

# COMMODITY AND DELIVERY SERVICE

## 2018 RATE APPLICATION MID-APPLICATION UPDATE

November 26, 2018

**SASKENERGY INCORPORATED**

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## 1.0 Overview

In September 2018, SaskEnergy Incorporated (SaskEnergy) filed a Rate Application requesting an overall average bill decrease for customers of 10.8% resulting from lowering the Commodity Rate by 26.5% and increasing its Delivery Service Rate by an average 3.7% effective April 1, 2019. This Mid-Application Update compares the initial rate application submission to the most recent financial forecast as of November 20, 2018.

### Heat Value

SaskEnergy reviewed its forecast heat value and determined that a higher heat value is required for April 1, 2019 – March 31, 2020. The Rate Application forecasted a heat value of 38.50 MJ/m<sup>3</sup> while the Mid-Application Update assumes a heat value of 38.75 MJ/m<sup>3</sup>.

### Revenue Requirement

The original rate application forecasted a revenue requirement of \$280.2 million in 2019-20 and a return on equity (ROE) of 8.3%. The Mid-Application Update forecasts a revenue requirement of \$280.5 million and a ROE of 8.0%.

### Load Forecast

SaskEnergy's updated load forecast indicates approximately \$1.0 million in lower revenues. The lower revenues result from an increase in heat value to 38.75 MJ/m<sup>3</sup> from the Rate Application heat value of 38.50 MJ/m<sup>3</sup>.

### Capital Investment

SaskEnergy reviewed the initial forecast capital investment and prioritized the investments to align with SaskEnergy's Strategic Mandates and Crown Sector Priorities. This review lowered the capital investment which resulted in lower interest expense and lower corporate capital tax.

### Conclusion

The net impact of these changes is a revenue shortfall of approximately \$1.3 million and a decrease of 0.3% return on equity.

## **2.0 Commodity Rate**

The Commodity Rate is based on a heat value of 38.50 MJ/m<sup>3</sup> which resulted in a final commodity rate of 10.20 cents per cubic metre (\$2.65/gigajoule) effective April 1, 2019. By increasing the heat value to 38.75 MJ/m<sup>3</sup> a final commodity rate of 10.20 cents per cubic metre or \$2.63/gigajoule would result.

## **3.0 Delivery Service Rate**

There are no changes to the recommended delivery service rates as filed in the 2018 Rate Application.

## 4.0 Financial Requirements Update

The following schedules provide a comparison between the initial Rate Application and the Mid-Application Update forecast for fiscal 2019-20.

### Schedule 4.0 – Delivery Revenue Requirement Summary

<b>SaskEnergy Incorporated</b>			
<b>Delivery Revenue Requirement Summary</b>			
(\$'000's)			
<b>Component</b>	<b>Delivery Rate Application 2019-20 Forecast</b>	<b>Business Plan 2019-20 Forecast</b>	<b>2019-20 Variance</b>
Operating & Maintenance	136,229	136,457	228
Transportation & Storage	53,919	54,697	778
Depreciation Expense	48,186	48,405	219
Tax Expense	7,362	7,270	(92)
Interest Expense	31,450	30,638	(812)
Net Earnings	33,459	32,790	(669)
Total Delivery Revenue Requirement	310,605	310,257	(348)
<b>Other Revenue and Adjustments</b>			
Other Revenue	(30,411)	(29,794)	617
Net Delivery Revenue Requirement	280,194	280,463	269

April 1, 2019 - March 31, 2020

The Net Earnings shown above reflects the target to earn 8.3% Return on Equity. As shown in Schedule 4.6, the net income target is not being achieved in the 2019-20 Business Plan based on the proposed delivery rate adjustment of 3.7%.

## Schedule 4.1 – Delivery Transportation and Storage Expense

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

	Delivery Rate Application 2019-20 Forecast	Business Plan 2019-20 Forecast	2019-20 Variance
<b>Transportation and Storage</b>			
<b>Transportation</b>			
Transportation Costs	33,696	34,182	486
Storage Cost	20,223	20,515	292
Total Transportation & Storage Expense	<u>53,919</u>	<u>54,697</u>	<u>778</u>
<b>Volume</b>			
<b>Transportation</b>			
Contracted Demand (in GJ's/day)	605,000	605,000	-
<b>Storage</b>			
Contracted Firm Deliverability (in GJ's/day)	393,217	393,217	-
Contracted Storage Volume (in PJ's)	23.4	23.4	-

April 1, 2019 - March 31, 2020

SaskEnergy assumed a 4.0% transport and storage rate increase in the 2018 Delivery Rate Application. The 2019-20 Business Plan assumes a 5.5% transport and storage rate increase.

