes labour costs, external services, materials and supplies, vehicles, travel, public relations, and other costs. These costs are partially offset through charges to capital, external recoveries, internal recoveries, and intercompany allocations to calculate the O&M expense included in the revenue requirement. The figure below compares SaskEnergy’s forecast O&M from 2013 to actual costs; and also maps out the forecast O&M rising costs to the 2024-25 test year.

Operating Maintenance and Administration Cost Per Average Customer Forecasts Compared to Actuals, 2013 to 2024-25¹⁶



Changes in O&M expense on an average per customer basis in the application are summarized below:

- Forecast average O&M cost per customer decreases by 9.1% (\$32.30 decrease) from 2020-21 to 2021-22 and then increases by 18.7% in the 2022-23 test year forecast (\$60.30 increase).
- Further increases in average O&M cost per customers are forecast in 2023-24 (0.8%, or \$3.20, over 2022-23) and 2024-25 (1.6%, or \$6.00, over 2023-24).
- Actual average O&M costs per customer were lower than forecasts for both 2019-20 and 2020-21 (\$11.00 and \$27.20, respectively) due to actual O&M being lower than forecast in each year. Actual average O&M costs per customer were higher than forecast for 2021-22 (\$5.00) due to actual O&M being higher than forecast.

O&M represents a significant component of SaskEnergy’s revenue requirement and is an area that management can and should exercise control. The Panel urges the corporation to demonstrate diligence in constraining growth in its O&M spending, with particular attention to reducing its O&M cost per customer.

¹⁶ The 2015/16 Test Year is from Tab 9, page 3 of the 2015 Commodity and Delivery Service Rate Application, the 2016/17 Test year forecast is from Tab 9, page 3 of the 2016 Commodity and Delivery Service Rate Application, the 2017/18 Test Year Forecast is from Tab 9, page 3 of the 2017 Delivery Service Rate Application, 2013 to 2015/16 actuals and the 2019/20 Test Year are from Tab 9, page 3 of the 2018 Commodity and Delivery Service Rate Application, and 2016/17 to 2021/22 actuals and forecasts from 2018/19 to 2024/25 are from 2nd Round Information Request (1) (c)(iii) of the 2022 Commodity and Delivery Service Rate Application Schedules.

Cost of Service Study

A cost-of-service study is used to determine the average costs to serve each customer class. It apportions the utility's revenue requirement to each customer class based on cost causation principles. The results of this study are used to inform the utility's rate design and ensure each customer class is paying a fair share of costs. A revenue-to-cost coverage ratio (RCC ratio) compares the revenues at proposed rates to the costs allocated for each customer class. SaskEnergy's long-term objective is to have all classes within a revenue-to-cost ratio range of 95% to 105%.¹⁷

SaskEnergy's application includes an external review of its cost of service methodology performed by Chymko Consulting Ltd (Chymko) in 2022. The Chymko study concluded that overall the results of SaskEnergy's methods and models are consistent with generally accepted ratemaking principles and practices and that the overall methodology is appropriate.¹⁸ Chymko provided six recommendations to SaskEnergy on its cost allocation methods.

SaskEnergy indicated that the Chymko report was received after the cost of service documents for the current application were complete and therefore none of Chymko's recommendations are reflected in the 2022-23 through 2024-25 cost of service studies in the current application. SaskEnergy indicated it expects the recommendations will inform the next cost of service and that impacts of implementing any recommendations will be provided at that time.¹⁹ The corporation also indicated that it is not planning to submit an updated cost of service study with the 2023-24 update filing, as it expects the update will focus on financial updates and material updates to business.²⁰

The Panel is concerned that if SaskEnergy delays implementation until after the current three-year delivery rate application then cost of service study changes will not occur until after 2024-25. The impact of this delay is not well understood at this time and further engagement with SaskEnergy over 2022-23 is required to determine if delaying the implementation of this study will result in any adverse effects for customers, and meets the test of fair, just and reasonable rates going forward.

Net Income/Return on Equity (ROE)

SaskEnergy's application included forecasts of net income and return on equity (ROE) of \$9.7 million (ROE of 2.3%) in 2022-23, \$20.0 million (ROE of 4.7%) in 2023-24, and \$30.1 million (ROE of 6.9%) in 2024-25. SaskEnergy's forecast net income for the test years does not achieve its long-term target ROE of 8.3%. However, it is noted that the Mid-Application Update materially increases SaskEnergy's net income and ROE for 2022-23. The net income for 2022-23 increased by \$15.1 million and ROE increased to 5.8%. SaskEnergy indicated that the main reasons behind these changes relate to colder than normal weather; a lower forecast heat value; and added asset optimization revenues resulting from unforeseen market volatility. Historically, asset optimization revenues have provided substantial net income to the corporation over the past number of years without the ratepayers benefiting from this extra income.

The Panel has noted that SaskEnergy's actual net income and ROE has typically been much higher than forecast. Higher net income can result from colder than average winters when revenues are typically higher, but also can reflect lower overall costs than forecast. The table below outlines SaskEnergy's actual and weather-normalized ROE for 2012 through 2021-22 for the distribution utility and for SaskEnergy on a consolidated basis.

¹⁷ Page 38. 2022 Delivery Service and Commodity Rate Application.

¹⁸ Page 1 of the Chymko study provided in Tab 17 of 2022 Delivery Service and Commodity Rate Application.

¹⁹ 1st Round Information Request SRRP 18 (b).

²⁰ 2nd Round Information Request 16(c).

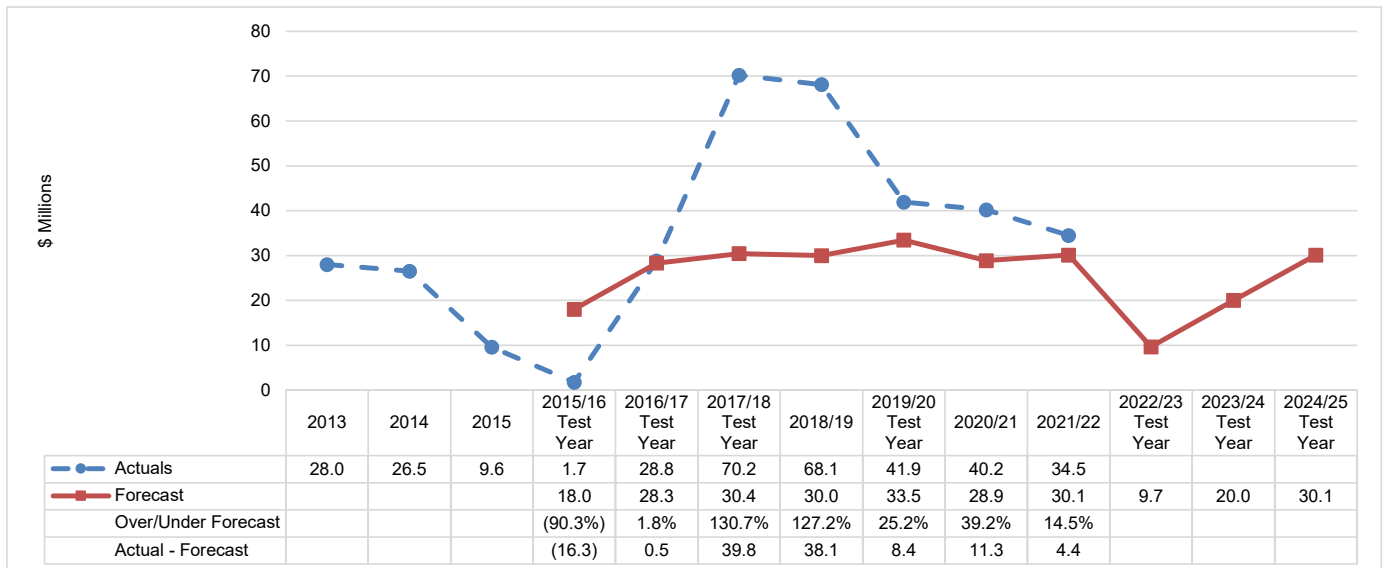
Actual and Weather Normalized Return on Equity²¹

