



COMMODITY
AND
DELIVERY SERVICE

2 0 1 8 R A T E A P P L I C A T I O N

Public Meeting

October 17, 2018

Agenda

1 Background

2 2018 Rate Application

3 Commodity Rate Details

4 Delivery Service Rate Details

5 Customer Bill Impact

SaskEnergy's Customer Profile



Uses up to 10,000 m³

RESIDENTIAL 350,600

- Includes urban and rural



Uses up to 100,000 m³

COMMERCIAL SMALL 39,800

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



Uses up to 660,000 m³

COMMERCIAL LARGE 1,470

- Hotels
- Warehouse buildings



Uses over 660,000 m³

SMALL INDUSTRIAL 29

- Manufacturing
- Large hospitals

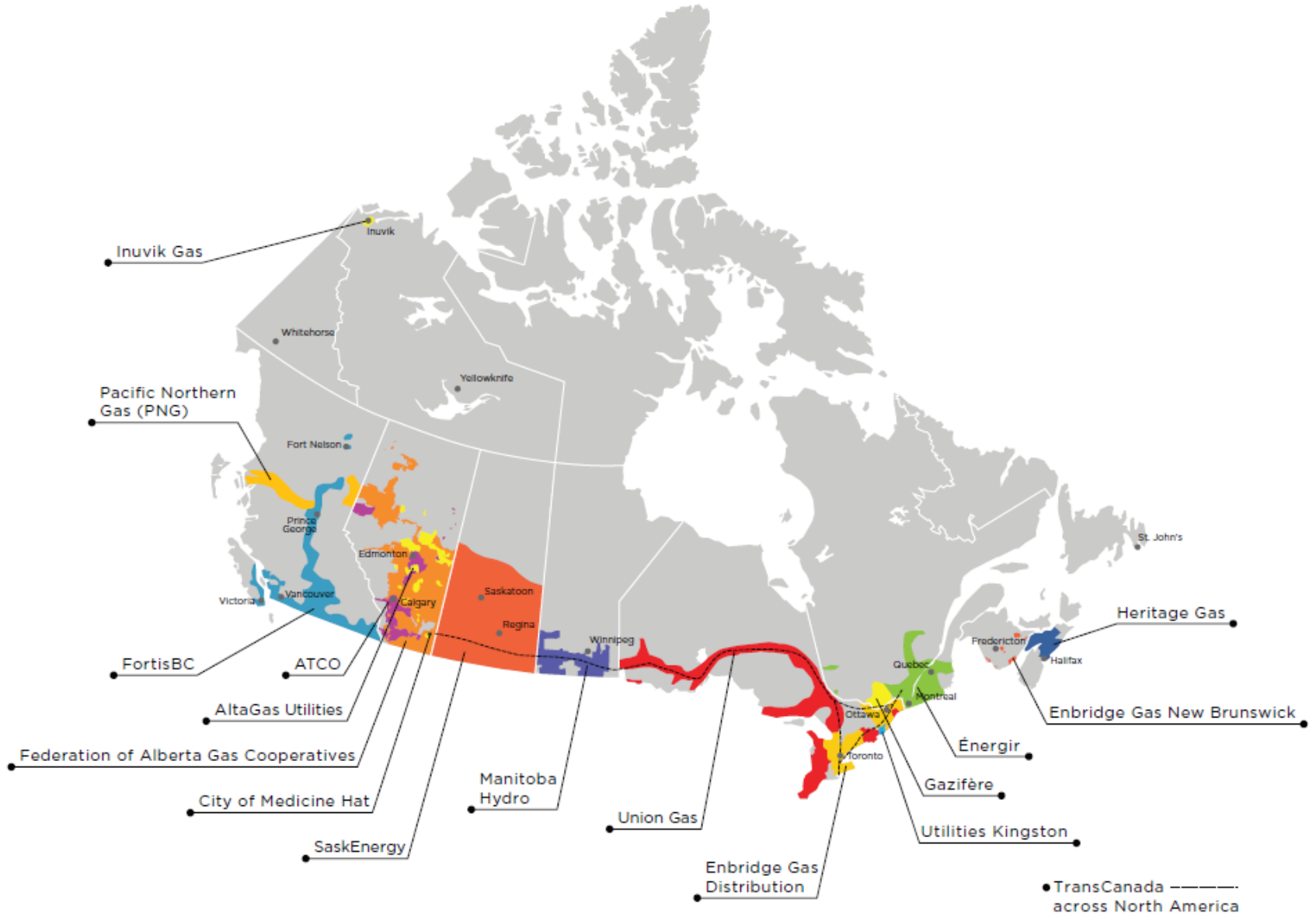
DISTRIBUTION TOLL CUSTOMERS

TransGas Industrial customers to which SaskEnergy provides distribution and regulator services (franchise)