## Schedule 4.2 – Operating and Maintenance Expense

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

	Delivery Rate Application 2019-20 Forecast	Business Plan 2019-20 Forecast	2019-20 Variance
<b>Operations</b>			
Costs Incurred	141,050	141,528	478
Capitalized & Recovered	(7,959)	(7,959)	0
Subtotal Operations	133,091	133,569	478
<b>Engineering and Construction</b>			
Costs Incurred	31,306	31,134	(172)
Capitalized & Recovered	(28,168)	(28,246)	(78)
Subtotal Engineering & Construction	3,138	2,888	(250)
<b>Total Operating &amp; Maintenance</b>	<b>136,229</b>	<b>136,457</b>	<b>228</b>

April 1, 2019 - March 31, 2020

Hosting costs for Geographical Information Systems is the primary cost increase included in the 2019-20 Business Plan for operations costs incurred shown in the schedule. This cost was partially offset by lower contract costs in distribution engineering as contractor conversion for engineers and computer automated drafting technologists increased labour and therefore increased capitalization as their primary focus will be execution of capital investment.

## Schedule 4.3 – Depreciation Expense

### SaskEnergy Incorporated Depreciation Expense (\$000's)

	Delivery Rate Application 2019-20 Forecast	Business Plan 2019-20 Forecast	2019-20 Variance
<b>Distribution Plant</b>			
Land Costs	-	-	-
Land Rights	257	257	-
Building and Site Improvements	2,648	2,648	-
Services	13,322	13,322	-
Meter and Regulator Installations	2,288	2,288	-
Mains	13,456	13,456	-
Measuring and Regulating Equipment	1,706	1,706	-
Meters	3,419	3,419	-
Other Distribution Equipment	734	734	-
Distribution before Customer Contributions	37,830	37,830	-
Amortization of Customer Contributions	(7,183)	(7,183)	-
Sub-total	30,647	30,647	-
<b>General Plant</b>			
Land	-	-	-
Buildings and Improvements	3,159	3,159	-
Office Furniture and Equipment	520	520	-
Transportation Vehicles	1,789	2,008	219
Heavy Work Equipment	1,117	1,117	-
Tools and Equipment	798	798	-
Information System Assets	10,156	10,156	-
Sub-total	17,539	17,758	219
<b>Total Depreciation</b>	<b>48,186</b>	<b>48,405</b>	<b>219</b>

April 1, 2019 - March 31, 2020

Transportation Vehicle depreciation was updated in the 2019-20 Business Plan as it had been understated in error in the 2018 Delivery Rate Application.

## Schedule 4.4 – Tax Expense

### SaskEnergy Incorporated Tax Expense ( \$000's )

	Delivery Rate Application 2019-20 Forecast	Business Plan 2019-20 Forecast	2019-20 Variance
Corporate Capital Tax	6,987	6,704	(283)
Grants in Lieu of Taxes	375	566	191
Total Taxes	<u>7,362</u>	<u>7,270</u>	<u>(92)</u>

April 1, 2019 - March 31, 2020

SaskEnergy had a reduced rate base in the 2019-20 Business Plan compared to the 2018 Delivery Rate Application driven by lower net capital investment in 2019-20. Lower total debt in 2019-20 drives lower corporate capital tax which was partially offset by higher property taxes driven by updated tax notices received from rural municipalities after the 2018 Delivery Rate Application was finalized this year.



## Schedule 4.5 – Interest Expense

### SaskEnergy Incorporated Interest Expense ( \$000's )

	Delivery Rate Application 2019-20 Forecast	Business Plan 2019-20 Forecast	2019-20 Variance
Interest on Notes Payable to Holdings Division	26,289	27,596	1,307
Interest on Bank Indebtedness	4,880	2,756	(2,124)
Accretion Expense	3,096	3,100	4
Amortization of Deferred Charges	227	227	-
Debt Retirement Fund Earnings	(2,361)	(2,361)	-
Capitalized Interest	(234)	(234)	-
Interest Allocated to Commodity Cost of Gas	(446)	(446)	-
Total Interest Expense	<u>31,450</u>	<u>30,638</u>	<u>(812)</u>

April 1, 2019 - March 31, 2020

SaskEnergy had a reduced rate base in the 2019-20 Business Plan compared to the 2018 Delivery Rate Application driven by lower net capital investment in 2019-20. Lower total debt in 2019-20 drives lower total interest expense. The biggest difference is \$100 million of long term borrowings is assumed in 2019-20 Business Plan compared to \$75 million in long term borrowings included in the 2018 Delivery Rate Application. The shift of higher long term interest expense and lower short term interest expense is shown in the schedule.

