



Saskatchewan Rate Review Panel

Report to the Minister Responsible for Crown Investments Corporation of Saskatchewan

Regarding the SaskEnergy Delivery Service Rate Application
Effective date November 1, 2017

Report submitted October 4, 2017



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Executive Summary

SaskEnergy submitted an application on July 11, 2017 to increase the Delivery Service Rates by an average of 3.6% effective November 1, 2017 to recover the increased cost of providing delivery service to the corporation's customers. SaskEnergy is not currently proposing to increase the commodity rate for the coming year.

Mandate

The Saskatchewan Rate Review Panel has been appointed as a Ministerial Advisory Committee to conduct a review and provide an opinion of the fairness and reasonableness of the proposed rate changes to the Minister of the Crown Investments Corporation by October 4, 2017.

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 Panel, with the assistance of the consultant, put forward two rounds of information requests and supplementary questions (all posted on the Panel's website), and with its consultant, had individual discussions with SaskEnergy staff to clarify specific answers received.

Recommendations to the Minister:

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

1. That the proposed system average 3.6% increase to the Delivery Service Rate be reduced to 2.95%.
2. That the proposed increase to the Basic Monthly Charge (BMC) for the Residential customer class be reduced from a \$1.65 monthly increase to \$0.75 increase to the BMC, and that the balance of the Residential cost of service revenue requirement be recovered through the volumetric Delivery Charge.
3. That the Panel's recommended rate increases apply to the volumetric Delivery Charge for the Commercial Small, Commercial Large, and Small Industrial customer classes.

Recommendations for SaskEnergy:

As highlighted in the Panel's report of September 14, 2016, the Panel continues to urge SaskEnergy to pursue the measures required to shift to billing in energy as soon as possible. The consultant's report also noted a number of issues that would make future applications more transparent, more efficient, and less time-consuming for all parties. The Panel intends to work with SaskEnergy to pursue those issues, and increase opportunities for efficiencies for both parties prior to the next application.

In conducting this review, the Panel has identified several risk factors that may impact future rate applications including: natural gas prices, interest rates, weather, carbon tax and collective agreements. A full discussion of these factors can be found in the "Risks and Considerations" section.

Bill Impacts

If the rates proposed by the Panel are accepted, residential customers with average usage of 2,643 M₃ would see an increase in their bills of approximately \$17 per year. The Commercial Small rate class would see bills increase by about \$25/year or \$2.08/month, and Commercial Large rate classes would see bills increase on average \$384/year (or \$32/month). The average Small Industrial customer would see the volumetric delivery charge decreased from the proposed increase of 2.4% to 1.8%.

Competitiveness

With the proposed rate increase, SaskEnergy's delivery rates would remain among the lowest for major metropolitan centres in Canada for all customer classes. However, total bills that include the commodity rate charge indicate that the bill for Residential customers would be the third highest among jurisdictions surveyed.¹ Commercial customer bills would be among the third lowest. Small Industrial customers have unique operating requirements that tend to make comparisons across jurisdictions difficult.

¹ 1st Round Information Request 23 (a)

SaskEnergy’s Rationale for the Application

SaskEnergy submitted an application on July 11, 2017 to increase the Delivery Service Rates by an average of 3.6% effective November 1, 2017 to recover the increased cost of providing delivery service to the corporation’s customers. There would be no change in the commodity rate since natural gas procurement rates have not materially changed. This increase would result in the following changes to customer’s bills:

DELIVERY SERVICE RATE INCREASE			
RATE CLASS	\$/MONTH	DELIVERY SERVICE % INCREASE	BILL IMPACT % INCREASE
RESIDENTIAL	\$1.65	3.9%	2.3%
COMMERCIAL SMALL	\$2.84	2.4%	1.1%
COMMERCIAL LARGE	\$40.00	3.5%	1.2%
SMALL INDUSTRIAL	\$103.00	2.4%	0.6%
AVERAGE		3.6%	1.8%

The average monthly increase is based on an average customer’s annual consumption and will vary depending on customer’s usage. Residential customers would receive a 3.9% or \$1.65/month increase to the Basic Monthly Charge (BMC), and there would be a 2.4% increase on the volumetric Delivery Charge for Commercial Small customers, a 3.5% increase to Commercial Large, and 2.4% increase to Small Industrial.