	Distribution Utility		SaskEnergy Consolidated		
	Actual ROE	Weather Normalized ROE	Actual ROE	Weather Normalized ROE	
Calendar Years	2012	8.30%	9.70%	11.00%	11.40%
	2013	12.40%	9.00%	11.00%	10.00%
	2014	10.20%	4.50%	6.50%	2.40%
	2015	3.30%	8.00%	12.30%	14.20%
2015/16 Fiscal Year	0.60%	7.10%	11.60%	13.90%	
2016/17 Fiscal Year	9.20%	11.50%	8.80%	9.60%	
2017/18 Fiscal Year	21.20%	19.00%	12.20%	11.40%	
2018/19 Fiscal Year	19.70%	14.70%	12.90%	11.40%	
2019/20 Fiscal Year	11.20%	8.90%	6.10%	5.30%	
2020/21 Fiscal Year	10.30%	9.80%	5.20%	5.00%	
2021/22 Fiscal Year	8.50%	7.00%	5.40%	4.70%	
5-year Average	14.20%	11.90%	8.40%	7.60%	
10-year Average	10.70%	9.90%	9.20%	8.80%	

The actual average ROE for the last five years was 14.20%, while the average of weather normalized ROE for the same period was at 11.90%. The average for the last ten years shows actual ROE at 10.70%, while the average of weather normalized ROE for the same period was at 9.90%. These are materially higher than the target ROE of 8.3%.

The figure below compares available actuals and forecasts of net income for 2013 through 2024-25. Actual net income has typically been higher than forecast, and in some years, substantially higher.

Net Income Forecasts Compared to Actuals, 2013 to 2024/25 (\$Millions)²²



²¹ Tab 15, page 2, and 2nd Information Request 1 (c) (vii), 2022 Commodity and Delivery Service Rate Application.

²² The 2015/16 Test Year is from the 2015 Commodity and Delivery Service Rate Application, the 2016/17 Test year forecast is from the 2016 Commodity and Delivery Service Rate Application, the 2017/18 Test Year Forecast is from the 2017 Delivery Service Rate Application, 2012 to 2016/17 actuals and the 2019/20 Test Year are from the 2018 Commodity and Delivery Service

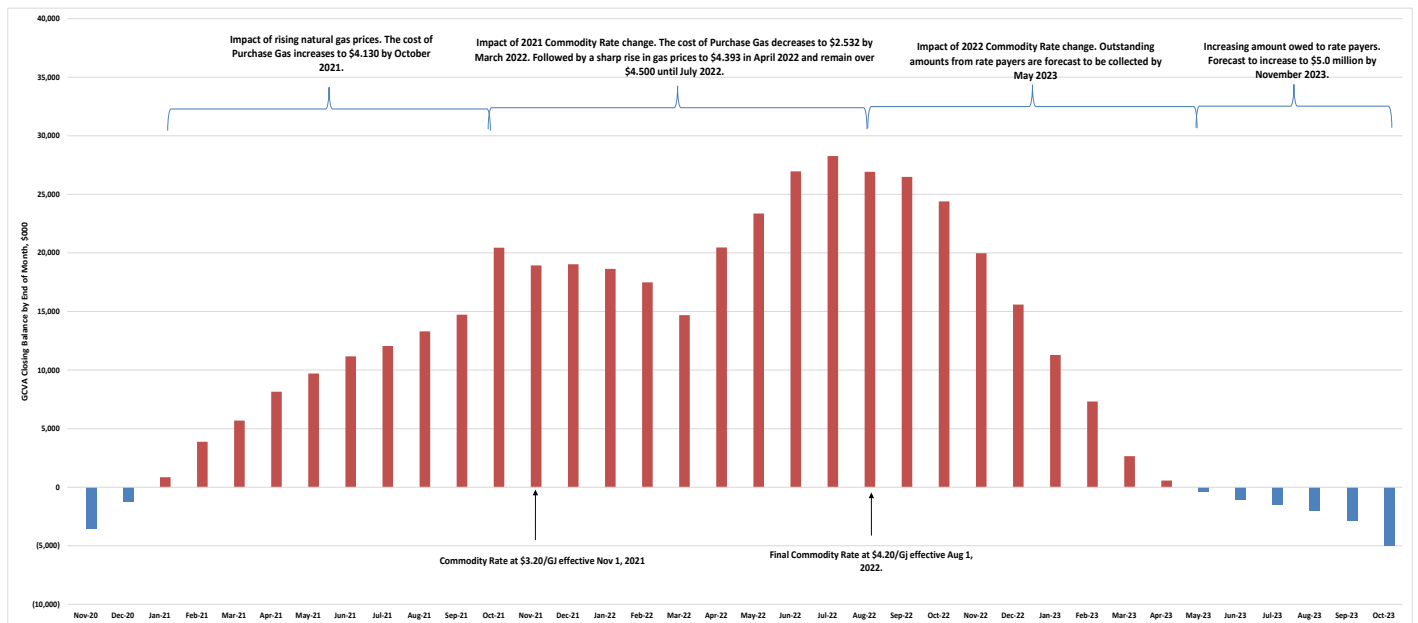
Earning a fair ROE allows a utility to maintain its financial integrity. If the ROE target is too low, a very mild winter or an unexpected expense could cause the corporation to incur a net operating loss. SaskEnergy’s long-term target ROE is comparable to peer utilities. **However, the Panel is concerned about the pattern of SaskEnergy routinely achieving higher than forecast net income and ROE. When this occurs, questions arise regarding the fairness to consumers and the appropriateness of rates at a time when affordability issues are an increasing concern.**

Gas Cost Variance Account (GCVA)

The GCVA tracks the difference between the commodity sales revenue collected from customers and the actual cost that SaskEnergy pays for the gas. When actual gas costs exceed the amount recovered from commodity rates, balances accumulate in the account that are later collected from customers. When actual gas costs are lower than the amount recovered through commodity rates, balances owing to the customer are accumulated and refunded through future commodity rate adjustments.

The last time the commodity rate was adjusted was November 1, 2021. The following figure shows that between November 2021 and October 2022, the GCVA balance increased from \$20.4 million owing from customers to \$24.4 million owing from customers.

Closing Cumulative GCVA Balance: November 2020 to October 2022 (\$000s)²³



Rate Application, and 2017/18 to 2020/21 actuals and forecasts from 2020/21 to 2024/25 are from the Revised (09/09) 2022 Commodity and Delivery Service Rate Application.

²³ Prepared based on 1st Round Information Request 1 (c), 2022 Commodity and Delivery Service Rate Application and Schedule 3.0 Revised September 29, 2022 for Mid-Application Market Update.