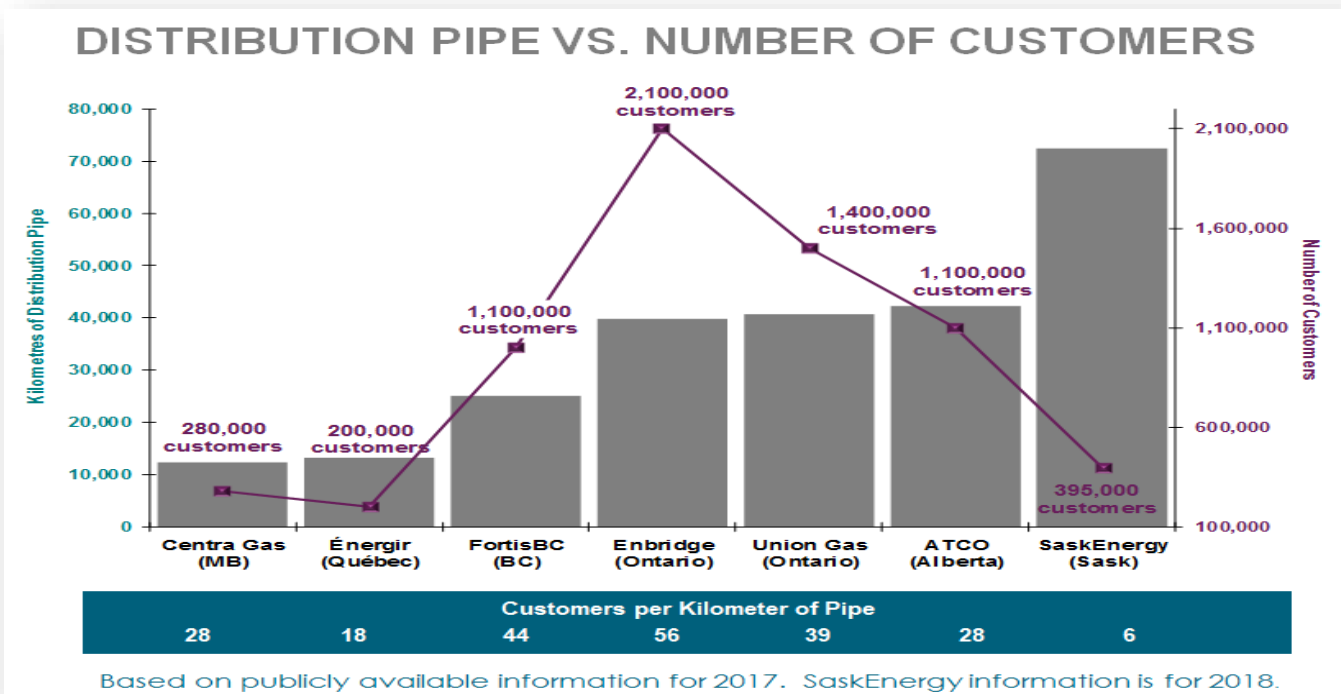
Rates set internally at a revenue-to-cost ratio of 1.00 to 1.00

Inter-company charge to TransGas and recovered through TransGas rates

Natural Gas Distribution in Canada



Delivery Service Rate



SASKENERGY DISTRIBUTION SYSTEM

- Extensive distribution system that serves approximately 395,000 customers located in a 380,000 square kilometer service area across Saskatchewan.
- The distribution system requires facilities spread throughout the province in order to provide high quality and accessible service to Saskatchewan people.

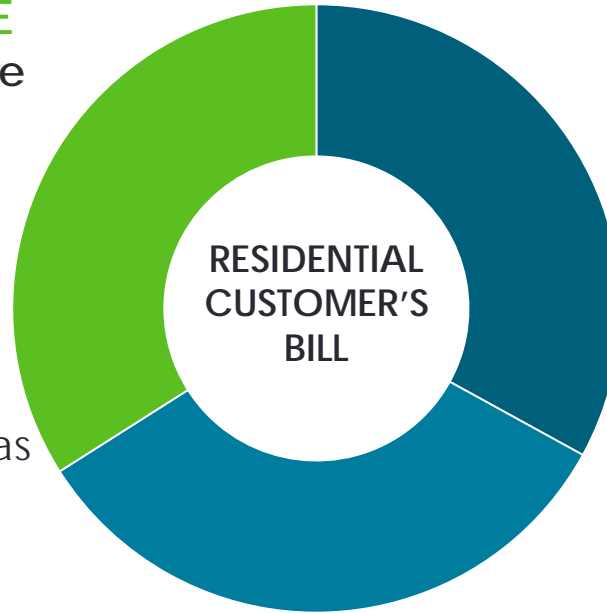
SaskEnergy's Bill

34%

COMMODITY RATE

Gas Consumption Charge
(Cents per Cubic Metre)

- Commodity Rate represents cost of natural gas
- No profit or margin - pass through cost of gas
- Gas Cost Variance Account (GCVA)



66%

DELIVERY SERVICE RATE

BASIC MONTHLY CHARGE
(Dollars per Month)

- Service Line
- Meter
- Meter Reading
- Customer Account Management

DELIVERY CHARGE
(Cents per Cubic Metre)

- Transportation
- Storage
- Distribution
- Maintenance

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

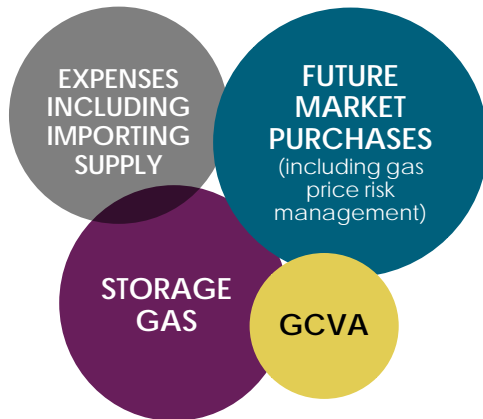
2018 Rate Application

COMMODITY RATE

- Recommend 26.5% decrease to Commodity Rates
- Decrease from \$3.65/GJ to \$2.95/GJ effective November 1, 2018
- Further decrease to \$2.65/GJ on April 1, 2019

