



Saskatchewan Rate Review Panel

Report to the Minister Responsible for Crown Investments Corporation of Saskatchewan

Regarding the SaskEnergy Commodity Rate Application
Effective date November 1, 2021

Report submitted October 13, 2021



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Executive Summary

After four previous applications that reduced the commodity rate, SaskEnergy applied to the Saskatchewan Rate Review Panel (the Panel) on September 10, 2021 to increase its commodity rate by 25.8% to 12.55 cents per cubic meter (\$3.15/Gigajoules) effective November 1, 2021. This rate application is designed to recover the higher forward cost of gas over the two year forward period November 1, 2021 to October 31, 2023; and to clear any balance projected in the Gas Cost Variance Account (GCVA) at the end of October 2021 over the same two year period. SaskEnergy forecast that \$18.8 million would be owing from customers in the GCVA, which would be collected over a two year period, rather than a traditional one year period, to ease financial pressure on its customers. SaskEnergy filed a market update on September 24, 2021, to reflect current market conditions, which revised the commodity rate to 12.78 cents/m³ (\$3.20/GJ) effective November 1, 2021.

The GCVA tracks the difference between the commodity sales revenue collected from the customer and the actual cost that SaskEnergy pays for the gas. The balance in the GCVA since the last rate adjustment effective on April 1, 2019, remained at \$18 to \$19 million owing to customers without any significant changes for several months. The cost of purchase gas began increasing on November 2019 which started to make significant changes in the balance. From November 2019 to October 31, 2021, the GCVA is forecast to change from \$18.8 million owing to customers to \$18.8 million owing from customers. This marks a \$37.6 million change in the cost over that 24-month period.

As part of the review process, the Panel contracted an independent technical consultant to review the application and provide recommendations that would be consistent with the Panel's terms of reference. The Panel encouraged public input into the review and held a public meeting to facilitate discussion. The review process consisted of one round of information requests and supplementary questions between SaskEnergy and the consultant, and individual discussions with SaskEnergy staff to clarify specific questions. After this review, the Panel confirms with its technical consultant the following:

- That the load forecast is reasonable considering continued reduction in use per customer for the residential class, which represents about 66% of total sales. SaskEnergy is forecasting a 1.2% reduction in sales compared to 2020-21 actuals and a further 0.5% reduction in sales in 2022-23 compared to the 2021-22 forecast, with the majority of these reductions in the residential class.
- That SaskEnergy's gas supply approach is prudent with regards to ensuring reliability of supply and maintaining flexibility to adapt to different weather conditions as well as being able to supply additional customer loads in case customers that buy gas from retailers return to SaskEnergy.
- That SaskEnergy's peak day design criterion represents a reasonable balance between costs and reliability.
- That SaskEnergy's cost of purchased gas appears to be properly calculated and consistent with previous practice.
- That the proposed commodity rates reflect the forecast cost of gas sold over the two year period (purchased gas and operating and maintenance expenses), plus the repayment of the accumulated GCVA over that time.
- That SaskEnergy's natural gas price management strategy is being executed as approved.

As part of this review, the Panel considered the +/- \$20 million threshold in the GCVA, which typically triggers a rate application. This threshold was recommended by the Panel almost 20 years ago when commodity rates were much higher. From November 2018 to October 2021, the balance in the GCVA remained under the +/- \$20 million threshold. However, the balance changed by more than \$37 million, from \$18 million owed to customers to about

\$19 million owed from customers. This \$19 million due from customers represents a significant portion of the increase passed on to the ratepayers in this application.

This raises the issue of fairness since the customers who receive the amount owing from SaskEnergy may not be the same customers who contributed to the balance accumulating. Large balances owing from the customers in the GCVA may also impact SaskEnergy's financial health, borrowing limits, and competitiveness, which provides further impetus to review this threshold.

Another fairness issue that surfaced is the impact of heat value. This issue has been raised by the Panel in previous applications and although SaskEnergy is undertaking a heat value business case to assess options on how to resolve heat value variation, it remains a concern. There are some customers who benefit from higher heat values in their gas appliances, since they use less gas to generate the same heat value energy. Although these differences are captured in the GCVA, which are collected or refunded to customers, the overall magnitude of the recovery and period between commodity rate applications result in intergenerational inequity.

While reviewing the competitiveness of the proposed rates, the Panel noted that most other utilities no longer hedge (price protect) and natural gas purchases are transacted at current market prices. Most utilities also use a 12-month test period which includes the forward market prices for the next 12 months. The GCVA for these utilities is refunded or collected over a 12-month period. SaskEnergy's current price risk management strategy is designed to provide a higher degree of stability in customer rates over the next two year application period. SaskEnergy has indicated that 95% of its gas purchases for the first year are price protected and 80% for the second year.

A new aspect of this application was the emergence of renewable natural gas (RNG), which is upgraded biogas produced from organic wastes and processed into conventional natural gas. SaskEnergy is in the preliminary stages of developing a program and requested that the Panel provide input into its strategy. At this point in time, the Panel requires more information before it is able to comment on the appropriateness of this initiative.