## Schedule 4.6 – Net Income

### SaskEnergy Incorporated Net Income ( \$000's )

	Delivery Rate Application 2019-20 Forecast	Business Plan 2019-20 Forecast	2019-20 Variance
Net Income before Market Adjustments on Gas Marketing	33,459	31,531	(1,928)
Total Net Income	<u>33,459</u>	<u>31,531</u>	<u>(1,928)</u>

April 1, 2019 - March 31, 2020

SaskEnergy had a reduced rate base in the business plan compared to the 2018 Delivery Rate Application driven by lower net capital investment in 2019-20 therefore a lower net income target than what was proposed in the 2018 Delivery Rate Application. In addition, the target net income of \$32.8 million to earn 8.3% return on equity is not being achieved in the business plan assuming the 3.7% proposed delivery rate increase brought forward in the 2018 Delivery Rate Application. The under recovery is approximately \$1.3 million.

## Schedule 4.7 – Other Revenue

### SaskEnergy Incorporated Other Revenue ( \$000's )

	Delivery Rate Application 2019-20 Forecast	Business Plan 2019-20 Forecast	2019-20 Variance
Connect Fees	(2,050)	(2,050)	-
Margin on Gas Marketing	(5,913)	(5,913)	-
Late Payment Charges	(1,200)	(1,200)	-
Customer Financing	(64)	(64)	-
Miscellaneous Revenue	(575)	(575)	-
Distribution Tolls	(20,609)	(19,992)	617
Total Other Revenue	<u>(30,411)</u>	<u>(29,794)</u>	<u>617</u>

April 1, 2019 - March 31, 2020

SaskEnergy revisited the distribution toll cost of service after the 2018 Delivery Rate Application was finalized this year. The review of the distribution toll cost of service led to a decrease in distribution toll rates and therefore lower revenue than what was included in the 2018 Delivery Rate Application.

## 5.0 Delivery Load Forecast Update

The following schedules provide a comparison between the initial Rate Application and the Mid-Application Update forecast for fiscal 2019-20.

### Schedule 5.1 – Forecast Delivery Revenues

<b>SaskEnergy Incorporated</b>			
<b>Forecast Delivery Revenues</b>			
(\$ millions)			
	Delivery Rate Application 2019-20 Forecast	Business Plan 2019-20 Forecast	2019-20 Variance
<b>Delivery Revenue at Current Rates</b>			
Residential	190.7	190.1	(0.6)
Commercial Small	59.0	58.8	(0.2)
Commercial Large	19.3	19.3	0.0
Small Industrial	1.2	1.0	(0.2)
Total Delivery	270.2	269.2	(1.0)
<b>Delivery Revenue at Recommended Rates</b>			
Residential	198.2	197.7	(0.5)
Commercial Small	61.4	61.0	(0.4)
Commercial Large	19.4	19.5	0.1
Small Industrial	1.2	1.0	(0.2)
Total Delivery	280.2	279.2	(1.0)

April 1, 2019 - March 31, 2020

The Delivery Revenues above show an approximate \$1.0 million shortfall in revenues between the Rate Application submitted in September 2018 and the Mid-Application Update. The shortfall results from an update to the heat value forecast from 38.50 MJ/m<sup>3</sup> (Rate Application) to 38.75 MJ/m<sup>3</sup>.

## Schedule 5.2 – Load Forecast (Base Case)

### SaskEnergy Incorporated Load Forecast - Base Case

	Delivery Rate Application 2019-20 Forecast	Business Plan 2019-20 Forecast	2019-20 Variance
<b>Average Forecast Number of Customers</b>			
Residential	356,506	356,506	-
Commercial Small	40,216	40,216	-
Commercial Large	1,478	1,478	-
Small Industrial	29	29	-
Total Delivery	398,229	398,229	-
<b>Forecast Delivery Volumes in Thousands of Cubic Metres (M<sup>3</sup>)</b>			
Residential	990,756	984,364	(6,392)
Commercial Small	525,793	522,401	(3,392)
Commercial Large	251,506	249,883	(1,623)
Small Industrial	23,092	23,241	149
Total Delivery	1,791,147	1,779,889	(11,258)
<b>Forecast Delivery Volumes in Thousands of Gigajoules (GJ)</b>			
Residential	38,144	38,144	-
Commercial Small	20,243	20,243	-
Commercial Large	9,683	9,683	-
Small Industrial	889	889	-
Total Delivery	68,959	68,959	-

April 1, 2019 - March 31, 2020

The Forecast Delivery Volumes in Thousands of Cubic Metres (m<sup>3</sup>) are lower than in the Rate Application submitted in September 2018. The lower volumes result from an update to the heat value forecast from 38.50 MJ/m<sup>3</sup> (Rate Application) to 38.75 MJ/m<sup>3</sup>.