DELIVERY SERVICE RATE

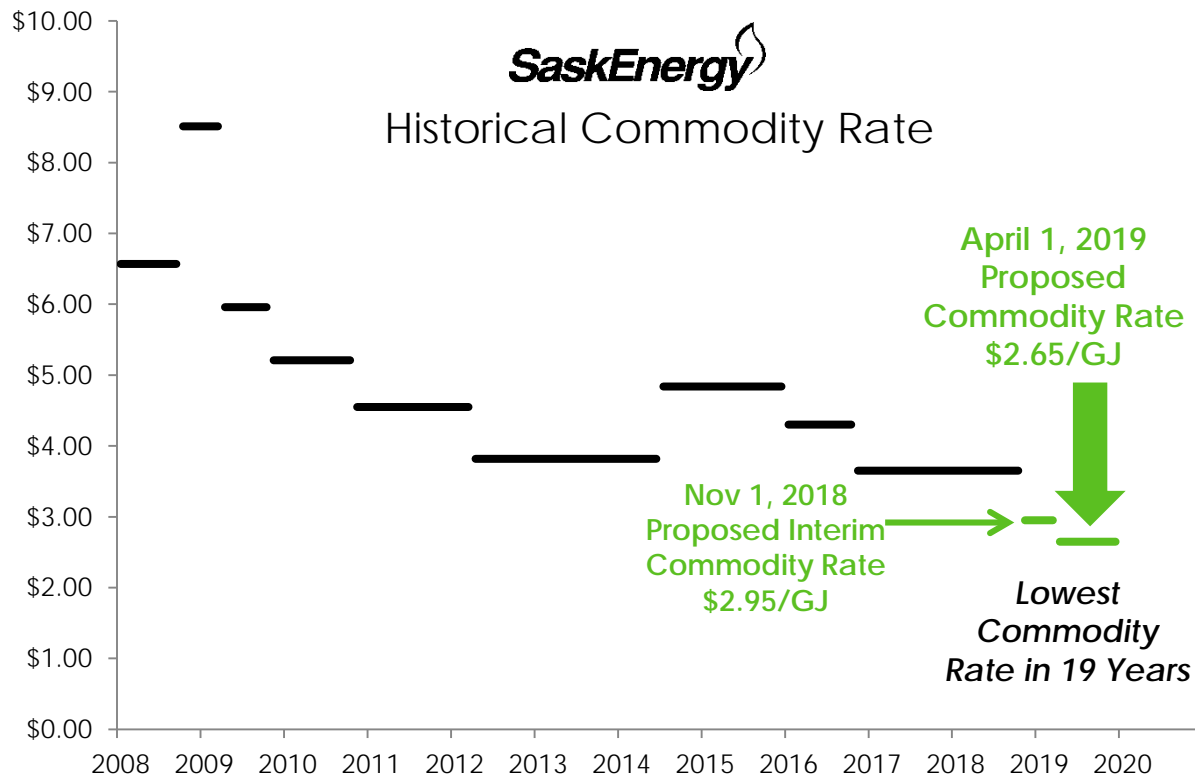
- Recommend 3.7% increase to Delivery Service Rates
- Effective April 1, 2019 to align with commodity rate decrease



COMBINED COMMODITY / DELIVERY SERVICE RATE APPLICATION RESULTS IN OVERALL CUSTOMER BILL DECREASE OF 10.8% (8.8% FOR RESIDENTIAL)

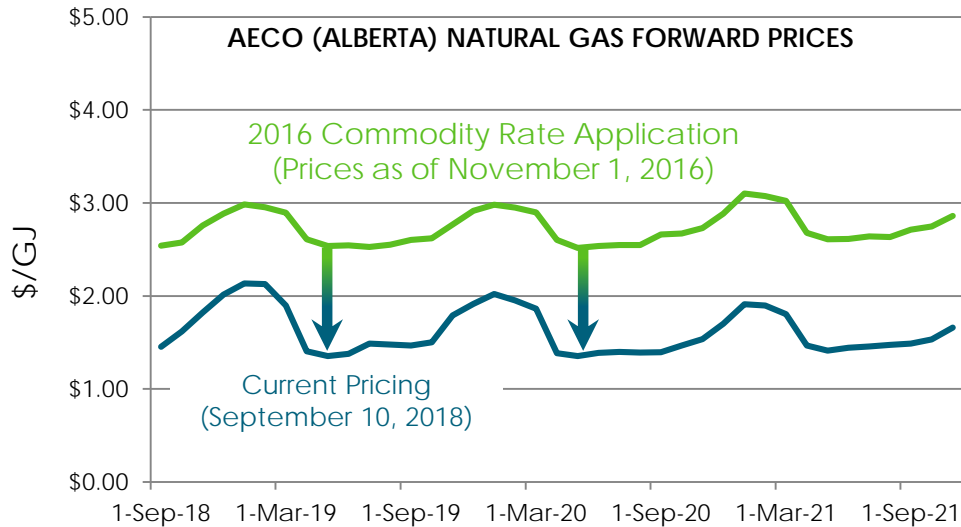
Commodity Rate

- Pass through of natural gas costs (no mark up)
- Proposed reduction in Commodity Rate to \$2.65/GJ from \$3.65/GJ effective April 1, 2019 (26.5% decrease) with an interim rate of November 1, 2018 of \$2.95/GJ
- Reflects lower natural gas prices; includes protection against higher natural gas prices in future