There have been four significant shifts in the GCVA balance since November 2020:²⁴

- **November 1, 2021 to March 31, 2022:** The commodity rate increased to \$3.20/GJ effective November 1, 2021, reflecting higher natural gas prices. The cost of purchase gas declined to \$2.53 by March 2022. The GCVA balance began to decline from \$19.0 million owing from customers in December 2021 to \$14.7 million owing from customers in March 2022 (decrease of \$4.3 million).
- **April 1, 2022 to July 31, 2022:** The cost of purchase gas increased sharply to \$4.39/GJ in April 2022, further increased to \$5.19/GJ in June and then fell to \$4.50/GJ in July 2022. The GCVA balance began to materially increase starting in April 2022, reflecting changes in natural gas prices. By the end of July 2022, the GCVA has increased to \$28.3 million owing from customers (increase of \$13.6 million).
- **August 1, 2022 to April 30, 2023:** The commodity rate increases to \$4.20 is implemented effective August 1, 2022. The commodity rate change resulted in a forecast decline in the GCVA from the balance of \$28.3 million owing from customers starting in August 2022. The balance is shown as being almost cleared by April 30, 2023.
- **May 1, 2023 to October 31, 2023:** This shows a negative balance in the GCVA (shifting to amounts owing from SaskEnergy to customers) over the period from May 1, 2023 to October 31, 2023 – with approximately \$5.0 million owing to customers by October 31, 2023.

SaskEnergy's proposed commodity rate of \$4.20/GJ is forecast to result in the GCVA balance of \$28.3 million as July 2022 (\$34.3 million in October based on the original rate application) to be fully collected over a nine-month period from August 2022 to May 2023. This is not the traditional approach that SaskEnergy has used in the past. SaskEnergy has typically recovered the balance in the GVCA over a 24-month period and while the market risks are higher now than in the recent past, recapturing the \$34.3 million in the GVCA over a much shorter nine-month period during a period of increasing concerns about affordability will place financial pressure on ratepayers. The Panel urges that in order to provide relief to ratepayers, SaskEnergy to submit an application to reduce the commodity rate as soon as the corporation is assured that the GCVA is discharged.

It should also be noted that the Panel has recommended to SaskEnergy in previous reviews that there is merit in the corporation reviewing the basis for the +/- \$20 million quantum as the forecast metric for the GCVA. The reasoning behind the previous recommendations remains to ensure that the GCVA is working effectively based on its core purpose. SaskEnergy typically designs a commodity rate that targets a GCVA balance of zero at the end of a test period.²⁵ Rate design principles target a GCVA balance of zero to minimize the impact of intergenerational equity/fairness.

SaskEnergy adjusts its commodity rate less frequently than other peer utilities. Most other peer utilities have more frequent rate adjustments that occur monthly (Edmonton, Calgary and Montreal) or quarterly (Vancouver, Winnipeg, Hamilton and Toronto).²⁶ The table below summarizes SaskEnergy commodity rate adjustments since 2014 – and indicates an average of 16 months between applications. While this approach promotes rate stability (which is valued by SaskEnergy's customers), it can raise concerns regarding intergenerational equity.

²⁴ InterGroup Consultant's Report, P. 14-5

²⁵ 1st Round Information Request 1(d), 2018 Commodity and Delivery Service Rate Application.

²⁶ 2021 Commodity Rate Application, 1st Round Information Request 2 (h) i).

Commodity Rate Adjustments Since 2014²⁷

Date of Commodity Rate Change	Commodity Rate		GCVA Balance	Period Between Rate Adjustments
	\$/m ³	\$/GJ		Months
July 1, 2014	0.1863	4.84	\$34 Million	
January 1, 2016	0.1596	4.30	\$5.3 Million	18 months
November 1, 2016	0.1387	3.65	\$2.4 Million	11 months
November 1, 2018*	0.1136	2.93	\$16.1 Million	24 months
April 1, 2019	0.1020	2.65	\$18.4 Million	5 months
November 1, 2021	0.1278	3.20	(\$18.8 Million)	31 months
August 1, 2022	0.1676	4.20	(\$24.4 Million)	8 months

*Interim Rate Effective November 1, 2018

The Panel sees merit in developing a formalized policy that includes a framework for more regular, automatic adjustments to commodity rates so large balances do not accumulate and to mitigate concerns related to intergenerational equity. As part of that policy, it would be appropriate to review the \$20 million quantum to determine if it remains appropriate.

Heat Value

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 gas is required to produce an equivalent amount of heating energy. SaskEnergy purchases gas in gigajoules (heat value) and bills customers on a volumetric basis. As a result, there is a mismatch between the buying and selling of the commodity.

Heat value varies depending on where the natural gas is sourced from and how much it is processed prior to being delivered to customers.²⁸ The weighted average heat value for delivered gas experienced over the past five years has ranged from 37.72 MJ/m³ to 43.28 MJ/m³, depending on the location of the delivery point.²⁹

Heat value was relatively stable prior to 2008 since SaskEnergy was a net exporter of natural gas, and the majority of natural gas processed and used in the province was sourced from conventional gas. Lower natural gas commodity prices led to a decline in conventional gas well drilling activities in Saskatchewan; and by 2016 approximately half of the natural gas produced in the province was from associated gas which is typically hotter than conventional gas.³⁰ With the decline in drilling activities in Saskatchewan, the province also became a net importer of natural gas. SaskEnergy has noted that the heat value of natural gas received at different locations along the Alberta border differs and different points along TransGas' system, and may change over time depending on whether or not natural gas liquids' prices are driving extraction of liquids from the natural gas stream.

²⁷ The actual GCVA balance as of November 1, 2021 was \$20.4 million, as provided in 1st Round Information Request 1 (c), 2022 Commodity and Delivery Service Rate Application.

²⁸ 2016 Commodity and Delivery Service Rate Application 1st Round Information Request, 27(a).

²⁹ 2022 Commodity and Delivery Service Rate Application, 1st Round Information Request, 24(a).

³⁰ This was reviewed in detail in the 2016 Delivery and Commodity Rate Application, Tab 24 and in response to 2016 Delivery and Commodity Rate Application 1st Round Information Request 27(n) and 2nd Round Information Request 20(e).