## Schedule 5.3 – Load Forecast (Cold Weather Scenario)

### SaskEnergy Incorporated Load Forecast - Cold Weather Scenario

	Delivery Rate Application 2019-20 Forecast	Business Plan 2019-20 Forecast	2019-20 Variance
<b>Average Forecast Number of Customers</b>			
Residential	356,506	356,506	-
Commercial Small	40,216	40,216	-
Commercial Large	1,478	1,478	-
Small Industrial	29	29	-
Total Delivery	398,229	398,229	-
<b>Forecast Delivery Volumes in Thousands of Cubic Metres (M<sup>3</sup>)</b>			
Residential	1,188,907	1,181,237	(7,670)
Commercial Small	630,952	626,882	(4,070)
Commercial Large	301,807	299,860	(1,947)
Small Industrial	23,092	23,241	149
Total Delivery	2,144,758	2,131,220	(13,538)
<b>Forecast Delivery Volumes in Thousands of Gigajoules (GJ)</b>			
Residential	45,773	45,773	-
Commercial Small	24,292	24,292	-
Commercial Large	11,620	11,620	-
Small Industrial	889	889	-
Total Delivery	82,574	82,574	-

April 1, 2019 - March 31, 2020

The Forecast Delivery Volumes in Thousands of Cubic Metres (m<sup>3</sup>) are lower than in the Rate Application submitted in September 2018. The lower volumes result from an update to the heat value forecast from 38.50 MJ/m<sup>3</sup> (Rate Application) to 38.75 MJ/m<sup>3</sup>.

## Schedule 5.4 – Load Forecast (Warm Weather Scenario)

### SaskEnergy Incorporated Load Forecast - Warm Weather Scenario

	Delivery Rate Application 2019-20 Forecast	Business Plan 2019-20 Forecast	2019-20 Variance
<b>Average Forecast Number of Customers</b>			
Residential	356,506	356,506	-
Commercial Small	40,216	40,216	-
Commercial Large	1,478	1,478	-
Small Industrial	29	29	-
Total Delivery	398,229	398,229	-
<b>Forecast Delivery Volumes in Thousands of Cubic Metres (M<sup>3</sup>)</b>			
Residential	792,605	787,491	(5,114)
Commercial Small	420,635	417,921	(2,714)
Commercial Large	201,205	199,907	(1,298)
Small Industrial	23,092	23,241	149
Total Delivery	1,437,537	1,428,560	(8,977)
<b>Forecast Delivery Volumes in Thousands of Gigajoules (GJ)</b>			
Residential	30,515	30,515	-
Commercial Small	16,194	16,194	-
Commercial Large	7,746	7,746	-
Small Industrial	889	889	-
Total Delivery	55,344	55,344	-

April 1, 2019 - March 31, 2020

The Forecast Delivery Volumes in Thousands of Cubic Metres (m<sup>3</sup>) are lower than in the Rate Application submitted in September 2018. The lower volumes result from an update to the heat value forecast from 38.50 MJ/m<sup>3</sup> (Rate Application) to 38.75 MJ/m<sup>3</sup>.

## Schedule 5.5 – Revenue Sensitivity to Changes in Weather

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

	Delivery Rate Application 2019-20 Forecast	Business Plan 2019-20 Forecast	2019-20 Variance
<b>Delivery Revenue - Base Case</b>			
Residential	198.4	197.8	(0.6)
Commercial Small	61.2	60.9	(0.3)
Commercial Large	19.6	19.5	(0.1)
Small Industrial	1.0	1.0	0.0
Total Delivery	<u>280.2</u>	<u>279.2</u>	<u>(1.0)</u>
<b>Delivery Revenue - Cold Weather Scenario</b>			
Residential	218.1	217.5	(0.6)
Commercial Small	69.8	69.4	(0.4)
Commercial Large	23.1	22.9	(0.2)
Small Industrial	1.0	1.0	0.0
Total Delivery	<u>312.0</u>	<u>310.8</u>	<u>(1.2)</u>
<b>Delivery Revenue - Warm Weather Scenario</b>			
Residential	178.5	178.0	(0.5)
Commercial Small	52.7	52.5	(0.2)
Commercial Large	16.2	16.1	(0.1)
Small Industrial	1.0	1.0	0.0
Total Delivery	<u>248.4</u>	<u>247.6</u>	<u>(0.8)</u>

April 1, 2019 - March 31, 2020

The Delivery Revenues above show an approximate \$1.0 million shortfall in revenues for the Base Case between the Rate Application submitted in September 2018 and the Mid-Application Update. The shortfall results from an update to the heat value forecast from 38.50 MJ/m<sup>3</sup> (Rate Application) to 38.75 MJ/m<sup>3</sup>.



## 6.0 Mid-Application Update Summary

The net impact of the updated forecast results in SaskEnergy having a shortfall of \$1.3 million. Based on this shortfall, SaskEnergy's ROE would be 8.0% and not meet its required ROE of 8.3%.

SaskEnergy continues to recommend that the commodity rate decrease and the delivery service rate increase be approved as requested in the initial submission.