- SaskEnergy buys approximately 56 million GJs annually
- 65% of SaskEnergy's gas supply now comes from Alberta
- Gas production trapped in Alberta which resulted in historically low gas prices at AECO/Alberta

Commodity Rate



PRICE RISK MANAGEMENT

Execution of the 2019 Commodity Price Risk Management Strategy provides price certainty through the upcoming winter and for 70% of natural gas purchases over the next five years.

Current Price Management Portfolio

Winter 2018-24
Weighted Average
94% @ \$2.25/GJ
(AECO)

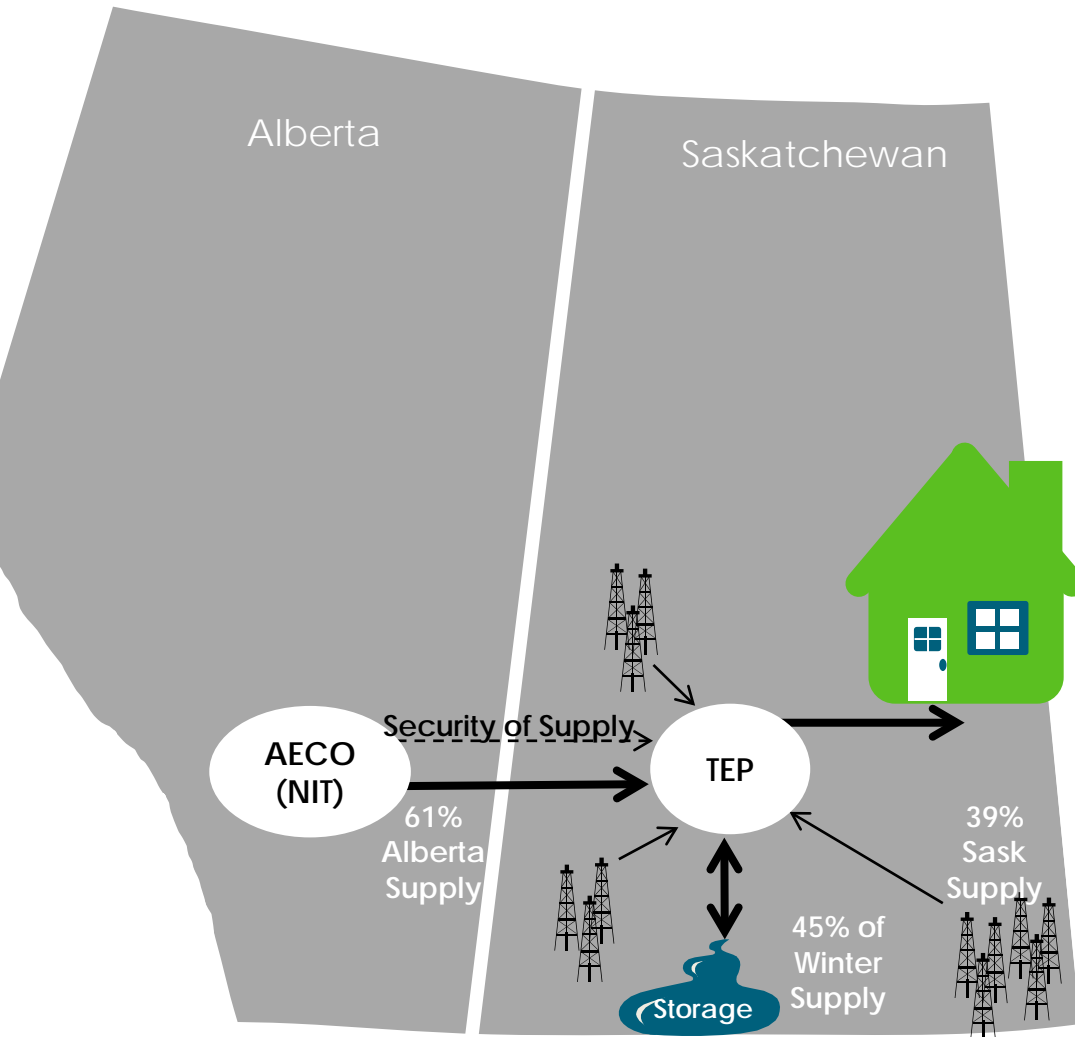
Summer 2019-23
Weighted Average
50% @ \$2.37/GJ
(AECO)

- Recommendation
 - November 1, 2018 \$2.95/GJ
 - April 1, 2019 \$2.65/GJ
- Will result in \$5.1 million GCVA balance still owing to customers