SaskEnergy forecasts that net delivery revenue requirement at existing rates will result in a projected shortfall of \$9.1 million to achieve a Return On Equity (ROE) of 8.3%.³ The test year (November 1, 2017 to October 31, 2018) rates are driven by capital investment related to public safety, system integrity, and infrastructure renewal of the distribution system, and ongoing customer growth. The Delivery Service Rate increase is mainly driven by:

- SaskEnergy is forecasting capital spending to increase from \$99.80 million in 2015 to average annual net capital spending of \$121.83 million from 2016-17 to 2021-22. The increase in capital expenditures increases depreciation expense, which is \$4.077 million or 47% of the overall increase in revenue requirement, as well as an increase in interest expense by \$0.598 million for the 2017-18 test year. The increase in the rate base also results in an increase in revenue requirement for net earnings.⁴
- An increase in forecast net earnings to \$30.435 million, which results from the increase in rate base, is 24% of the overall net delivery revenue requirement in the 2017-18 test year.⁵ This increase in net earnings will result in an ROE for the test year of 8.3%.
- An increase in Operations and Maintenance (O&M) expense accounts for about 17% of the overall increase in revenue requirement (about \$1.509 million or 2% over the 2016-17 test year). During the 2015-16 and 2016-17 fiscal years SaskEnergy implemented restraint measures following directives imposed by the Government of Saskatchewan. This resulted in decreased actual spending in each fiscal year compared to the test year forecasts for 2015-16 and 2016-17. The 2017-18 test year forecast is designed to return to more normal levels of spending for items such as travel, advertising and to a lesser extent, sponsorships.⁶

² 2017 Delivery Service Rate Application, P. 1

³ Ibid

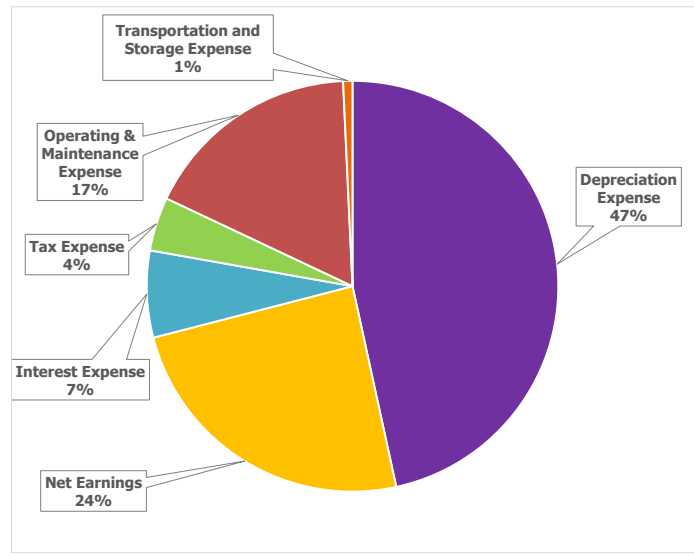
⁴ InterGroup Consultants Ltd. Report, P. 2-1

⁵ Ibid

⁶ Ibid

The following chart illustrates the expenses that contribute to the increased revenue requirement for the test year:

Share of Revenue Requirement Change from 2016-17 Test Year to 2017-18 Test Year⁷



To mitigate this increase, SaskEnergy has introduced several efficiency initiatives including effective use of materials, technology and resources, as well as increased collaboration with other Crown corporations. These measures have achieved \$42.7 million in savings from 2009 to 2016-17, and are targeted to achieve a further \$4.4 million in savings during the 2017-18 test year.

If this application is approved, SaskEnergy plans to begin implementation of the proposed rates on November 1, 2017.

⁷ Prepared based on Table 3-1, InterGroup Consultants Report, P. i

Panel's Recommendations to the Minister

The Saskatchewan Rate Review Panel, following its review and analysis that included meetings with SaskEnergy management, two rounds of specific information requests, several meetings with its technical consultant culminating with receipt of 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 system average 3.6% increase to the Delivery Service Rate be reduced to 2.95%.
2. That the proposed increase to the Basic Monthly Charge (BMC) for the Residential customer class be reduced from a \$1.65 monthly increase to \$0.75 increase to the BMC, and that the balance of the Residential cost of service revenue requirement be recovered through the volumetric Delivery Charge.
3. That the Panel's recommended rate increases apply to the volumetric Delivery Charge for the Commercial Small, Commercial Large, and Small Industrial customer classes.