The following tables outline the variations in bills for residential and commercial locations due to their locations in the province:

Average Consumption & Average Bill Impacts for 12 Month Period for Residential Customers (2020/21)³¹

	Heat Value					Average 2020/21 Residential					
	Estimated Average Number of Customers	Weighted Average (MJ/m ³)	Minimum	Maximum	Heat Value Variance (%)	Average Bills					
						Annual Basic Monthly Charge (\$)	Annual Delivery Charge (\$)	Annual Commodity Charge (\$)	Total Bill (\$)	Total Bill Variance (\$)	Total Bill Variance (%)
Regina	129,829	41.09	40.11	43.18	3.7%	278	262	263	803	(19)	(2.4%)
Moose Jaw	22,774	38.54	37.73	38.75	(2.8%)	278	279	280	838	15	1.8%
Weyburn	7,836	43.28	43.08	43.32	9.2%	278	248	250	777	(46)	(5.6%)
Estevan	8,180	42.77	42.16	43.16	7.9%	278	251	253	783	(40)	(4.9%)
Swift Current	13,600	38.40	37.50	38.70	(3.1%)	278	280	281	840	17	2.1%
Yorkton	13,109	41.61	40.50	42.68	5.0%	278	258	260	797	(26)	(3.2%)
Melville	4,246	39.42	38.07	40.84	(0.5%)	278	273	274	825	3	0.2%
Saskatoon	163,460	38.48	37.88	38.77	(2.9%)	278	279	281	839	16	1.9%
Prince Albert	26,959	39.92	39.48	40.72	0.7%	278	269	271	819	(4)	(0.5%)
North Battleford	10,287	38.69	37.59	39.30	(2.4%)	278	278	279	836	13	1.6%
System Average	400,279	39.63	39.26	39.93	0.00%	278	271	273	823	0	0.0%

Average Consumption & Average Bill Impacts for over 12 Month Period for Small Commercial and Large Commercial Customers (2020/21)³²

	Average 2020/21 Commercial Small						Average 2020/21 Commercial Large					
	Average Bills						Average Bills					
	Annual Basic Monthly Charge (\$)	Annual Delivery Charge (\$)	Annual Commodity Charge (\$)	Total Bill (\$)	Total Bill Variance (\$)	Total Bill Variance (%)	Annual Basic Monthly Charge (\$)	Annual Delivery Charge (\$)	Annual Commodity Charge (\$)	Total Bill (\$)	Total Bill Variance (\$)	Total Bill Variance (%)
Regina	462	1,037	1,276	2,775	(86)	(3.0%)	1,649	10,699	15,611	27,960	(973)	(3.4%)
Moose Jaw	462	1,106	1,361	2,929	68	2.4%	1,649	11,410	16,647	29,706	773	2.7%
Weyburn	462	985	1,212	2,658	(202)	(7.1%)	1,649	10,159	14,822	26,630	(2,303)	(8.0%)
Estevan	462	996	1,226	2,685	(176)	(6.2%)	1,649	10,280	14,999	26,928	(2,004)	(6.9%)
Swift Current	462	1,110	1,366	2,938	77	2.7%	1,649	11,450	16,707	29,806	873	3.0%
Yorkton	462	1,024	1,261	2,747	(114)	(4.0%)	1,649	10,568	15,419	27,635	(1,297)	(4.5%)
Melville	462	1,081	1,331	2,874	13	0.5%	1,649	11,155	16,276	29,079	146	0.5%
Saskatoon	462	1,108	1,363	2,932	71	2.5%	1,649	11,425	16,670	29,745	812	2.8%
Prince Albert	462	1,068	1,314	2,843	(18)	(0.6%)	1,649	11,014	16,070	28,732	(201)	(0.7%)
North Battleford	462	1,102	1,356	2,919	58	2.0%	1,649	11,366	16,583	29,597	665	2.3%
System Average	462	1,075	1,323	2,861	0	0.0%	1,649	11,095	16,189	28,933	0	0.0%

These tables demonstrate that variations in heat value result in some customers paying more than others to achieve the same heating energy, depending on geographic location. For example, the average heat value variance for residents in the Weyburn area is 9.2%, which results in an average 5.6% decrease in their bills. On the other hand in Swift Current, the heat value variance is -3.1%, which results in an increase of 2.1% in their average bills. This has resulted in ongoing fairness concerns for ratepayers and other stakeholders.

These variations also impact 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. The GCVA mitigates SaskEnergy’s financial risks since commodity revenue variances from forecast are captured in the GCVA and collected or refunded in future periods. However, 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. SaskEnergy has noted a total heat value variance impact to the GCVA over the past 5 years of \$9.6 million (owing to the corporation from customers).

³¹ 1st Round Information Request 24 (a) 2022 Delivery Service and Commodity Rate Application.

³² 1st Round Information Request 24 (a) 2022 Commodity and Delivery Service Rate Application.

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 since 2019-20 due to the variation between forecast and actual heat values.

Actual Heat Value Revenue Impacts, 2019-20 to 2021-22 (\$Millions)³³

	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.

Billing in energy would eliminate the need for forecasting heat value and the associated risks and fairness issues related to heat value variance and variances in customer bills. This would place SaskEnergy in the same category as all the other major Canadian utilities.

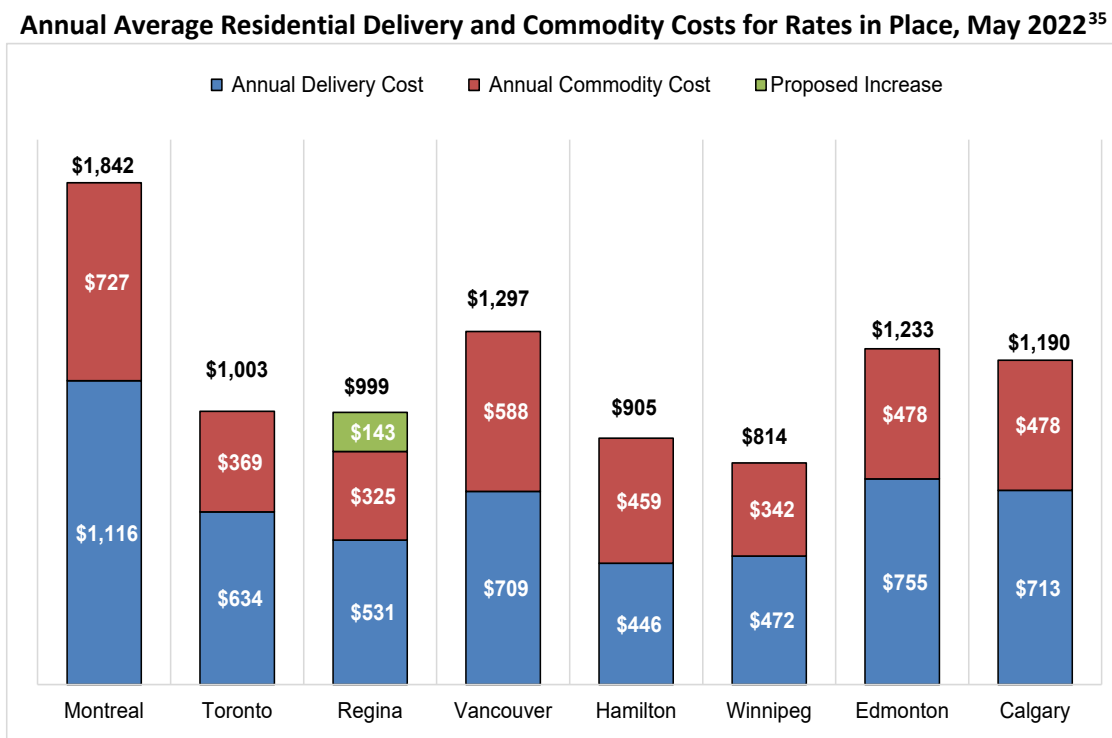
The Panel recognizes that SaskEnergy has taken steps to bill in energy and is currently undertaking a heat value project to assess billing customers in energy. Although SaskEnergy has indicated that it is deferring the business case for billing in energy due to resources and other priorities, the Panel urges the corporation make the transition as soon as possible to provide equity to both the corporation and its ratepayers.

³³ 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 m³/MJ and 2022/23 to 2024/25 test years use a heat value of 39.50 m³/MJ from the Mid-Application Update, September 29, 2022.