—	Near term prices continue to hover at 20 year lows
↓	AECO prices are expected to remain low until new export capacity becomes available in 2020-21
↓	Alberta gas production is expected to hit 19 bcf/d by 2023
↑	Approval of LNG export in B.C.
↑	Continued demand growth in Western Canada as coal-fired power generation is phased out
↑	Producers reducing capex programs

GCVA balance will contribute to commodity stability over the coming years

Raw Cost of Natural Gas Purchases



- Saskatchewan base load purchases 20 PJ @ AECO plus \$0.65/GJ
- Alberta base load purchases 37 PJ @ AECO plus \$0.37/GJ transport
- Incremental contracted transport for security of supply \$10.1 Million

Raw Cost of Gas

Saskatchewan Premium	\$0.22/GJ
Alberta Premium	\$0.23/GJ
Transport Insurance	<u>\$0.18/GJ</u>
Total Premium to AECO	<u>\$0.62/GJ</u>

SaskEnergy now pays AECO plus \$0.62/GJ on its base load natural gas purchases

Commodity Bill Impact

Commodity Rate
Effective April 1, 2019
(\$2.65/GJ)

10.20 Cents Per Cubic Metre

Rate Class	Commodity Rate % Decrease	\$/Month*	Annual Bill % Decrease
RESIDENTIAL	(26.5%)	(\$8.50)	(11.1%)
COMMERCIAL SMALL	(26.5%)	(\$39.99)	(14.6%)
COMMERCIAL LARGE	(26.5%)	(\$520)	(17.0%)
SMALL INDUSTRIAL	(26.5%)	(\$2,435)	(20.2%)

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

Delivery Service Rate

Proposed 3.7% Delivery Service Increase

- Approximately \$1.76/month for Residential Customers (2.3% bill impact)
- Effective April 1, 2019

Infrastructure Renewal

- Major Growth Infrastructure program
- Risk management
- New metering technology

Safety

- Safety Patrol program
- Joint line location process
- Damage prevention



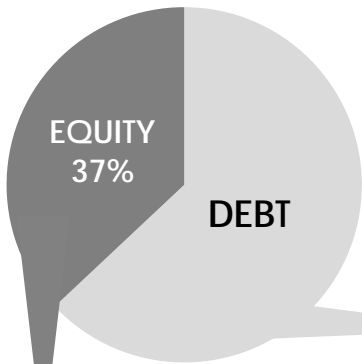
Cost of Service

FOLLOW STANDARD REGULATORY PRACTICE FOR UTILITIES

*Net of Efficiencies:
Cost of Service up
by \$10 million*

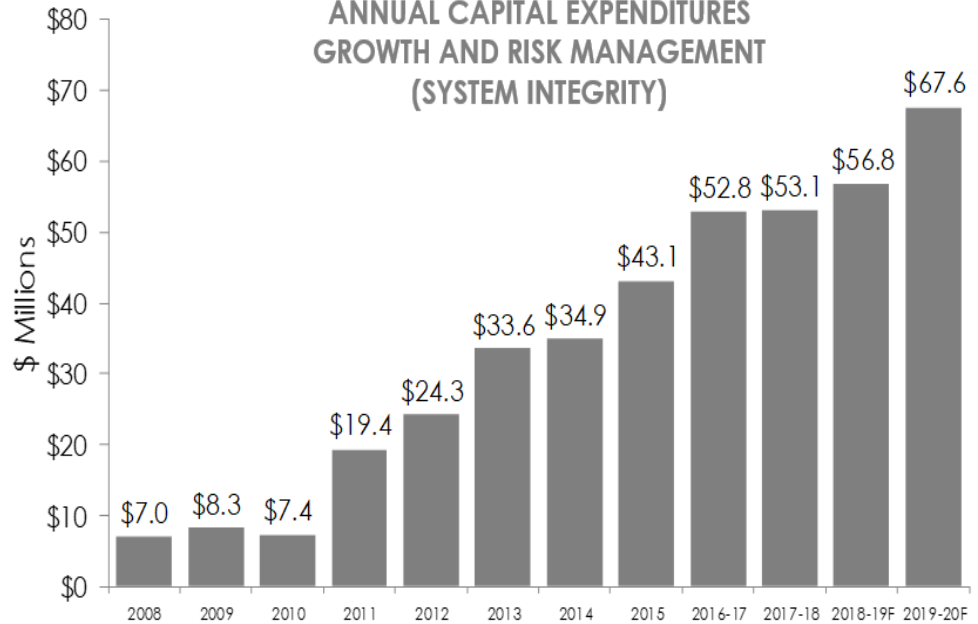
CAPITAL INVESTMENT
(RATE BASE)

COST OF SERVICE



APPROVED
RETURN
ON EQUITY

ANNUAL CAPITAL EXPENDITURES
GROWTH AND RISK MANAGEMENT
(SYSTEM INTEGRITY)



*Capital Expenditures Drive Increases
in Depreciation, Tax, Interest Expense
and Income*

Infrastructure Renewal

FUTURE GROWTH

Major Growth Infrastructure Program



- Major centers continue to expand resulting in both load growth, encroachments
- SaskEnergy has completed assessments of municipal growth plans relative to existing infrastructure.
- Strategic decisions to properly deploy long term growth capital to meet multiple objectives: safe and reliable service, increased capacity, and improved asset life