Revised Rate Increase

SaskEnergy forecast net delivery revenue requirement at existing rates results in a projected shortfall of \$9.1 million to achieve a forecast Return on Equity (ROE) of 8.3%.

The Panel has noted that Delivery Rates have increased every year since 2012 and rates are expected to increase in the future to support SaskEnergy's ongoing integrity and growth capital spending requirements. Although the commodity rate and commodity portion of Residential customer bills is currently significantly lower than in prior years, Delivery Rates have been steadily increasing as this chart indicates:

	July 1, 2012	Sept 1, 2013	Sept 1, 2014	Nov 1, 2015	Nov 1, 2016	Nov 1, 2017 (Proposed)	Nov 2, 2017 (Recommended)
Average Monthly Delivery Service Bill (\$/month)	\$35.42	\$36.89	\$37.77	\$39.52	\$43.05	\$44.70	\$44.47
Change in bill (\$/Month)	\$2.25	\$1.47	\$0.89	\$1.75	\$3.53	\$1.65	\$1.42

	July 1, 2012	Sept 1, 2013	Sept. 1, 2014	Nov. 1, 2015	Nov. 1, 2016	Nov. 1, 2017 (Proposed)	Nov. 2, 2017 (Recommended)
Delivery Service Bill Impact (%)	6.7%	4.2%	2.4%	4.6%	8.9%	3.6%	2.95%

There are a number of factors that materially impact SaskEnergy's revenue requirement that are outside of the Panel's mandate such as capital expenditures, return on equity and transportation and storage rates. This means that there are limited measures available to reduce or mitigate rate increases to ratepayers other than productivity and efficiency measures to reduce operation and maintenance costs and other like expenditures.

⁸ Bill increases are based on assumed average annual consumption of 2,800 M³/year.

⁹ InterGroup Consultants Ltd. P. 7-8

The Panel has conducted an extensive review to determine approaches that could be undertaken to lessen the impact on ratepayers, while ensuring that SaskEnergy continues to provide safe and reliable natural gas to its customers. As part of a financial update from SaskEnergy, the Panel's independent consultant noted that interest rates in the application appear higher than in the update. In a review of the actual interest rates experienced in the 2015-16 and 2016-17 fiscal years, it appears that SaskEnergy has tended to have higher short-term interest rate forecasts compared to actual results and has benefited from these year-over-year cost savings. SaskEnergy has continued to forecast an increase in short-term interest rates for the test year.

For long-term debt, SaskEnergy has confirmed that the actual interest rates for the 2016 and 2017 new long-term debt issues were lower compared to the forecast included in the 2016 application. The forecast short term and long-term interest rates also appear to be higher than that used by other utilities. The consultant indicated that interest rate forecasts used in the application were based upon data in May 2016, and that if more current information on interest rates and borrowing amounts were used, there would be an \$0.8 million decrease in interest expense for the test period.¹⁰

The Panel's consultant also determined that there are "inconsistencies in SaskEnergy's trend analysis used year-to-year for determining its load forecast".¹¹ The review indicated that the trend analysis did not include actual information for 2015, 2015-16 fiscal year, or 2016-17 fiscal year actual sales information. Since the sales forecast is an important factor for determining both the revenue shortfall and the calculation of rates for the test year, a consistent approach should be used in load forecast modelling, and any year-to-year changes in approach should be highlighted and explained. For the current test year, Residential sales may be underestimated due to the identified inconsistency in the trend analysis undertaken. It is understood that this issue arose due to a formula inadvertently not being updated. SaskEnergy has noted that with the trend analysis updated, there would be an increase in forecast revenues at existing rates in the range of \$0.500 to \$0.550 million.¹² This would reduce the forecast revenue shortfall at existing rates by the same amount.