Following this review and analysis, the Panel makes the following recommendations to the Minister:

- 1. That the proposed commodity rate increase of 28.1% to 12.78 cents per cubic meter (\$3.20 per Gigajoule) effective November 1, 2021, be approved to eliminate the outstanding balance in the GCVA by October 31, 2023, and recover forecast commodity purchases over the same period.**
- 2. That SaskEnergy review the basis for the \$20 million threshold for triggering an application for amounts owing to or from customers.**
- 3. 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.**
- 4. That SaskEnergy provide a report in its next application on its renewable natural gas efforts in order that the Panel may consider the potential benefits, costs or other issues that such a program may present.**

The customer bill impact due to these recommendations will depend on the customer class and usage levels. The tables on the following page summarize the average bill impact for each rate class.

Bill Impact for Typical Use Customer¹

	Total Annual Bill			Bill Impact	
	Avg Use m ³ /year	Current \$/year	Proposed \$/year	\$/year	%/year
Residential	2,639	\$804	\$878	\$74	9%
Commercial Small	12,903	\$2,796	\$3,157	\$361	13%
Commercial Large	168,329	\$29,962	\$34,675	\$4,713	16%

Bill Impact by Customer Consumption (Based on 2020-21 customer numbers and usage)²

	Customers by Consumption		Total Annual Bill			Bill Impact	
	% Customers	Use m ³ /year	Avg Use m ³ /year	Current \$/year	Proposed \$/year	\$/year	%/year
Residential							
Low	70%	(0 - 3,000)	2,069	\$690	\$748	\$58	8%
Medium	28%	(3,001 - 7,000)	3,918	\$1,058	\$1,168	\$110	10%
High	2%	(Over 7,000)	9,819	\$2,233	\$2,508	\$275	12%
Commercial Small							
Low	62%	(0 - 10,000)	4,412	\$1,260	\$1,384	\$124	10%
Medium	34%	(10,000 - 50,000)	28,935	\$5,696	\$6,507	\$810	14%
High	5%	(Over 50,000)	83,713	\$15,606	\$17,950	\$2,344	15%
Commercial Large							
Low	71%	(0 - 200,000)	106,874	\$19,625	\$22,617	\$2,992	15%
Medium	25%	(200,001 - 400,000)	320,380	\$55,537	\$64,507	\$8,971	16%
High	4%	(Over 400,000)	518,801	\$88,911	\$103,438	\$14,526	16%

Numbers may not add up precisely due to rounding.

¹ Chart provided by SaskEnergy

² Ibid

SaskEnergy’s Rationale for the Application

SaskEnergy applied to the Saskatchewan Rate Review Panel (the Panel) on September 10, 2021, to increase its commodity rate effective November 1, 2021. This would be the first commodity rate increase in seven years and SaskEnergy indicated that its rates would still be the second lowest in the country.³

The last commodity rate adjustment was April 1, 2019, when the commodity rate was decreased to reflect the lower price of natural gas. Natural gas prices have been rising over the past year and have essentially doubled since SaskEnergy last adjusted its rates. This is due to several factors including extreme weather events, higher liquified natural gas exports and higher demand. SaskEnergy proposed to increase the commodity rate by 25.8% to 12.55 cents per cubic meter (\$3.15 Gigajoules). If approved, the average bill impacts for customers are as follows:⁴

Rate Class	Commodity Rate Increase (\$2.575/GJ top \$3.15/GJ)		Total Bill Impact % Increase
	\$/Month	% Increase	
Residential	\$5.65	25.8%	8.4%
Commercial Small	\$27.63	25.8%	11.9%
Commercial Large	\$361.00	25.8%	14.4%
Small Industrial	\$1,492.00	25.8%	17.8%
Average		25.8%	10.0%

This rate application is designed to:

1. Recover the higher forward cost of gas over the two year forward period November 1, 2021 to October 31, 2023; and
2. Clear any balance projected in the Gas Cost Variance Account (GCVA) at the end of October 2021 over the same two year period.⁵

SaskEnergy buys natural gas on the open market and passes on the cost of natural gas to customers at the same price it pays to suppliers, including all expenses. The cost of providing natural gas to consumers this coming year is forecasted to be higher than the current rate of 9.98 cents per cubic metre (\$2.575/gigajoule [GJ]).⁶

In this application, SaskEnergy is requesting that \$18.8 million owing from customers in the GCVA be collected over a 24-month period rather than the normal 12 month period. This additional period will allow the corporation to maintain commodity price stability over a two year period rather than dramatically raising the commodity rate over a one year period.

SaskEnergy monitors its cost of gas throughout the year and targets its commodity rate adjustments for the fall to align with the November to October gas year. SaskEnergy had 95% of its natural gas purchases hedged for the November 1, 2021 to March 31, 2022 period and approximately 80% of purchases price protected over the application period from November 1, 2021 to October 31, 2023.⁷

³ SaskEnergy Media Release, Sept. 10, 2021

⁴ SaskEnergy 2021 Commodity Rate Application, P. 1

⁵ Ibid

⁶ Ibid

⁷ Page 14, 2021 Commodity Rate Application

A utility load forecast is an essential aspect of developing the financial revenue forecast and one of main cost drivers is the required volume of gas required over the test years and the transportation costs to move that gas from the market sources to and within Saskatchewan.

Residential sales are about two-thirds of the total gas supplied by SaskEnergy and significantly impacts gas sales. In this application, SaskEnergy noted that the residential use per customer has declined steadily over the past three decades and this decline is expected to continue with more efficient appliances and energy efficient homes becoming more prevalent.

