

2022 SaskEnergy Delivery and Commodity Rate Application

Delivery Mid-Application Financial Update

September 29, 2022



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1. OVERVIEW

In July 2022, SaskEnergy Incorporated (SaskEnergy) filed a three-year Delivery Service and One-Year Commodity Rate Application. This Mid-Application Financial Update compares the initial Delivery Service rate application submission to the most recent financial forecast as of September 29, 2022. The Commodity Rate Market Update is under a separate document.

Heat Value

SaskEnergy reviewed its forecast heat value and determined that a lower heat value is required for the application period April 1, 2022 – March 31, 2025. The initial Rate Application forecasted a heat value of 39.9 MJ/m³ while the Mid-Application Update assumes a heat value of 39.5 MJ/m³.

Revenue Requirement

The initial Rate Application forecasted a revenue requirement of \$291.3 million in 2022-23 and a return on equity (ROE) of 2.3%. The Mid-Application Update forecasts a revenue requirement of \$335.0 million and an ROE of 5.8% for 2022-23.

Load Forecast

SaskEnergy's updated load forecast indicates approximately \$2.0 million in higher revenues. The higher revenues result from an increase in heat value.

Weather

SaskEnergy's weather to date is 2% colder than normal which resulted in higher revenues earned during the period from April – August 2022 than forecast.

Conclusion

The net impact of these changes is an increased ROE of 5.8% compared to the 2.3% forecast in the Rate Application.

2. DELIVERY SERVICE RATE

There are no changes to the recommended delivery service rates as filed in the 2022 Delivery Service and Commodity Rate Application for fiscal 2022-23. However SaskEnergy will be providing the Panel with another financial update for fiscal 2023-24 on February 1, 2022.

3. FINANCIAL REQUIREMENT UPDATE

The following schedules provide a comparison between the initial Rate Application and the Mid-Application Update forecast for fiscal 2022-23. There are no recommended changes at this time to the fiscal 2023-24 and 2024-25 schedules provided in the initial Rate Application. Updates to those years will be completed as part of the pre-determined process to provide them in February of each year.

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SCHEDULE 1.0

DELIVERY REQUIREMENT SUMMARY

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

Component	Delivery Rate Application 2022-23 Forecast	Mid-Application Update 2022-23 Forecast	2022-23 Variance
Operating & Maintenance	154,962	152,901	(2,061)
Transportation & Storage	63,753	63,753	-
Depreciation Expense	55,207	52,107	(3,100)
Tax Expense	8,278	9,267	989
Interest Expense	29,963	32,128	2,165
Net Earnings	9,663	24,812	15,149
Total Delivery Revenue Requirement	321,826	334,968	13,143
Other Revenue and Adjustments			
Other Revenue	(30,517)	(37,739)	(7222)
Net Delivery Revenue Requirement	291,309	297,229	5,921

April 1, 2022 - March 31, 2023

The updated forecast ROE for 2022-23 is 5.8% compared to 2.3% as filed in the rate application. The largest change is shown in Other Revenue. The driver behind the increase in Other Revenue is more market opportunities in Asset Optimization.

SCHEDULE 1.1

DELIVERY TRANSPORTATION AND STORAGE EXPENSE

SaskEnergy Incorporated
Delivery Transportation and Storage Expense
(\$000's)

	Delivery Rate Application 2022-23 Forecast	Mid-Application Update 2022-23 Forecast	2022-23 Variance
Transportation and Storage			
Transportation			
Transportation Costs	40,638	40,638	-
Storage Cost	23,115	23,115	-
Total Transportation & Storage Expense	63,753	63,753	-
Volume			
Transportation			
Contracted Demand (in GJ's/day)	608,000	608,000	-
Storage			
Contracted Firm Deliverability (in GJ's/day)	393,217	393,217	-
Contracted Storage Volume (in PJ's)	23.4	23.4	-

April 1, 2022 - March 31, 2023

There are no changes to the original forecast provided in the 2022 Delivery Application.