The Panel commends SaskEnergy on its approach to productivity and efficiency measures in the past and believes that continued emphasis in this area will help to limit future rates increases. Between 2009 and 2016-17, SaskEnergy has been able to achieve savings of \$42.7 million. The following chart indicates the success that SaskEnergy has had in this area:

Summary of Efficiency Savings¹³

	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016/17 Actual	2017/18 Forecast
<i>Actual Savings 2009 – 2016/17 approximately \$42.7 million</i>									
Savings	\$6.0 M	\$5.2 M	\$5.3 M	\$6.2 M	\$5.5 M	\$4.6 M	\$5.9 M	\$4.0M	\$4.4 M

The Panel has noted that some of these savings were achieved after past rate applications were approved, and the benefit of those savings accrued as higher net income to the corporation and ultimately the shareholder. In this application, SaskEnergy is targeting a further \$4.4 million in annual efficiency savings. There are several initiatives planned for 2017-18 that are in progress and are intended to provide savings to ratepayers in future periods.¹⁴ Due to the previous success in this area, the Panel continues to urge SaskEnergy to seek out further efficiencies and

¹⁰ InterGroup Consultants Ltd. Report, P. 3-47

¹¹ InterGroup Consultants Ltd. Report, P. 7-8

¹² Clarification to the response to 2nd Round Information Requests 20(c) provided by SaskEnergy on August 30, 2017.

¹³ Application, page 1. Tab 23, 2017 Delivery Rate Application; and Tab 25, page 1-2. 2016 Commodity and Delivery Service Rate Application (savings noted are for the consolidated company and not just the distribution company).

¹⁴ 1st Round Information Request, 29 (c)

subsequent financial savings which would help lessen the upward rate pressures being exerted on ratepayers by the corporation's significant capital spending plan.

Under direction from its shareholder, SaskEnergy made fiscal restraint a priority in 2015-16 and 2016-17, but it expects a return to more normal spending levels in 2017-18. For example, the total Operating and Maintenance (O&M) expense for the 2017-18 test year is about 1.2% higher than the 2016-17 test year forecast. However, the 2017-18 test year O&M expense forecast is about 10.1% higher than the 2016-17 fiscal year actual results. In another instance, actual salaries and wages for the period from November 1, 2016 to June 30, 2017 (i.e., first eight months of the 2016-17 test year), were about \$3.1 million lower compared to the forecast included in the 2016-17 test year (about 3.5% of the total labour cost for the 2016-17 test year). SaskEnergy notes that the lower than forecast labour costs are "attributable to overtime management as a result of business process changes and efficiency initiatives in addition to the restraint measures."¹⁵ As well, there is a substantial increase in Communications, Public Relations, Fees, Dues and Community Contributions costs in the 2017-18 fiscal year compared to the 2016-17 fiscal year. Based upon these observations, the Panel urges SaskEnergy to carefully consider its restraint programs and determine if these restraint measures can be made part of its overall efficiency initiatives. The panel urges that all discretionary spending should be carefully reviewed before proceeding.

In its last review, the Panel noted that higher levels of investment were driven more by enhancements to industry-best practices due to increased public scrutiny and concern related to having a safe and reliable system than by any changes to regulatory requirements. The Panel re-emphasizes to SaskEnergy that it continue to closely monitor spending in this area and review its approach and funding allocations, as deemed necessary to ensure it meets its mandated requirement to provide a safe and reliable gas delivery service.

After a careful examination of all these factors, the Panel believes that SaskEnergy can achieve its overall financial targets with the recommended rate increase.

Rate Design

SaskEnergy has proposed to increase the Basic Monthly Charge (BMC) for the Residential customer class and volumetric Delivery Charge to the other customer classes. The BMC allows SaskEnergy to recover its fixed costs for its distribution facilities and operations necessary to ensure delivery of natural gas to customers in a safe and reliable manner. The Delivery Charge is based on units consumed.

SaskEnergy's stated long-term policy objective is to recover at least 75% of its customer care related costs through the fixed BMC. However, with the proposed BMC for the Residential class in this application, the fixed charge revenues will recover 78% of customer related costs which is higher than the stated policy objective. SaskEnergy indicated that the proposed approach in this application was the best fit because it would keep public communications simple. SaskEnergy has proposed that applying 100% of the increase for the Residential class to the BMC would be easier for customers to understand rather than applying a portion to the BMC and volumetric Delivery Charge.¹⁶

The Panel noted that applying the rate increase to the volumetric Delivery Charge provides a stronger price signal to customers and can make it easier for customers to recognize the advantages of energy efficiency. "SaskEnergy's proposal to increase only the BMC for the Residential customer would mute price signals for residential customers, as all residential customers would see a bill increase of \$20/year regardless of their usage."¹⁷

¹⁵ 2nd Round Information Request 1 (d) part (ii).