The Competitiveness of the Proposed Rates

SaskEnergy provided information on the effect of its proposed rate changes on customer bills relative to other jurisdictions. Analysis conducted by the consultant indicated that with the implementation of the proposed rate changes SaskEnergy’s commodity and delivery rates will remain lower than most major centres for all customer classes (second or third lowest). SaskEnergy will remain competitive with other jurisdictions if other major utilities do not change their rates.

The following figures provide a comparison of residential and commercial customer bills to other jurisdictions. Please note that these comparisons are developed during a specific moment in time and that these charts can change depending on factors such as the price of natural gas, hedging strategies, weather patterns, etc. Small industrial customers are not included in this analysis since their unique operating requirements make comparisons across jurisdictions difficult.³⁴



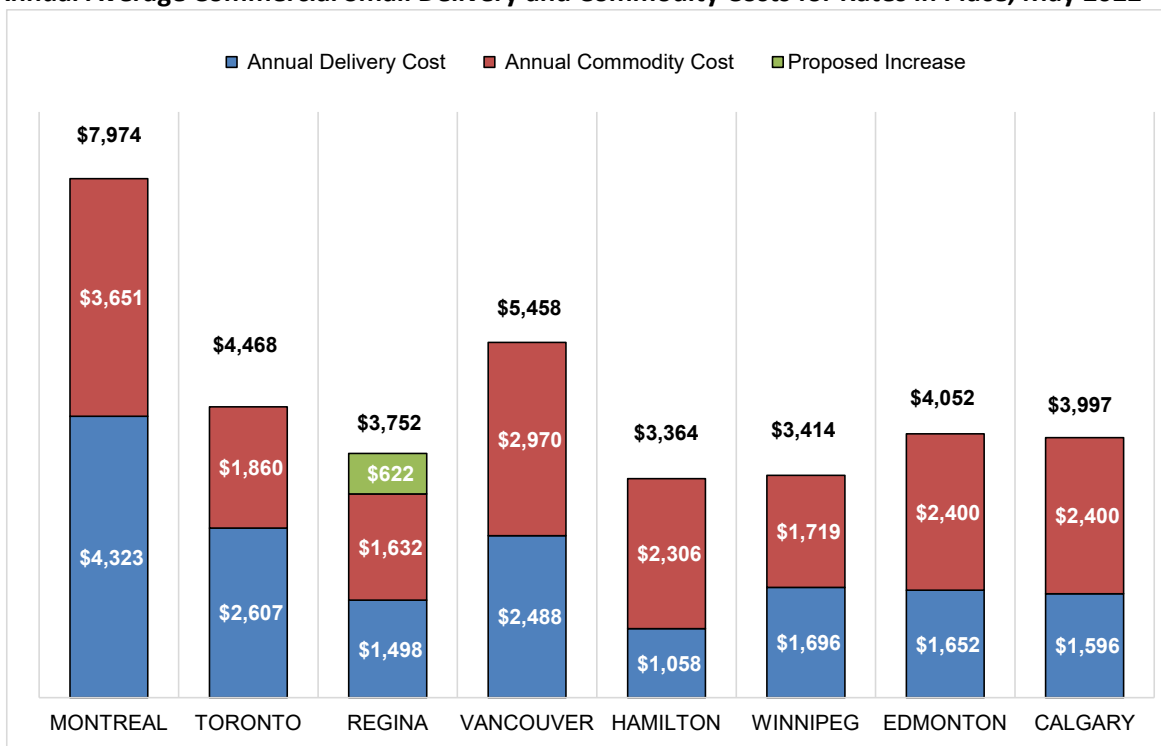
This figure compares bills at most recent rates effective May 2022, including rates proposed by SaskEnergy effective August 1, 2022. This shows, assuming the other major utilities do not change their rates, that SaskEnergy would have the third lowest bills with proposed August 1, 2022 rates.

³⁴ During the review of the 2013 Delivery Service Rate Application the response to 1st Round Information Request 24 (c) noted that the bill comparisons provided by SaskEnergy for that review were before applicable taxes and surcharges. Based on this, it is assumed that the bill comparisons provided in the current review do not reflect impacts of carbon taxes/ charges that may exist in other jurisdictions. For example, the sample bill for Fortis BC shows carbon tax separately from rates under other charges and taxes. Available at:

<https://www.fortisbc.com/NaturalGas/Homes/Rates/Mainland/Pages/Sample-bill-for-Mainland-customers.aspx>.

³⁵ Tab 22, page 5 and 2nd Round Information Request 18 (a), 2022 Commodity and Delivery Service Rate Application. SaskEnergy notes that bills are as of May 1, 2022, and the proposed increase is for August 1, 2022.

Annual Average Commercial Small Delivery and Commodity Costs for Rates in Place, May 2022^{36,37}



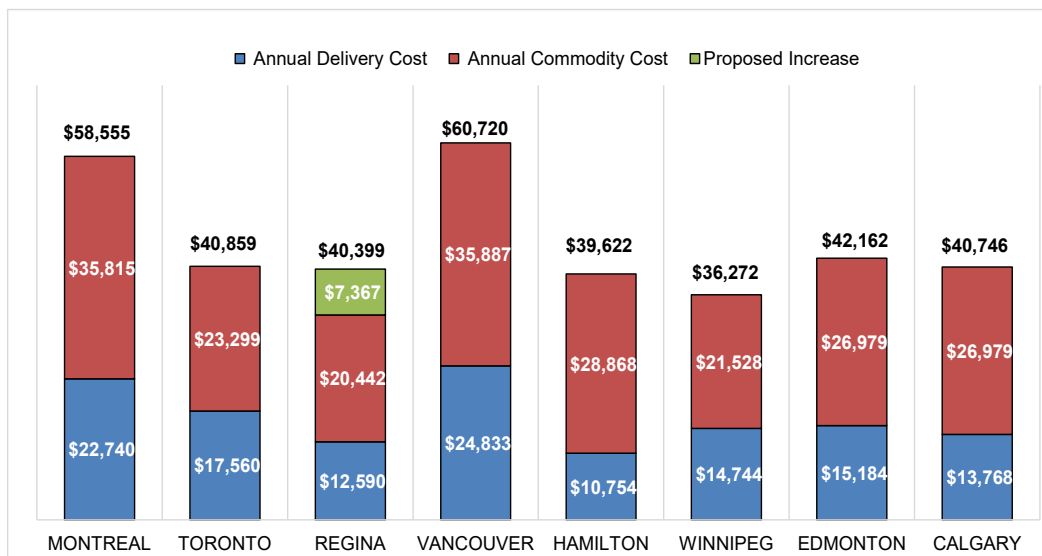
*Proposed increase noted relates to both the commodity and delivery increase, and is applied to rates in place May 1, 2022. Information included in the figure for other utilities does not consider whether rates for other utilities have changed since that date. To the extent there have been increases these are not reflected.

This figure provides a comparison of Commercial Small bills for rates effective May 2022, which includes proposed bill increases, effective August 1, 2022 for SaskEnergy. This shows that, assuming the other major utilities do not change their rates, Commercial Small bills in Regina are expected to be the third lowest of the jurisdictions surveyed under the proposed rates.

³⁶ Tab 22, page 7 and 2nd Round Information Request 18 (a), 2022 Commodity and Delivery Service Rate Application. SaskEnergy notes that bills are taken as of May 1, 2022, and the proposed increase is for August 1, 2022.