SCHEDULE 1.2

OPERATING AND MAINTENANCE

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

	Delivery Rate Application 2022-23 Forecast	Mid-Application Update 2022-23 Forecast	2022-23 Variance
Operations			
Costs Incurred	157,476	154,165	(3,311)
Capitalized & Recovered	(5,800)	(4,397)	1,403
Subtotal Operations	151,676	149,768	(1,908)
Engineering and Construction			
Costs Incurred	36,640	38,108	1,468
Capitalized & Recovered	(33,354)	(34,975)	(1,621)
Subtotal Engineering & Construction	3,286	3,133	(153)
Total Operating & Maintenance	154,962	152,901	(2,061)

April 1, 2022 - March 31, 2023

SaskEnergy is experiencing higher than anticipated employee turnover therefore has lower than anticipated labour costs mainly driven by bid lag.

SaskEnergy is focused on energy efficiency and sustainability. SaskEnergy continues to raise awareness and assist customers in reducing both their end-use emissions and energy costs. Investment year to year in this initiative continues to increase as identified in the corporate plan however the amount of customers participating in these residential and commercial programs is lower than expected in 2022-23.

SaskEnergy's vehicle fuel costs are forecast to increase significantly driven by higher than anticipated fuel prices.

SCHEDULE 1.3 DEPRECIATION EXPENSE

SaskEnergy Incorporated Depreciation Expense (\$000's)

	Delivery Rate Application 2022-23 Forecast	Mid-Application Update 2022-23 Forecast	2022-23 Variance
Distribution Plant			
Land Costs	-	-	-
Land Rights	177	177	-
Building and Site Improvements	4,152	3,828	(324)
Services	13,842	13,482	(360)
Meter and Regulator Installations	2,746	2,754	8
Mains	12,014	11,812	(202)
NGV Fueling Stations & Fuel Makers	26	26	-
Measuring and Regulating Equipment	1,143	1,087	(56)
Meters	5,863	5,588	(275)
Other Distribution Equipment	1,189	1,106	(83)
Distribution before Customer Contributions	41,152	39,859	(1,293)
Amortization of Customer Contributions	(7,941)	(8,328)	(387)
Sub-total	33,211	31,531	(1,680)
General Plant			
Land	-	-	-
Buildings and Improvements	2,018	2,403	385
Office Furniture and Equipment	433	433	-
Transportation Vehicles	1,557	1,558	1
Heavy Work Equipment	1,224	1,224	-
Tools and Equipment	956	995	39
Information System Assets	11,016	11,016	-
Leased Computers	847	988	141
Leased Buildings	2,871	507	(2,364)
Leased Vehicles	1,076	1,453	377
Sub-total	21,996	20,576	(1,420)
Total Depreciation	55,207	52,107	(3,100)

April 1, 2022 - March 31, 2023

SaskEnergy owns SaskEnergy Place which was not anticipated in the 2022 Delivery Rate Application. The depreciation rate for Buildings and Improvements is much lower than the depreciation rate for Right of Use Assets – Buildings as the depreciation rate for right of use assets depends on the term of the lease.

SaskEnergy's decommissioning asset declined significantly in Mar 2022 due to an unanticipated increase in discount rates. As stated in SaskEnergy's 2021-22 annual report, the estimated impact of a 1% increase in interest rates, assuming no change in the amount of provisions, would have decreased the value of the provision by approximately \$45 million. This decline was not anticipated in the 2022 Delivery Rate Application. The decommissioning depreciation impacts building and site improvements, services, mains, measuring and regulating equipment and other distribution equipment.

SCHEDULE 1.4
TAX EXPENSE

SaskEnergy Incorporated
Tax Expense
(\$000's)

	Delivery Rate Application 2022-23 Forecast	Mid-Application Update 2022-23 Forecast	2022-23 Variance
Corporate Capital Tax	7,580	7,884	304
Grants in Lieu of Taxes	698	1,383	685
Total Taxes	<u>8,278</u>	<u>9,267</u>	<u>989</u>

April 1, 2022 - March 31, 2023

SaskEnergy owns SaskEnergy Place which was not anticipated in the 2022 Delivery Rate Application. SaskEnergy must pay property taxes for SaskEnergy Place beginning in 2022-23.