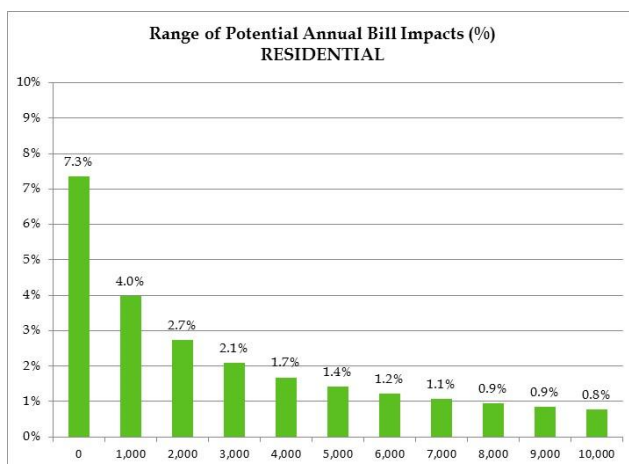
¹⁶ 1st Found Information Request 25 (a), part ii). 2017 Delivery Service Rate Application

¹⁷ InterGroup Consultants Report, P. 9-5

This would result in higher percentage bill increases for low usage customers and lower percentage impacts for high usage customers (ranging between 7.3% for low usage customers and 0.8% for high usage customers).¹⁸ In reviewing the fairness of this approach, the Panel noted the impact on customers with lower usage and that not all customers would contribute equitably to the required increase in rates depending on their share of the demand on the system.

The following table shows the range of potential rate impacts for Residential Customers based on usage using SaskEnergy’s proposed rate:

Range of Potential Rate Impacts for the Residential Customers based on M₃ usage under SaskEnergy Proposed Rate¹⁹



As noted in the foregoing table under this approach, the BMC for Residential customers will increase by \$20 per year or about \$1.65 per month regardless of natural gas usage, and low usage customers will see higher percentage increases to their bills.²⁰ The Panel believes that a fairer approach would be to apply the rate increase to both the BMC and the volumetric Delivery Charge for the Residential class. Information provided by SaskEnergy showed that an increase of \$0.75 to the BMC and an increase of \$0.0041 to the Delivery Charge would be consistent with its long-term policy objective to recover 75% of costs through the BMC.²¹ It is the view of the Panel that it would also provide greater fairness within the rate class (it would provide bill impacts between 2.0% and 3.3%).²² As well, placing an increase on the Delivery Charge encourages energy efficiency and enables those with limited incomes greater opportunities to mitigate the increase.

¹⁸ 1st Round Information Request 22 (b) and Tab 19. 2017 Delivery Service Rate Application. The information in Tab 19 shows that about 81% of the residential customers use less than 3,000 m³/year and would be a bill increase of about 3% (total annual bill increase, including commodity and delivery portion of the bill), 18% use between 3,001 and 7,000 m³/year and would see a bill increase of about 2% and 1% use more than 7,000 m³/year and would see a bill increase of about 1%.

¹⁹ 1st Round Information Request 22(b).

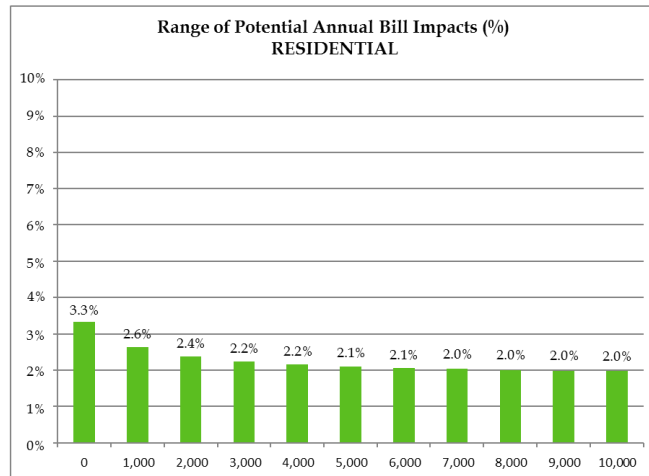
²⁰ Based on information from Tab 19 as well as 1st Round Information Request 22 (b)