³⁷ The information provided in 2nd Round Information Request 18 (a), for the proposed rate increase effective August 1, 2022, did not reconcile to information included in Tab 21 and 1st Round Information Request 19 (a) for the Commercial Small class. The information in Tab 21 and 1st Round Information Request 19 (a) was assumed to be correct and used to prepare this figure.

Annual Average Commercial Large Delivery and Commodity Costs for Rates in Place, May 2022^{38, 39}



This figure provides a comparison of Commercial Large bills for the rates effective May 2022 and includes proposed bills effective August 1, 2022 for SaskEnergy. This shows, assuming the other major utilities do not change their rates, that Commercial Large bills in Regina are expected to be the third lowest of the eight jurisdictions surveyed under the proposed rates.

³⁸ Tab 22, page 9 and 2nd Round Information Request 18 (a), 2022 Commodity and Delivery Service Rate Application. SaskEnergy notes that bills are taken as of May 1, 2022, and the proposed increase is for August 1, 2022.

³⁹ The information provided in 2nd Round Information Request 18 (a), for the proposed rate increase effective August 1, 2022, did not reconcile to information included in Tab 21 and 1st Round Information Request 19 (a) for the Commercial Large class. The information in Tab 21 and 1st Round Information Request 19 (a) was assumed to be correct and used to prepare this figure.

The Impacts of the Proposed Rates

Impact on the Customer

Customer bills include a commodity rate, a delivery rate, and a basic monthly charge. The impacts on each customer’s bill will depend on the customer class and usage levels. **At average consumption levels, customers in all rate classes are expected to experience overall bill increases over the three-year application period, with the most significant impacts in 2022-23.**

Annual 2022-23 Bill Impacts by Customer Consumption (not including taxes and surcharges)⁴⁰

	Percentage of Customers within Class	Annual Usage Interval (m ³)	Average Annual Use (m ³)	Current Average Annual Bill, \$/year	2022/23		Average Bill with Proposed Delivery Rate Change		Total Average Bill Change		
					Average Bill with Proposed Commodity Rate Change		change, \$/year	change, %	\$/year	change, \$/year	change, %
					change, \$/year	change, %					
					E	F=E/D	G	H=G/D			
Residential	72%	0-3000	2,043	\$742	\$81	11%	\$37	5%	\$860	\$118	16%
	27%	3,001-7,000	3,922	\$1,169	\$155	13%	\$58	5%	\$1,382	\$213	18%
	2%	Over 7,000	9,687	\$2,478	\$384	15%	\$119	5%	\$2,981	\$503	20%
Commercial Small	65%	0-10,000	4,388	\$1,379	\$174	13%	\$63	5%	\$1,615	\$237	17%
	31%	10,001-50,000	21,036	\$4,856	\$833	17%	\$241	5%	\$5,929	\$1,073	22%
	5%	Over 50,000	84,447	\$18,103	\$3,344	18%	\$919	5%	\$22,366	\$4,263	24%
Commercial Large	75%	0-200,000	102,373	\$21,734	\$4,054	19%	\$1,111	5%	\$26,900	\$5,165	24%
	20%	200,001-400,000	272,630	\$55,139	\$10,796	20%	\$2,933	5%	\$68,868	\$13,729	25%
	5%	Over 400,000	529,373	\$105,512	\$20,963	20%	\$5,680	5%	\$132,155	\$26,643	25%
Small Industrial			695,551	\$120,912	\$27,544	23%	\$2,782	2%	\$151,239	\$30,326	25%

Key bill impacts include:

- **Residential Customers:** Total annual bill impacts, depending on usage, range from 16-20% in 2022-23; 2-3% in 2023-24; and 2-3% in 2024-25.
- **Commercial Small:** Total annual bill impacts, depending on usage, range from 17-24% in 2022-23; are in 2% range in 2023-24; and 2-3% range in 2024-25.
- **Commercial Large:** Total annual bill impacts, depending on usage, range from 24-25% in 2022-23; are in 2% range in 2023-24; and are in 1% range in 2024-25.
- **Small Industrial:** Total annual bill impacts would be about 25% in 2022-23; about 2% in 2023-24; and about 1% in 2024-25.

Customer bills are affected not only by changes to SaskEnergy’s rates, but also by taxes (federal carbon charge, municipal surcharges, and GST). The following figures show changes to customer bills without taxes (blue line) and with taxes (red line) from April 1, 2021 through May 31, 2025. This indicates a material change in annual bills at the end of the application period after taxes and surcharges are applied.

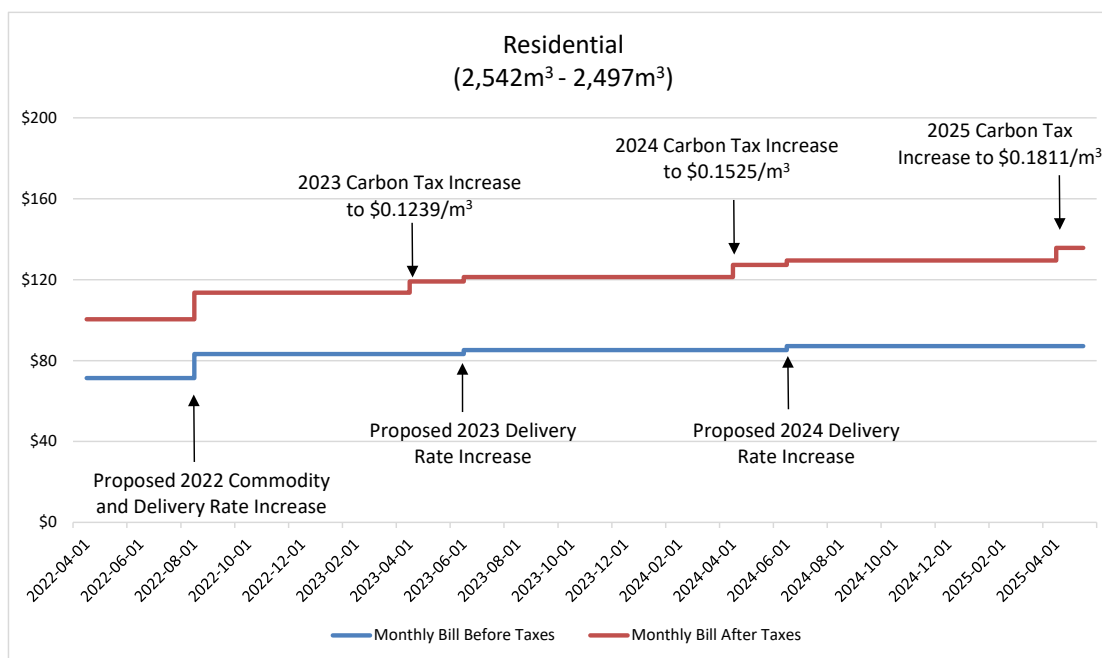
For residential customers:

- The monthly bill before taxes includes the delivery charge, the basic monthly charge (BMC), and the commodity charge.

⁴⁰ Tab 21 of 2022 Commodity and Delivery Service Rate Application. 1st Round Information Request 19 (a) and 2nd Round Information Request [Commodity] 3 (a) 2022 Commodity and Delivery Service Rate Application.