The following tables demonstrates the residential use over the past three decades, weather normalized:

RESIDENTIAL USE PER CUSTOMER (WEATHER NORMALIZED)



Table 4-1: Gas Supplied by SaskEnergy (000 GJ)

	Residential	Commercial Small	Commercial Large	Small Industrial	Total per Tab 4	Annual Change
	A	B	C	D	E	F
2018/19	36,386	13,495	4,110	784	54,775	
2019/20	36,474	14,037	3,886	715	55,112	0.6%
2020/21	37,447	13,988	3,970	613	56,018	1.6%
2021/22	36,945	13,896	3,888	613	55,341	-1.2%
2022/23	36,672	13,913	3,880	613	55,077	-0.5%

SaskEnergy filed a market update on September 24, 2021, which indicated that the commodity rate is 12.78 cents/m3 (\$3.20/GJ) effective November 1, 2021, compared to \$12.55 cents/m3 (\$3.15GJ) which is listed in the application.

This update revises the bill impact on customers as follows:

Rate Class	Commodity Rate Increase (\$2.575/GJ top \$3.20/GJ)		Total Bill Impact % Increase
	\$/Month	% Increase	
Residential	\$6.16	28.1%	9.2%
Commercial Small	\$30.11	28.1%	12.9%
Commercial Large	\$393.00	28.1%	15.7%
Small Industrial	\$1,625.00	28.1%	19.4%
Average		28.18%	10.9%

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 proposed commodity rate increase of 28.1% to 12.78 cents per cubic meter (\$3.20 per Gigajoule) effective November 1, 2021, be approved to eliminate the outstanding balance in the GCVA by October 31, 2023, and recover forecast commodity purchases over the same period.**
- 2. That SaskEnergy review the basis for the \$20 million threshold for triggering an application for amounts owing to or from customers.**
- 3. 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.**
- 4. That SaskEnergy provide a report in its next application on its renewable natural gas efforts in order that the Panel may consider the potential benefits, costs or other issues that such a program may present.**

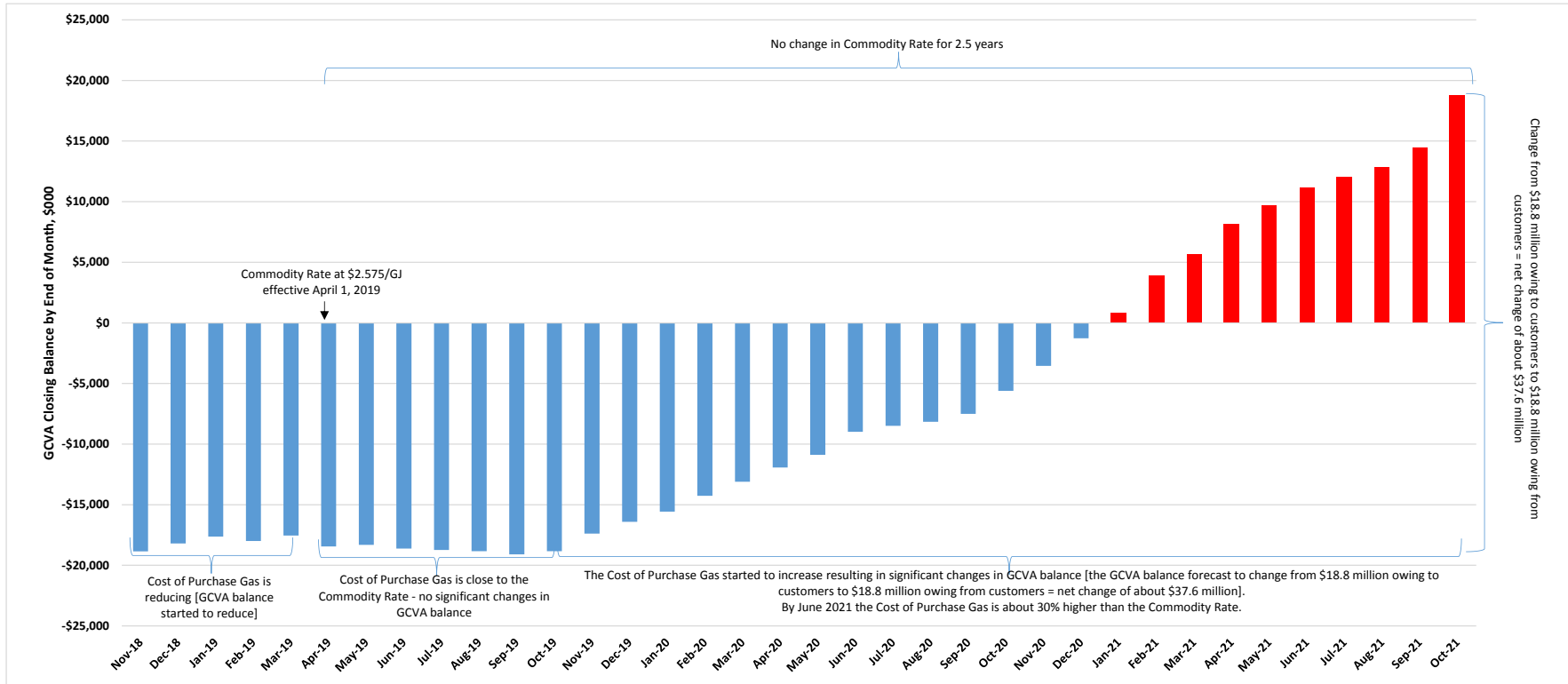
Gas Cost Variance Account (GCVA)

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 commodity rate adjustment was effective April 1, 2019. As the chart on the following page indicates, the balance in the GCVA remained at \$18.8 million owing to customers without any significant changes. The cost of purchase gas began increasing on November 2019 which started to make significant changes in the balance. From November 2019 to October 31, 2021, the GCVA is forecast to change from \$18.8 million owing to customers to \$18.8 million owing from customers. This marks a \$37.6 million change in the cost over that time period.⁸

⁸ Consultant's Report, P. 7-1

Closing Cumulative GCVA Balance: November 2018 to October 2021⁹



⁹ Prepared based on Schedule 2.0, 2021 Commodity Rate Application.