RISK MANAGEMENT

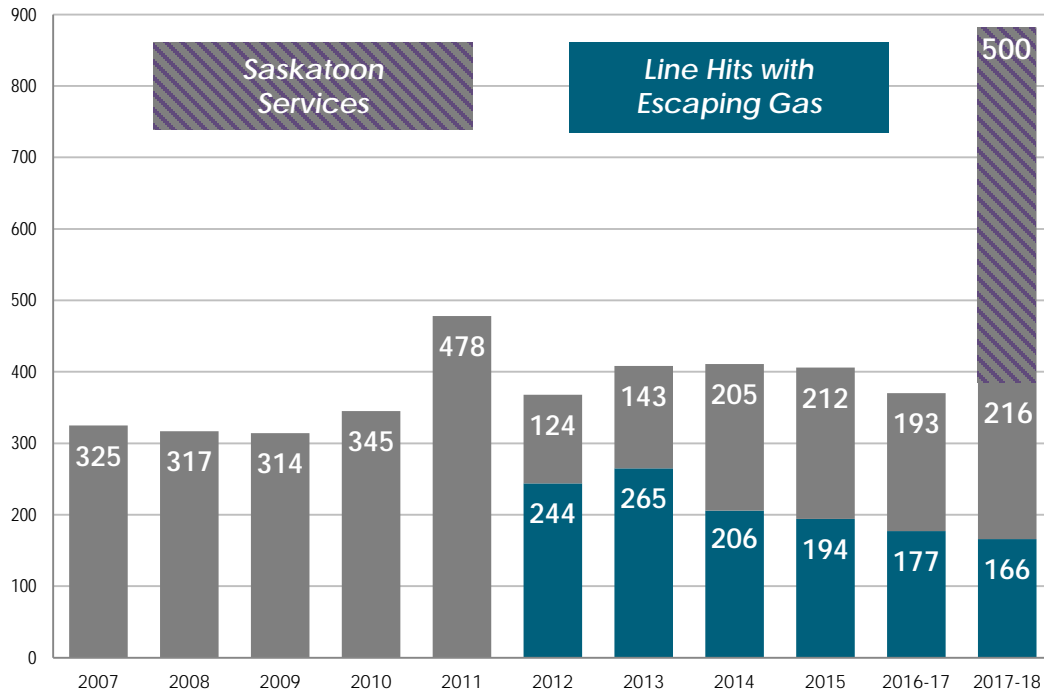
Service Upgrade Program (Regina, Saskatoon, Humboldt)



- Risk management includes
 - Service upgrade program
 - Mains replacement program
 - Station upgrades to meet regulatory requirements
 - Asset life extensions
- Managed through a model that uses multiple factors to determine the priority for each capital job

Public Safety & Damage Prevention

DISTRIBUTION UNDERGROUND LEAKS

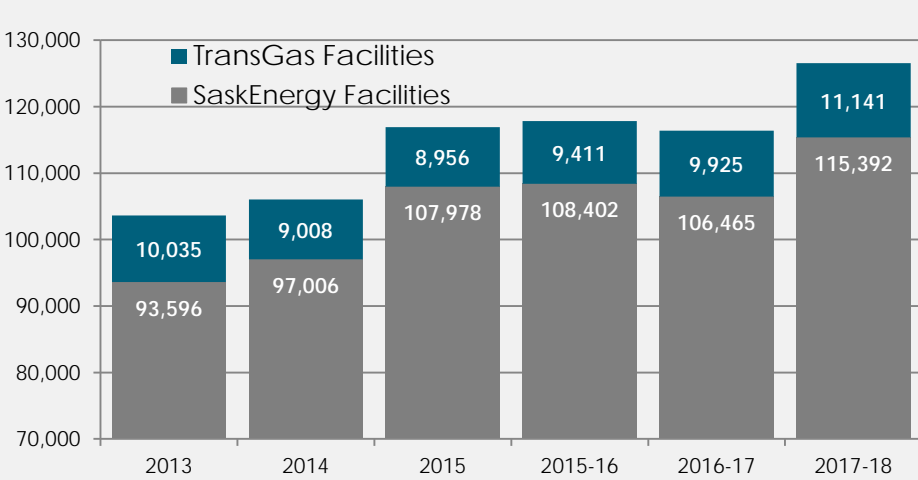


- New threat identified in 2018. A combination of weather, soil conditions and legacy pipeline infrastructure resulted in over 500 underground gas leaks in the City of Saskatoon.
- External interference is the largest single threat causing pipeline leaks in our company.