SCHEDULE 1.5

INTEREST EXPENSE

SaskEnergy Incorporated

Interest Expense

(\$000's)

	Delivery Rate Application 2022-23 Forecast	Mid-Application Update 2022-23 Forecast	2022-23 Variance
Interest on Notes Payable to Holdings Division	26,268	27,504	1,237
Interest on Bank Indebtedness	824	2,474	1,650
Interest on Finance Lease	404	281	(124)
Accretion Expense	4,600	4,533	(67)
Amortization of Deferred Charges	(13)	43	56
Debt Retirement Fund Earnings	(1,648)	(894)	754
Capitalized Interest	(303)	(190)	113
Interest Allocated to Commodity Cost of Gas	(168)	(1,622)	(1,454)
Total Interest Expense	<u>29,963</u>	<u>32,128</u>	<u>2,165</u>

April 1, 2022 - March 31, 2023

SaskEnergy borrowed \$50 million in long term debt in May 2022 at a coupon rate of 2.80%. This long-term borrowing was not anticipated in the 2022 Delivery Rate Application.

SaskEnergy assumed short-term borrowing rates that fluctuated between 0.26% in April 2022 to 0.78% in March 2023 in the 2022 Delivery Rate Application. The updated short-term borrowing rate assumptions fluctuate between 0.87% in April 2022 and 3% in March 2023.

SaskEnergy incurred a sinking fund loss of \$0.4 million in comparison to planned sinking fund earnings of \$0.3 million (\$0.7 million unfavourable variance). As part of regular ongoing trading activity within the sinking fund, losses were realized in the first quarter of 2022-23 on the sale of bonds due to increases in bond yields/rates. As the interest rates continue to increase, the value of the sinking fund investments decrease (reflected immediately in the decrease in fair value of the units). When the bonds are sold, these losses are recognized and reflected for accounting purposes.

SCHEDULE 1.6

NET INCOME

SaskEnergy Incorporated

Net Income

(\$000's)

	Delivery Rate Application 2022-23 Forecast	Mid-Application Update 2022-23 Forecast	2022-23 Variance
Net Income before Market Adjustments on Asset Optimization	9,663	24,812	15,149
Total Net Income	<u>9,663</u>	<u>24,812</u>	<u>15,149</u>

April 1, 2022 - March 31, 2023

Weather to date as of August 31, 2022 is 2% colder than normal therefore if weather is normal for the remainder of the year, delivery revenue will be higher by approximately \$4 million.

The heat value is assumed to decline from 39.9 to 39.5 which for the remaining forecast months of September 2022 to March 2023 would generate approximately \$2 million more delivery revenue assuming weather is normal.

The asset optimization forecast is anticipated to be approximately \$5 million higher as unforeseen market volatility has allowed for significant margins realized as of August 31, 2022.

SCHEDULE 1.7 OTHER REVENUE

SaskEnergy Incorporated Other Revenue (\$000's)

	Delivery Rate Application 2022-23 Forecast	Mid-Application Update 2022-23 Forecast	2022-23 Variance
Connect Fees	(1,820)	(2,638)	(818)
Margin on Asset Optimization	(1,881)	(6,759)	(4,878)
Late Payment Charges	(1,500)	(3,024)	(1,524)
Customer Financing	(42)	(40)	2
Miscellaneous Revenue	(643)	(686)	(43)
Distribution Tolls	(24,631)	(24,592)	39
Total Other Revenue	<u>(30,517)</u>	<u>(37,739)</u>	<u>(7,222)</u>

April 1, 2022 - March 31, 2023

SaskEnergy underestimated the connect fee and late payment charge revenue assuming the re-connect fees to customers who were disconnected for non-pay and late payment charges waived during 2020-21 would continue into 2022-23.