There have been three major changes in the GCVA since November 2018:

- **November 1, 2018 to March 31, 2019:** The actual cost of purchased gas, which ranged between \$2.90/GJ and \$3.10/GJ, was slightly higher than the commodity rate of \$2.95/GJ. During this period, the balance changed from \$18.851 million to \$17.547 million owing to customers. This is a net change of \$1.304 million as a cost to customers.
- **April 1, 2019 to October 31, 2019:** After the approved rate application by the Panel, the commodity rate changed to reflect expected lower market prices. The new commodity rate was \$2.575/GJ effective April 1, 2019. The actual cost of purchased gas, which ranged between \$2.30/GJ and \$2.60/GJ, was close to the commodity rate resulting in no significant change in the GCVA balance over this period. The balance changed from \$18.441 million to \$18.839 million owing to customers. This is a net change of \$0.398 million benefiting customers.
- **November 1, 2019 to October 31, 2021:** The actual cost of purchased gas, ranging between \$2.70/GJ and \$3.70/GJ, increased compared to the commodity rate resulting in sharp changes in balances. The GCVA balance forecast changed from \$18.839 million on November 1, 2019 owing to customers to \$18.812 million on October 31, 2021 owing from customers to SaskEnergy. This is a net change of \$37.651 million as a cost to customers.

The market update provided by SaskEnergy shows the updated GCVA balance forecast at October 31, 2021 is \$18.908 million -- or \$0.096 million higher than the forecast included in the application. SaskEnergy is proposing to clear the GCVA balance over the 24 month period, from November 1, 2021 to October 31, 2023.

After reviewing and analyzing the information contained in the application and the market update, the Panel concludes that SaskEnergy has provided sufficient information on the current and forecast gas market to support the requested commodity rate. In approving this rate adjustment, the Panel confirms with its technical consultant, the following:

- That the load forecast is reasonable considering continued reduction in use per customer for the residential class, which represents about 66% of total sales. SaskEnergy is forecasting a 1.2% reduction in sales compared to 2020-21 actuals and a further 0.5% reduction in sales in 2022-23 compared to the 2021-22 forecast, with the majority of these reductions in the residential class.¹⁰
- That SaskEnergy's gas supply approach is prudent with regards to ensuring reliability of supply and maintaining flexibility to adapt to different weather conditions as well as being able to supply additional customer loads in case customers that buy gas from retailers return to SaskEnergy.
- That SaskEnergy's peak day design criterion represents a reasonable balance between costs and reliability.

¹⁰ Consultant's Report, P. 4-2

- That SaskEnergy’s cost of purchased gas appears to be properly calculated and consistent with previous practice.
- That the proposed commodity rates reflect the forecast cost of gas sold over the two year period (purchased gas and operating and maintenance expenses) plus the repayment of the accumulated GCVA over that time.
- That SaskEnergy’s natural gas price management strategy is being executed as approved.

GCVA Balance Thresholds

SaskEnergy monitors the GCVA on an on-going basis and officially reviews its commodity rate in the spring and fall for a rate change either on April 1 or November 1. If the forecasted natural gas costs are substantially different from the forecasted commodity revenue, then the corporation makes a recommendation to proceed with a commodity rate application.¹¹

During the last application in 2018, the Panel recommended that SaskEnergy review the basis for the +/- \$20 million threshold in the GCVA to trigger a rate application. SaskEnergy reported in this application that the threshold remains appropriate because as its “customer base has grown over the years, use per customer continues to decrease. This has resulted in SaskEnergy’s gas purchases to remain relatively equal. Therefore, SaskEnergy believes the \$20 million threshold is still appropriate.”¹²

The Panel reviewed the issue again in this application, since this threshold was recommended by the Panel almost 20 years ago when commodity rates were in the range of \$4 to \$6/GJ.¹³ From November 2018 to October 2021, the balance in the GCVA remained under the +/- \$20 million threshold. However, the balance changed by more than \$37 million, from \$18 million owed to customers to about \$19 million owed from customers. This \$19 million due from customers represents a significant portion of the increase passed on to the ratepayers in this application. A new threshold should be examined to limit the impact on consumers or a GCVA trigger that would ensure material GCVA balances that impact rates do not accumulate over time.

For example, SaskEnergy could set a GCVA balance threshold set so that it does not have a rate impact of +/-5%. The dollar value of the threshold could change as the cost of gas changes. When the annual cost of gas is about \$160 million, for instance, then the dollar value of the threshold would be +/- \$8 million, and if the cost of gas increases, the threshold would also increase.