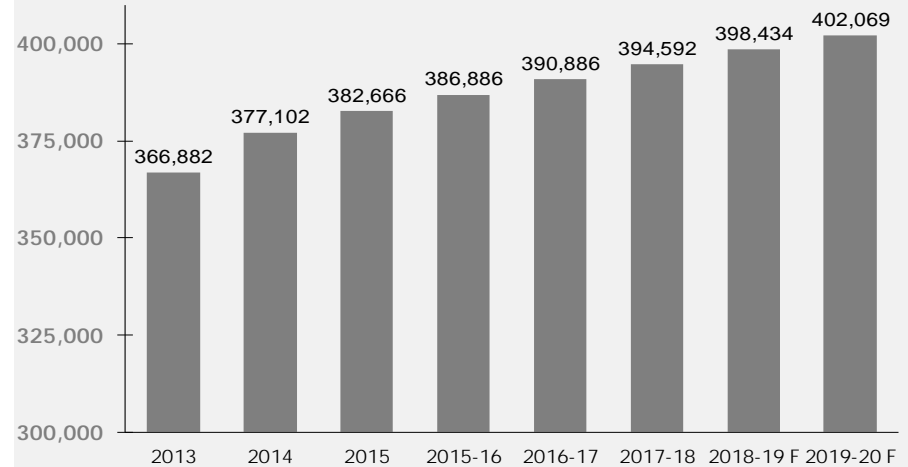


Business Highlights

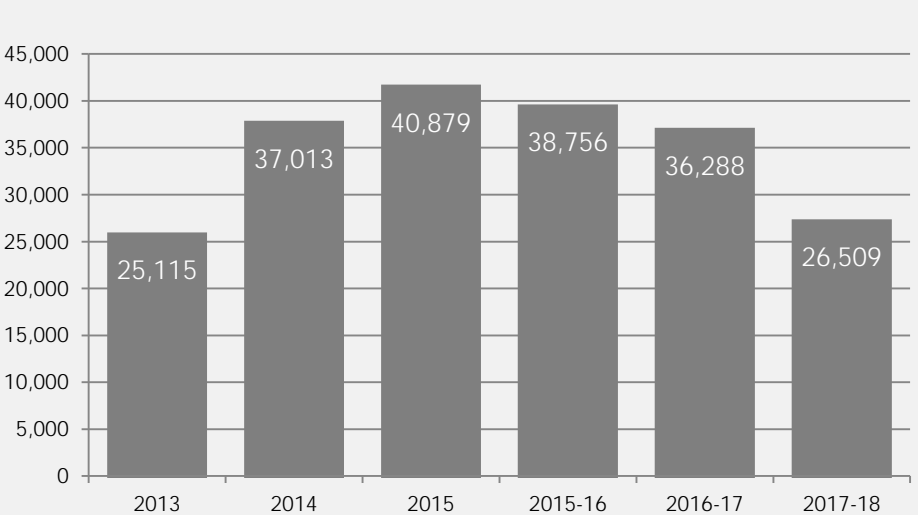
LINE LOCATE ACTIVITY



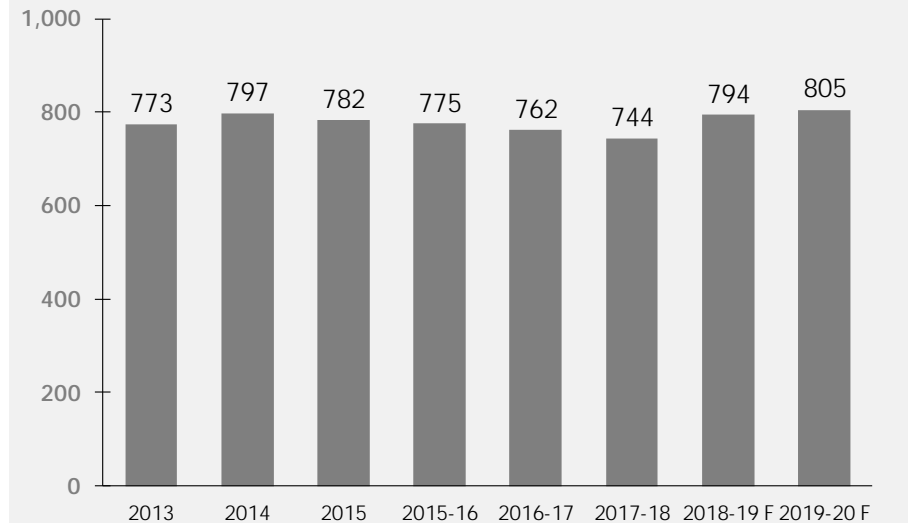
TOTAL NUMBER OF CUSTOMERS



SASKENERGY METER EXCHANGES



FTEs



Productivity and Efficiencies

CROWN
COLLABORATION



BUSINESS PROCESS
CHANGES



LEVERAGING
TECHNOLOGY



REVENUE
OPPORTUNITIES



PROCUREMENT
SAVINGS
JOINT SERVICES &
OTHER CAPITAL
DEFERRAL
INITIATIVES



\$4.0
MILLION

TOTAL

Operating Efficiencies and
New Revenue Planned for 2018-19

Delivery Service Rate Recommendation

- Increase Delivery Service Rates average of 3.7% effective April 1, 2019 (overall 2.3% bill impact)
- Results in ROE of 8.3% over the application period
- Recommendation is to increase Delivery Charge for all customer classes
- Residential customers monthly increase will average \$1.76, depending on usage