The asset optimization forecast is anticipated to be approximately \$5 million higher as unforeseen market volatility has allowed for significant margins realized as of August 31, 2022. An NGTL expansion that was anticipated to be on sometime in 2022 has now been delayed to Q1 of 2023. This, along with planned and unplanned maintenance in Alberta caused Alberta to become oversupplied with gas with limited ability for that gas to move to global markets causing the price to decrease in Alberta and creating marketing opportunities downstream. Once the NGTL pipeline expansion comes online, SaskEnergy anticipates prices to move back to normal in Alberta.

4. DELIVERY LOAD FORECAST UPDATE

The following schedules provide a comparison between the initial Rate Application and the Mid-Application Update forecast for fiscal 2022-23.

The following schedules provide a comparison between the initial Rate Application and the Mid-Application Update forecast for fiscal 2022-23. Updates to 2023-24 and 2024-25 years will be completed as part of the pre-determined process to provide them in February of each year.

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SCHEDULE 1.9

FORECAST DELIVERY REVENUES

SaskEnergy Incorporated			
Forecast Delivery Revenues			
(\$ millions)			
	Delivery Rate Application 2022-23 Forecast	Mid-Application Update 2022-23 Forecast	2022-23 Variance
Delivery Revenue at Current Rates			
Residential	192.5	193.5	1.0
Commercial Small	62.2	62.6	0.4
Commercial Large	19.1	19.2	0.1
Small Industrial	0.7	0.7	0.0
Total Delivery	274.5	276.0	1.5
Delivery Revenue at Recommended Rates			
Residential	204.2	205.8	1.6
Commercial Small	66.1	66.4	0.3
Commercial Large	20.3	20.4	0.1
Small Industrial	0.7	0.8	0.1
Total Delivery	291.3	293.3	2.0
April 1, 2022 - March 31, 2023			

The Delivery Revenues above show an approximate \$2.0 million increase in revenues between the initial Rate Application submitted in July 2022 and the Mid-Application Update. The increase results from an update to the heat value forecast from 39.90 (Rate Application) to 39.50.

SCHEDULE 5.0

LOAD FORECAST (BASE CASE)

SaskEnergy Incorporated Load Forecast - Base Case

	Delivery Rate Application 2022-23 Forecast	Mid-Application Update 2022-23 Forecast	2022-23 Variance
Average Forecast Number of Customers			
Residential	362,747	362,747	-
Commercial Small	41,503	41,503	-
Commercial Large	1,515	1,515	-
Small Industrial	26	26	-
Total Delivery	405,791	405,791	-
Forecast Delivery Volumes in Thousands of Cubic Metres (M³)			
Residential	922,009	931,346	9,337
Commercial Small	530,091	535,459	5,368
Commercial Large	242,343	244,797	2,454
Small Industrial	15,352	15,508	156
Total Delivery	1,709,795	1,727,109	17,314
Forecast Delivery Volumes in Thousands of Gigajoules (GJ)			
Residential	36,788	36,788	-
Commercial Small	21,151	21,151	-
Commercial Large	9,669	9,669	-
Small Industrial	613	613	-
Total Delivery	68,221	68,221	-

April 1, 2022 - March 31, 2023

The Forecast Delivery Volumes in Thousands of Cubic Metres (m³) are higher than in the Rate Application submitted in July 2022. The higher volumes result from an update to the heat value forecast from 39.90 (Rate Application) to 39.50.

SCHEDULE 5.1

LOAD FORECAST (COLD WEATHER SCENARIO)

SaskEnergy Incorporated Load Forecast - Cold Weather Scenario

	Delivery Rate Application 2022-23 Forecast	Mid-Application Update 2022-23 Forecast	2022-23 Variance
Average Forecast Number of Customers			
Residential	362,747	362,747	-
Commercial Small	41,503	41,503	-
Commercial Large	1,515	1,515	-
Small Industrial	26	26	-
Total Delivery	405,791	405,791	-
Forecast Delivery Volumes in Thousands of Cubic Metres (M³)			
Residential	1,106,411	1,117,615	11,204
Commercial Small	636,109	642,550	6,441
Commercial Large	290,811	293,756	2,945
Small Industrial	15,352	15,508	156
Total Delivery	2,048,684	2,069,430	20,746
Forecast Delivery Volumes in Thousands of Gigajoules (GJ)			
Residential	44,146	44,146	-
Commercial Small	25,381	25,381	-
Commercial Large	11,603	11,603	-
Small Industrial	613	613	-
Total Delivery	81,742	81,742	-