The Panel also noted that SaskEnergy adjusts its commodity rate less frequently than other utilities. Utilities in Edmonton, Calgary, and Montreal, for example, adjust their commodity rates monthly, while those in Vancouver, Winnipeg, Hamilton and Toronto do so on a quarterly basis.¹⁴ Although SaskEnergy conducts reviews twice a year, the balance in the GCVA changed from \$18 million owing to customers to \$18 million owing from customers without an application being submitted. This raises the issue of fairness since the customers who receive the amount owing from SaskEnergy may not be the same customers who contributed to the balance accumulating and vice versa. It should be noted that clearing

¹¹ 1st Round Information Request 2 (h)

¹² 2021 SaskEnergy Commodity Rate Application, Tab 7

¹³ 2nd Round Information Request 1 (a) Commodity, 2018 Commodity and Delivery Service Rate Application.

¹⁴ 1st Round Information Request 2 (h) 1)

the \$19 million in the GCVA account over a two year period represents about 5.5% of the \$330 million total gas costs over that period.

Large balances owing from the customers in the GCVA may also impact SaskEnergy's financial health, borrowing limits, and competitiveness, which provides further impetus to review this threshold.

Heat Value

The Panel has raised concerns in previous applications about the impact of heat value and notes that while SaskEnergy is undertaking a heat value business case to assess options on how to resolve heat value variation, it remains a fairness issue for customers. There are some customers who benefit from higher heat values in their gas, since it costs them less to purchase gas. Although these differences are captured in the GCVA, which are collected or refunded to customers, the overall magnitude of the recovery and period between commodity rate applications may result in intergenerational inequity.

Natural gas is a mix of hydrocarbon gases and contains different energy content or heat value depending on its composition. Where natural gas has a higher heat value, less gas is required to produce an equivalent amount of heating energy. Heat value may vary depending on where natural gas is sourced from and how much it is processed prior to being delivered to customers.

SaskEnergy notes that heat value of natural gas determines the amount of energy released when the natural gas is consumed. The heat value of the natural gas in the province has been increasing as a majority of the natural gas in Saskatchewan is associated with oil production which has a higher heat value than conventional production. There has also been an increase in heat value on the gas being imported by SaskEnergy on interconnected pipelines.¹⁵

SaskEnergy indicated that actual heat values range between 38.52 Megajoules (MJ)/m³ in 2016-17 to 39.63 MJ/m³ in 2020-21 compared to the 38.75 MJ/m³ heat value in rates.¹⁶ (Please note that a 1 GJ = 1,000 MJ.)

These variations in heat value result in some customers paying more than others to achieve the same heating energy, depending on geographic location. These variances in heat value result in residential and commercial bill variances ranging between -8% (where customers pay less than the average bill in other locations) and +4% (where customers pay more than the average bill in other locations).¹⁷

Heat value variances from forecast also impacts SaskEnergy. 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 noted that from 2016-17 to 2020-21, the impact of the actual heat value to the GCVA balance was \$13.2 million (owing to SaskEnergy from customers).¹⁸

¹⁵ Page 7, 2021 Commodity Rate Application.

¹⁶ 1st Round Information Request 8 (a)

¹⁷ Information Request 2 (g)

¹⁸ 1st Round Information Request 8 (a).

It should be noted that 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. The Panel urges SaskEnergy to pursue measures required to shift to billing in energy as soon as possible to provide equity to both the corporation and its ratepayers.

Renewable Natural Gas

Renewable natural gas (RNG) is a relatively new concept for Saskatchewan. RNG is upgraded biogas produced from organic wastes from farms, forests, landfills and wastewater treatment plants that is captured, processed and injected into pipelines in the same manner as conventional natural gas.¹⁹

SaskEnergy is in the preliminary stages of developing a RNG strategy that includes purchasing up to 100,000 GJ/year from Saskatchewan producers at a maximum cost of \$30/GJ.²⁰ SaskEnergy indicates that potentially, customers could be offered a “RNG Opt-In” program, which would allow customers to purchase RNG for their own consumption. These customers could then select what percentage of RNG they would like to blend with their existing gas stream and the RNG costs would be directly billed to these customers. If the program is not fully subscribed, the remaining costs would be blended into SaskEnergy’s cost of gas sold and included in the commodity rate. The impact on costs to the commodity rate could be from zero to \$0.06/GJ.²¹

In order to offer RNG to its customers, SaskEnergy would have to configure its distribution system to allow for RNG to be brought onto the system; initiate a governance process to allow it to purchase RNG once it becomes available to blend with its existing gas stream; and develop a formal opt-in program to allow customers to purchase an annual quantity of RNG to supplement their conventional gas mix.

The Panel appreciates that SaskEnergy has requested its input into this strategy. To properly assess this program, the Panel requests that SaskEnergy consider providing the following information for review:

1. The potential demand for the RNG from SaskEnergy’s customers.
2. Whether there is a sufficient source of RNG supply available.
3. Administrative details of the program.
4. Cost for RNG for customers that opt in and potential cost impacts to customers that do not opt in if the program is not fully subscribed.
5. Review of approaches applied in other jurisdictions and how these may be applicable or not applicable for Saskatchewan.

Until this information is received and reviewed, the Panel is unable to comment on the appropriateness of this initiative.