- The commodity charge increases by 31% on August 1, 2022; commodity bill impacts decreases by 1% in 2023 and 2024 due to assumed decreasing consumption.
- The delivery charge increases by 11% on August 1, 2022, and then 4% on June 1, 2023, and 2% on June 1, 2024; the BMC increases by 5%-7% each test year.
- The monthly bill after taxes is largely driven by carbon tax increases (increases by 26% on April 1, 2023 and 22% on April 1, 2024 and 19% on April 1, 2025); other bill impacts relate to the municipal surcharge (increases by 17% on August 1, 2022 and 2% on June 1, 2023 and June 1, 2024); and GST.

Residential Customer Class Monthly Bill Changes from August 1, 2022 to May 31, 2025, Before and After Taxes and Surcharges⁴¹

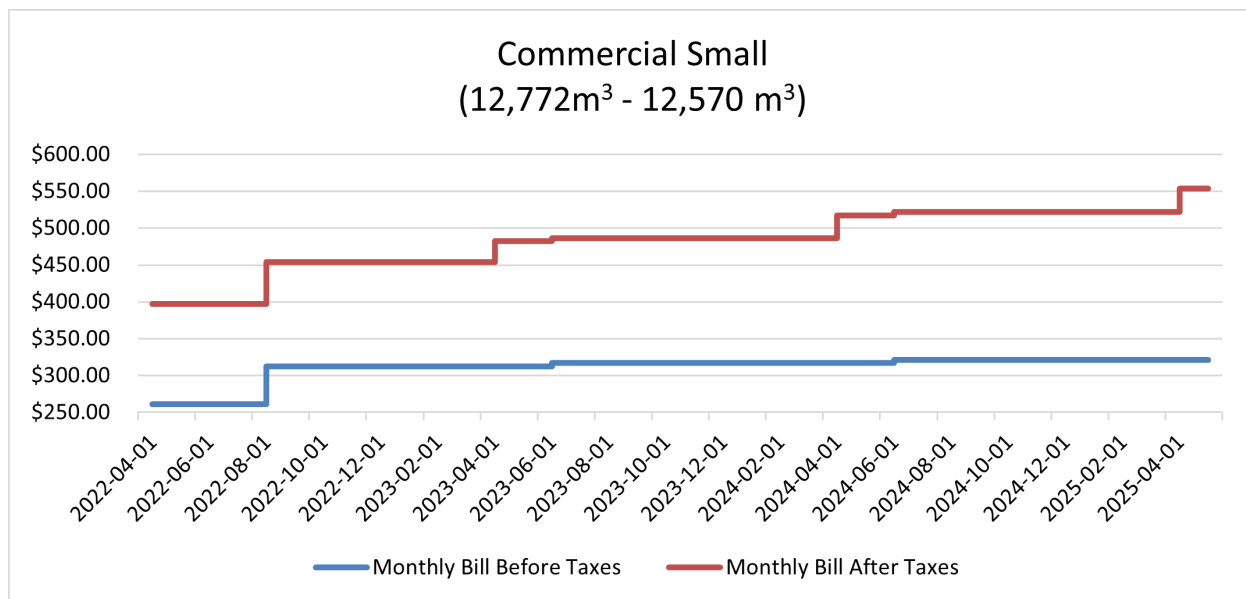


For commercial small customers:

- The monthly bill before taxes includes the delivery charge, the basic monthly charge (BMC), and the commodity charge.
 - The commodity charge increases by 31% on August 1, 2022; commodity bill impacts then decrease by 1% in 2023 and 2024 due to assumed decreasing consumption.
 - The delivery charge increases by 8% on August 1, 2022, and then 3% on June 1, 2023, and June 1, 2024; the BMC increases by 7%-8% each test year.
- The monthly bill after taxes is largely driven by carbon tax increases (increases by 26% on April 1, 2023 and 22% on April 1, 2024 and 19% on April 1, 2025); other bill impacts relate to the municipal surcharge (increases by 20% on August 1, 2022 and 1% on June 1, 2023 and June 1, 2024); and GST.

⁴¹ Based on information from 1st Round Information Request 19 (c). SaskEnergy assumes a decreasing average consumption per customer class for each test year. Residential customer class assumes 2,542 m³ consumption annually in the current period [April 2022 to July 2022] and the 2022/23 test year, 2,520 m³ consumption annually in 2023/24, and 2,497 m³ consumption annually in 2024/25. Taxes include federal carbon charges, GST, and municipal surcharges. The carbon tax is set to increase annually on April 1. Carbon taxes are calculated using the information provided from 1st Round Information Request 19 (c) and (f), and GST was calculated at 5% of existing bill including the carbon tax increase implemented annually on April 1, 2023; 2024; and 2025.

Commercial Small Customer Class Monthly Bill Changes from August 1, 2022 to May 31, 2025, Before and After Taxes and Surcharges*⁴²



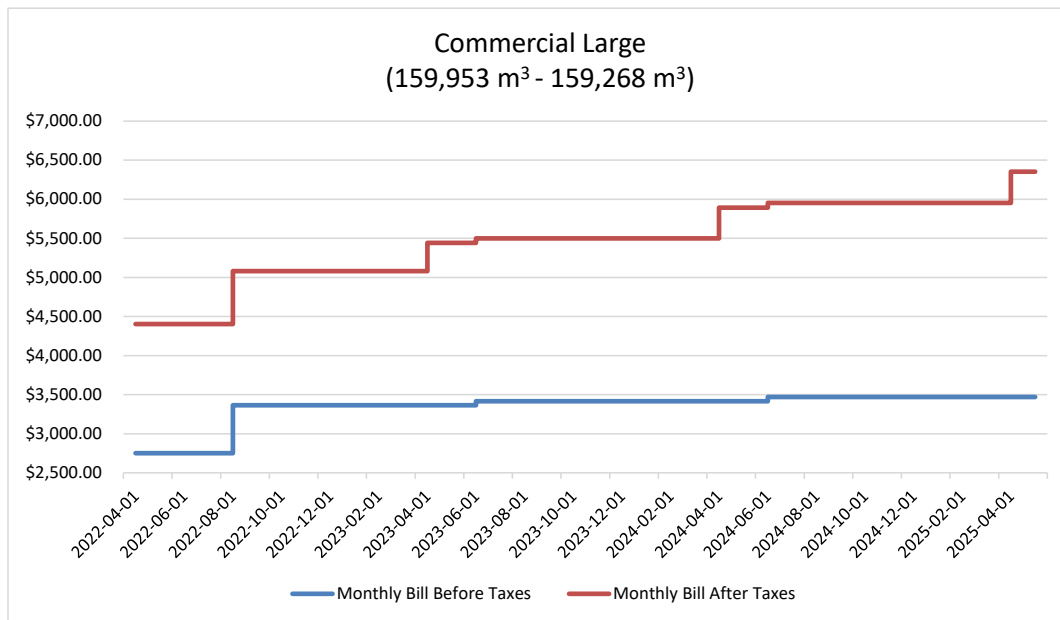
* Note carbon tax increases which account for jumps on April 1, 2023, April 1, 2024, and April 1, 2025

For Commercial Large customers:

- The monthly bill before taxes includes the delivery charge, the basic monthly charge (BMC), and the commodity charge.
 - The commodity charge increases by 31% on August 1, 2022; commodity bill impacts decreases by less than 1% in thereafter due to assumed decreasing consumption.
 - The delivery charge increases by 7% on August 1, 2022, 4% on June 1, 2023, and 5% June 1, 2024; and the BMC increases by 16% on August 1, 2022, 9% on June 1, 2023 and 6% on June 1, 2024.
- The monthly bill after taxes is largely driven by carbon tax increases (increases by 26% on April 1, 2023 and 23% on April 1, 2024 and 19% on April 1, 2025); other bill impacts relate to the municipal surcharge (increases by 22% on August 1, 2022 and 2% on June 1, 2023 and June 1, 2024); and GST.