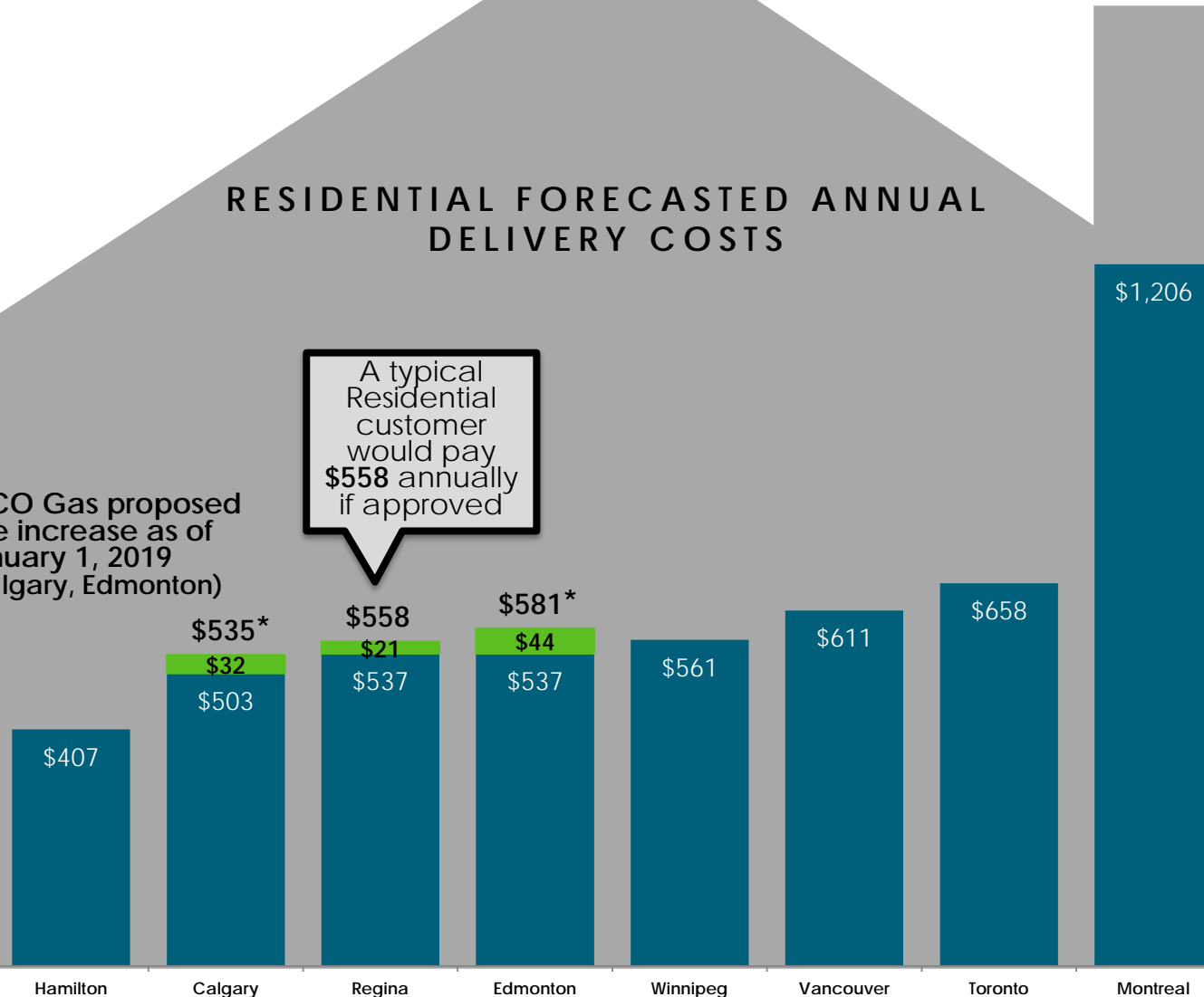
Rate Class	Increase to BMC \$/month	Increase to Delivery Charge \$/m ³	Delivery Rate Impact %	Total Bill Impact Annual % Change	Average Monthly Increase	Revenue-to-Cost Ratio
Residential	-	\$0.0076	3.9%	2.3%	\$1.76	0.99
Commercial Small	-	\$0.0041	3.7%	1.6%	\$4.47	1.03
Commercial Large	-	\$0.0011	1.4%	0.5%	\$16	1.03
Small Industrial	-	\$0.0002	0.5%	0.1%	\$13	1.03
System Average			3.7%	1.9%		1.00

Competitive Delivery Service Rates

RESIDENTIAL FORECASTED ANNUAL DELIVERY COSTS

* ATCO Gas proposed rate increase as of January 1, 2019 (Calgary, Edmonton)

A typical Residential customer would pay \$558 annually if approved



Comparison is based on annual consumption of 2,800 cubic metres (as of September 1, 2018)

Customer Bill Impact

	COMMODITY RATE DECREASE (\$3.65/GJ to \$2.65/GJ)		DELIVERY SERVICE RATE INCREASE		TOTAL BILL IMPACT	
RATE CLASS	\$/Month	Annual Bill % Decrease	\$/Month	Annual Bill % Increase	\$/Month	Annual Bill % Decrease
RESIDENTIAL	(\$8.50)	(11.1%)	\$1.76	2.3%	(\$6.74)	(8.8%)
COMMERCIAL SMALL	(\$39.99)	(14.6%)	\$4.47	1.6%	(\$35.52)	(13%)
COMMERCIAL LARGE	(\$520)	(17.0%)	\$16.00	0.5%	(\$505)	(16.5%)
SMALL INDUSTRIAL	(\$2,435)	(20.2%)	\$13.00	0.1%	(\$2,422)	(20.1%)
AVERAGE		(12.7%)		1.9%		(10.8%)

Would result in an average total bill decrease of 8.8% for Residential customers or approximately \$81 per year