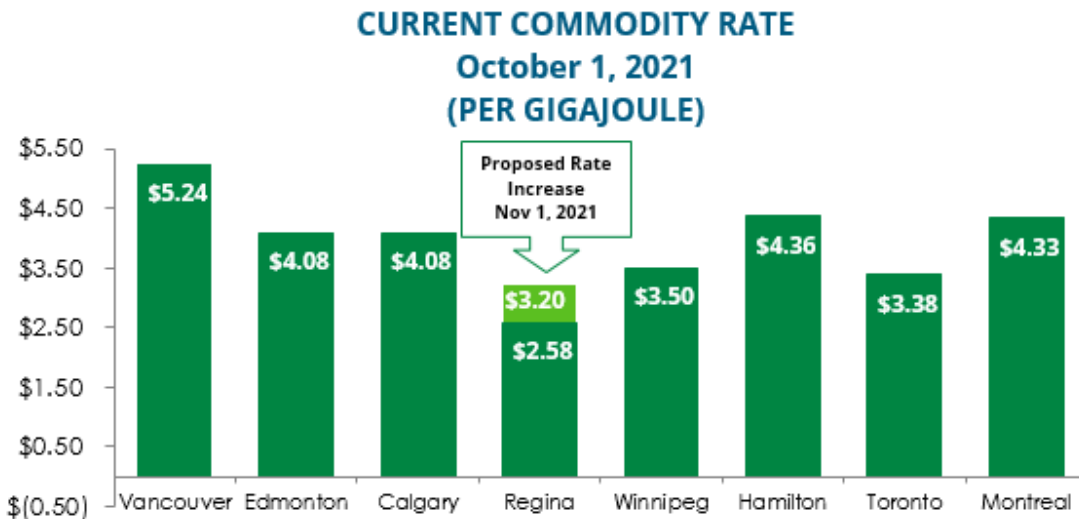
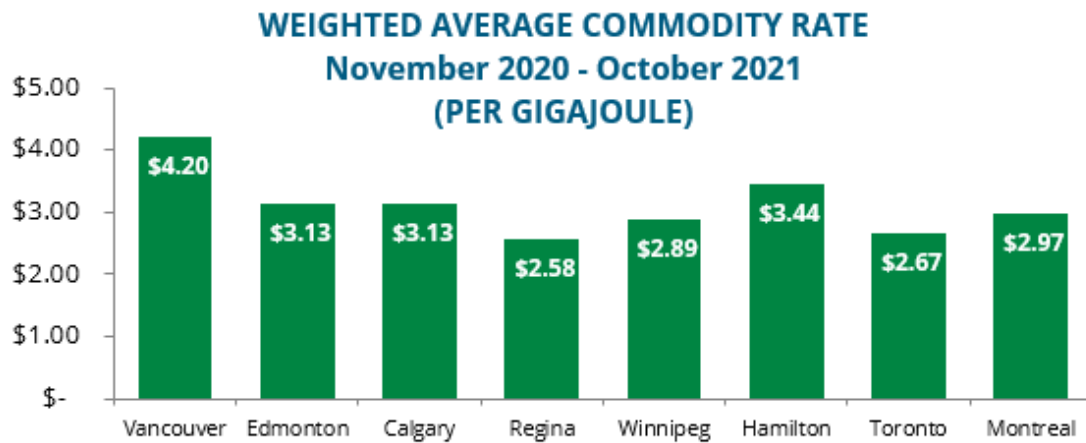
¹⁹ SaskEnergy 2021 Commodity Rate Application, P. 16

²⁰ SaskEnergy notes in 1st Round IR 6(d) (i) that it has no knowledge of RNG production in Saskatchewan at this time and the 100,000 GJ/year amount is a guesstimate. FortisBC has indicated that RNG supply is limited within BC with an annual production of approximately 500,000 GJ/year.

²¹ SaskEnergy 2021 Commodity Rate Application, P. 16

The Competitiveness of the Proposed Rates

There are certain factors to be considered when comparing SaskEnergy’s proposed rates to other jurisdictions. SaskEnergy has noted that components that make up the cost of gas are essentially the same across Canadian utilities. However, most other utilities no longer hedge and natural gas purchases are transacted at current market prices.²² SaskEnergy also noted that most utilities use a 12-month test period which includes the forward market prices for the next 12 months. The GCVA for these utilities is refunded or collected over a 12-month period. Only Alberta uses a one-month test period since its rate design aims to collect and refund GCVA balances over one month.²³ The tables below shows the comparison of the weighted average commodity rates from November 2020 to October 2021²⁴, and the applicable as of October 1, 2021, including the proposed rate effective November 1, 2021.²⁵