⁴² Based on information from 1st Round Information Request 19 (c). SaskEnergy assumes a decreasing average consumption per customer class for each test year. Commercial Small customer class assumes 12,772 m³ consumption annually in the current period [April 2022 to July 2022] and the 2022/23 test year, 12,670 m³ consumption annually in 2023/24, and 12,570 m³ consumption annually in 2024/25. Taxes include federal carbon charges, GST, and municipal surcharges. The carbon tax is set to increase annually on April 1. Carbon taxes are calculated using the information provided from 1st Round Information Request 19 (c) and (f), and GST was calculated at 5% of existing bill including the carbon tax increase implemented annually on April 1, 2023; 2024; and 2025.

Commercial Large Customer Class Monthly Bill Changes from August 1, 2022 to May 31, 2025, Before and After Taxes and Surcharges*^{43,44}



* Note carbon tax increases which account for jumps on April 1, 2023, April 1, 2024, and April 1, 2025

Impact on the Crown Corporation – SaskEnergy

The proposed rates are designed to assist SaskEnergy to continue to provide safe and reliable natural gas to the people of Saskatchewan. The Panel notes that high inflation rates are expected to put upward cost pressure on the corporation’s O&M expenses as well as its capital spending program. Rising interest rates will also increase SaskEnergy’s finance charges. Continued delivery rate increases are expected to be required to support SaskEnergy’s ongoing integrity and growth requirements.

The proposed commodity rate increase will have no impact on SaskEnergy’s profits since the cost of gas passes through to the customer at cost with no mark up or discount. The rate increase is proposed to clear the \$28.3 million that customers owe to SaskEnergy at July 2022 by May 2023.

⁴³ Based on information from 1st Round Information Request 19 (c). SaskEnergy assumes a decreasing average consumption per customer class for each test year. Commercial Large customer class assumes 159,953 m³ consumption annually in the current period [April 2022 to July 2022] and the 2022/23 test year, 159,610 m³ consumption annually in 2023/24, and 159,268 m³ consumption annually in 2024/25. Taxes include federal carbon charges, GST, and municipal surcharges. The carbon tax is set to increase annually on April 1. Carbon taxes are calculated using the information provided from 1st Round Information Request 19 (c) and (f), and GST was calculated at 5% of existing bill including the carbon tax increase implemented annually on April 1, 2023; 2024; and 2025.

⁴⁴ The information provided in 1st Round Information 19 (c) on current rates for the Commercial Large customer class were not correct (confirmed by SaskEnergy in comments on draft report dated October 31, 2022). The correct rates for the delivery, commodity, and carbon charge were obtained from 1st Round Information Request 19 (a) and (f), and the municipal surcharge was calculated at 5% the sum of the delivery, commodity, and basic monthly charge, and GST was calculated at 5% of the sum of all the other charges.

Although this application will not generate the target ROE of 8.3%, the Panel noted that the ROE has been exceeded several times during the last 10 years. The actual ROE has averaged 14.2% over the last five years and 10.7% over the last 10 years.

The Panel also notes that the current application forecasted an ROE of 2.3% which has now been revised upward to 5.8%, materially higher than the original forecast. The Panel believes that over the long term this should be brought into greater alignment, so the target is consistently reached, but not overachieved. A lower ROE for the short term is an acceptable approach given past results, and especially during a period of affordability issues and the need for Saskatchewan businesses to remain competitive.

Impact on the Public

Since SaskEnergy is a Crown-owned utility, all citizens of Saskatchewan have a vested interest in the corporation's operations. A utility that provides safe and reliable natural gas service throughout the province is essential to the economic development and well-being of the province. Rates must be set that balance the needs of public ownership and are fair to the customers.

Similar to most jurisdictions, Saskatchewan is recovering from the impacts of the pandemic and both residential and commercial customers are struggling to recover. Submissions received by the Panel identified significant concerns with increasing rates during a time of considerable economic upheaval driven by factors such as the war in Ukraine, rising energy prices, and high inflation, which may lead to a global recession.

Continued delivery rate increases are expected to be required to support SaskEnergy's ongoing integrity and growth requirements and this will continue to put pressure on ratepayers. There are several factors that materially impact SaskEnergy's revenue requirement that are either outside the scope of the Panel's review or are flow-through items. Many of these items have a material impact on the current test year requirement or have the potential to be material rate drivers going forward. This means that there are limited measures available to reduce or mitigate adverse impacts on ratepayers.

The Panel expects SaskEnergy to manage and control its upward cost pressures and to continue to focus on productivity and efficiency measures to reduce O&M costs and other expenditures to alleviate financial pressure on ratepayers.

Panel's Recommendations to the Minister

The Saskatchewan Rate Review Panel, following its review and analysis that included meetings with SaskEnergy management, specific information requests, several meetings with its technical consultant, the consultant's independent report, and taking into account public input regarding the application, makes the following recommendations to the Minister:

- 1. That the commodity rate increase of 31% effective August 1, 2022, and the 8% increase in delivery rates effective August 1, 2022 be maintained.**
- 2. That proposed delivery rate increases for 2023-24 and 2024-25 cannot be considered until updated financial forecasts are provided by SaskEnergy.**
- 3. That with the updated forecast it is expected that the GCVA will be discharged by April 2023 and an application be brought forward at that time to reduce the commodity rate.**
- 4. That the effective date for the proposed delivery rate increase 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.**

During its deliberations for this review, the Panel noted that the proposed rate increases to customers raises material concerns regarding both customer affordability and competitiveness during a period of economic volatility. There is a need for the corporation to focus on affordability initiatives and to optimize internal efficiencies. The Panel makes the following recommendations to SaskEnergy:

- 1. 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.**
- 2. 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.**
- 3. 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 emission 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.**
- 4. That SaskEnergy provide further consolidated updates to the Panel on its safety, reliability and environment plan as it is being developed.**

5. 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 serviced with just and reasonable rates.
6. That SaskEnergy review the basis for the \$20 million threshold for triggering an application for amounts owing to or from customers.
7. 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.

In Appreciation

The Panel thanks SaskEnergy for the timely and helpful assistance it provided throughout this application.

The Panel thanks InterGroup Consultants Ltd. for its thorough analysis of the application.

The Panel thanks Gerry Forrest, our general consultant, for his ongoing assistance in the work of the Panel.

The Panel thanks technical writer Pat Rediger for his assistance in preparing this report.

Finally, the Panel wishes to acknowledge the members of the public who participated in the review process. All contributions were received and evaluated by the Panel during its decision-making process.

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 2022 Rate Application, SaskEnergy's public presentation on the application, the Panel's terms of reference, information requests to SaskEnergy and the responses, videos of the public meeting, public submissions and comments, the technical consultant's report, and the Panel's media releases.

APPENDIX A:
Technical Consultant's Report