April 1, 2022 - March 31, 2023

The Forecast Delivery Volumes in Thousands of Cubic Metres (m³) are higher than in the Rate Application submitted in July 2022. The higher volumes result from an update to the heat value forecast from 39.90 (Rate Application) to 39.50.

SCHEDULE 5.2

LOAD FORECAST (WARM WEATHER SCENARIO)

SaskEnergy Incorporated Load Forecast - Warm Weather Scenario

	Delivery Rate Application 2022-23 Forecast	Mid-Application Update 2022-23 Forecast	2022-23 Variance
Average Forecast Number of Customers			
Residential	362,747	362,747	-
Commercial Small	41,503	41,503	-
Commercial Large	1,515	1,515	-
Small Industrial	26	26	-
Total Delivery	<u>405,791</u>	<u>405,791</u>	<u>-</u>
Forecast Delivery Volumes in Thousands of Cubic Metres (M³)			
Residential	737,607	745,077	7,470
Commercial Small	424,073	428,367	4,294
Commercial Large	193,874	195,838	1,964
Small Industrial	15,352	15,508	156
Total Delivery	<u>1,370,906</u>	<u>1,384,789</u>	<u>13,883</u>
Forecast Delivery Volumes in Thousands of Gigajoules (GJ)			
Residential	29,431	29,431	-
Commercial Small	16,920	16,920	-
Commercial Large	7,736	7,736	-
Small Industrial	613	613	-
Total Delivery	<u>54,699</u>	<u>54,699</u>	<u>-</u>

April 1, 2022 - March 31, 2023

The Forecast Delivery Volumes in Thousands of Cubic Metres (m³) are higher than in the Rate Application submitted in July 2022. The higher volumes result from an update to the heat value forecast from 39.90 (Rate Application) to 39.50.

SCHEDULE 5.3

REVENUE CHANGES TO SENSITIVITY IN WEATHER

SaskEnergy Incorporated
Revenue Sensitivity to Change in Weather
(\$ millions)

	Delivery Rate Application 2022-23 Forecast	Mid-Application Update 2022-23 Forecast	2022-23 Variance
Delivery Revenue - Base Case			
Residential	204.2	205.8	1.6
Commercial Small	66.1	66.4	0.3
Commercial Large	20.3	20.4	0.1
Small Industrial	0.7	0.8	0.1
Total Delivery	291.3	293.3	2.0
Delivery Revenue - Cold Weather Scenario			
Residential	224.8	226.3	1.5
Commercial Small	75.1	75.7	0.6
Commercial Large	23.8	24.0	0.2
Small Industrial	0.7	0.8	0.1
Total Delivery	324.4	326.8	2.4
Delivery Revenue - Warm Weather Scenario			
Residential	184.8	185.8	1.0
Commercial Small	56.8	57.2	0.4
Commercial Large	16.8	16.9	0.1
Small Industrial	0.7	0.8	0.1
Total Delivery	259.1	260.7	1.6

April 1, 2022 - March 31, 2023

The Delivery Revenues above show an approximate \$2.0 million increase in revenues between the initial Rate Application submitted in July 2022 and the Mid-Application Update. The increase results from an update to the heat value forecast from 39.90 (Rate Application) to 39.50.

5. MID-APPLICATION UPDATE SUMMARY

The updated forecast results for SaskEnergy now forecast a ROE of 5.8% compared to 2.3% noted in the Application. This is still below SaskEnergy's ROE long-term target of 8.3%.

A financial update for fiscal 2023-24 will be provided to the Panel by February 1, 2023.