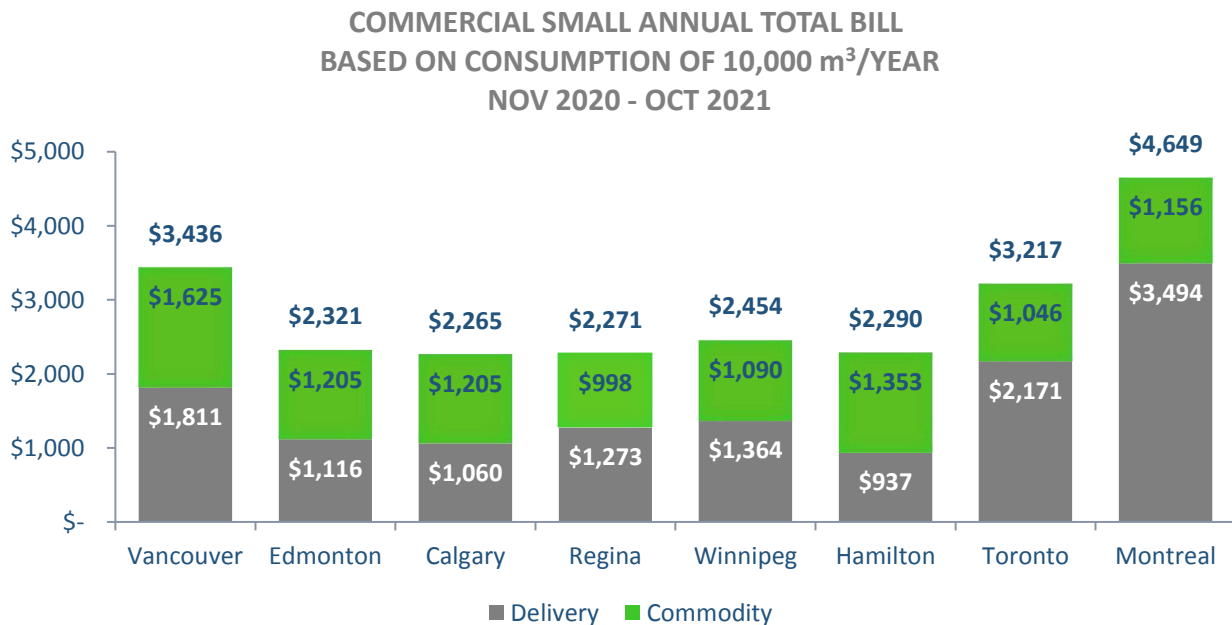
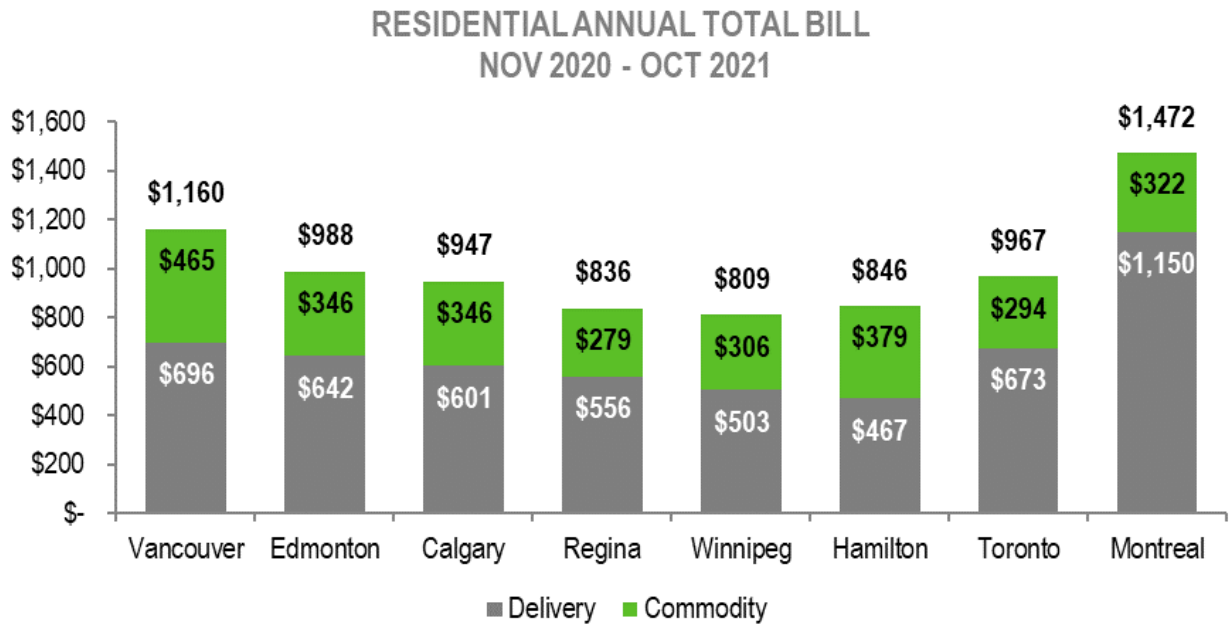
²² 1st Round Information Request 2 (h) ii)

²³ Ibid

²⁴ Chart provided by SaskEnergy

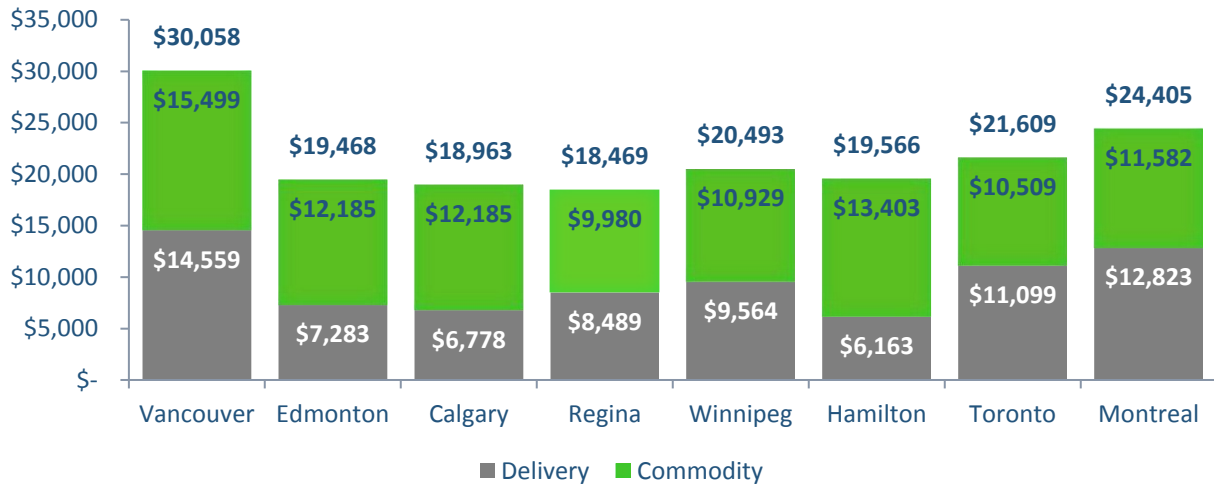
²⁵ Ibid

The following tables provide customer bill comparisons for Regina and other major Canadian urban centres from November 2020 to October 2021 for combined commodity and delivery charges, as well as the impact of the proposed commodity rate increase.²⁶



²⁶ Charts provided by SaskEnergy

**COMMERCIAL LARGE ANNUAL TOTAL BILL
BASED ON CONSUMPTION OF 100,000 m³/YEAR
NOV 2020 - OCT 2021**



SaskEnergy’s cost of gas is influenced by its price risk management strategy and the proposed commodity rate is significantly impacted by the accumulated GCVA balance as well as the 24-month collection period. The cost of gas may also be affected by the source of supply, pricing point, transportation costs, and the requirement to ensure sufficient transportation capacity and storage to address extreme Saskatchewan winters.

The Panel recognizes that SaskEnergy’s current price risk management strategy is designed to provide a higher degree of stability in customer rates over the next two year application period. SaskEnergy has indicated that 95% of its gas purchases for the first year are price protected and 80% over the two year period. Customers have indicated to SaskEnergy that they prefer this type of rate stability.

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. The table below summarizes the average bill impact for each rate class assuming the proposed commodity rate of 12.78 cents/m³ (\$3.20/GJ), effective November 1, 2021 (as well as the range of bill impacts as provided by SaskEnergy).

Bill Impact for Typical Use Customer²⁷

	Total Annual Bill			Bill Impact	
	Avg Use m ³ /year	Current \$/year	Proposed \$/year	\$/year	%/year
Residential	2,639	\$804	\$878	\$74	9%
Commercial Small	12,903	\$2,796	\$3,157	\$361	13%
Commercial Large	168,329	\$29,962	\$34,675	\$4,713	16%

**Bill Impact by Customer Consumption
(Based on 2020-21 customer numbers and usage)²⁸**

	Customers by Consumption		Total Annual Bill			Bill Impact	
	% Customers	Use m ³ /year	Avg Use m ³ /year	Current \$/year	Proposed \$/year	\$/year	%/year
Residential							
Low	70%	(0 - 3,000)	2,069	\$690	\$748	\$58	8%
Medium	28%	(3,001 - 7,000)	3,918	\$1,058	\$1,168	\$110	10%
High	2%	(Over 7,000)	9,819	\$2,233	\$2,508	\$275	12%
Commercial Small							
Low	62%	(0 - 10,000)	4,412	\$1,260	\$1,384	\$124	10%
Medium	34%	(10,000 - 50,000)	28,935	\$5,696	\$6,507	\$810	14%
High	5%	(Over 50,000)	83,713	\$15,606	\$17,950	\$2,344	15%
Commercial Large							
Low	71%	(0 - 200,000)	106,874	\$19,625	\$22,617	\$2,992	15%
Medium	25%	(200,001 - 400,000)	320,380	\$55,537	\$64,507	\$8,971	16%
High	4%	(Over 400,000)	518,801	\$88,911	\$103,438	\$14,526	16%

Numbers may not add up precisely due to rounding.

All customer classes, particularly commercial and industrial customers, will see higher bill impacts that in part relate to the recovery of the GCVA. More timely rate updates would have partially alleviated this impact.

²⁷ Chart provided by SaskEnergy

²⁸ Ibid

Impact on the Crown Corporation – SaskEnergy

This 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 recommended rate increase is proposed to clear the \$18.8 million that customers owe to SaskEnergy by October 31, 2023, although over a longer time period than usual in order to alleviate financial hardship on its customers. The Panel’s recommendation adheres to the principle that over time, SaskEnergy recovers only the cost it incurs in procuring its gas supply.

Impact on the Public

All Saskatchewan citizens, whether they are SaskEnergy customers or not, are shareholders in the corporation, and as such, have a vested interest in the corporation. Since the cost of gas is a pass-through with no mark up or dividends, the commodity rate adjustment will have no impact on SaskEnergy’s profitability or dividends.

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 proposals 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	Delaine Barber, Weyburn
Members	Glenn Dutchak, Canora; Bonnie Guillou, Saskatoon; Kim Hartl, Lake Lenore; Duane Hayunga, Prince Albert; and Keith Moen, Saskatoon

Panel’s Terms of Reference

The Minister issued an Order on September 10, 2021 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. These parameters 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 for the supply of gas; and
 - The natural gas commodity market conditions at the time of the SaskEnergy 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.
- And to consider the principle that SaskEnergy passes on the cost of gas to consumers without discount or market-up as a given.

The Minister's Order for this review called for the Panel to complete its work no later than October 13, 2021.

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 one round 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 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 October 4, 2021.

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.

A public meeting was held in Regina on September 23, 2021. Members of the public were also invited to view the meeting online and type their questions from their computer, tablet or smartphone 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.

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 2021 Rate Application, SaskEnergy's public presentation on the application, the Panel's terms of reference, information requests to SaskEnergy and the responses, video 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