²¹ 1st Round Information Request, 25 (b)

²² InterGroup Consultants Ltd. Report, P. 9-6

The following chart outlines the range of potential bill impacts on Residential Customers based on the Panel's recommendation:

Range of Potential Bill Impacts for the Residential Customers based on usage under rate option with increase in both BMC and Volumetric Charge (m³)²³



²³ 2nd Round Information Request 19 (a).

Panel's Recommendations to SaskEnergy

The Panel offers the following recommendations to SaskEnergy arising from its deliberations during this review:

As highlighted in the Panel's report of September 14, 2016, the Panel continues to urge SaskEnergy to pursue the measures required to shift to billing in energy as soon as possible. The consultant's report also noted a number of issues that would make future applications more transparent, more efficient, and less time-consuming for all parties. The Panel intends to work with SaskEnergy to pursue those issues, and increase opportunities for efficiencies for both parties prior to the next application.

Heat Value

The Panel has made several recommendations to SaskEnergy in previous reports that it consider a mechanism to reconcile the heating value variations in gas with the amounts billed to customers. Some Saskatchewan residents benefit from higher than average heating values while others experience lower than average heating values. This has led to some customers paying more than others to achieve the same heating energy simply due to their location in the province.

Overall, each year since 2009 there has been a negative impact to SaskEnergy's revenues due to using a lower heat value in its revenue forecast than has actually occurred each year. This has led to a negative impact to SaskEnergy ranging from \$0.5 million (in 2011) to \$4.7 million (in 2015); and an average annual variance of \$1.7 million over the period 2009-2016. Over this time period SaskEnergy has been negatively impacted in the amount of \$13.8 million.

Heat Value Revenue Impacts: 2009-2016-17 (Actual) and 2017-18 Forecast²⁴

Year	2009	2010	2011	2012	2013	2014	2015	2016/17 Fiscal Year	2017/18 Test Year Forecast
Forecast Heat Value (MJ/m ³)				37.98	38.02	38.00	37.96	38.00	38.50
Actual Heat Value (MJ/m ³)				38.28	38.42	38.36	38.79	38.58	
Variance on Income due to Higher than Forecast Heat Value (\$ Millions)	-1.3	-1.9	-0.5	-0.9	-1.0	-1.4	-4.7	-2.1	

Changes in heat value also affect the Gas Cost Variance Account (GCVA) balance. When heat value increases, customers require smaller volumes to achieve the same heating value, decreasing commodity revenues (which are based on volume) in addition to less delivery revenue. Financial losses on the commodity portion due to heat value variance are captured in the GCVA, with timing for collection (or refund) of related SaskEnergy revenues (or amounts owing to ratepayers) shifted to future periods. This mechanism mitigates SaskEnergy's financial risk related to variances in commodity revenue due to heat value but does not include the loss on the delivery revenue. However, if amounts owed by ratepayers accrue in the GCVA, it may compound the amounts owing from ratepayers (and required commodity rate increases) in future periods. SaskEnergy has noted the following impacts on the GCVA related to heat value variance over the last three years. These are costs that must be recouped by SaskEnergy from ratepayers.

²⁴ Actual revenue impacts for 2009 to 2016 from 2016 Commodity and Delivery Rate Application Tab 24, Attachment 1, page 2. 2016/17 actual results from response to 2017 Delivery Service Application 1st Round Information Request 28(c). Forecast and Actual heat value for 2012 to 2015 from response to 1st Round Information Request 28(b). 2017/18 test year heat value forecast from response to 28(d).

Heat Value Revenue Impacts: 2014-15 to 2017-18²⁵

Period	Heat Value Impact to GCVA (Amounts owing to SaskEnergy)
Nov. 2014 – Oct. 2015	\$2.485 million
Nov. 2015 – Oct. 2016	\$5.602 million
Nov. 2016 – May 2017	\$0.777 million

SaskEnergy has also indicated that for the 2017-18 test year, a 0.5 MJ/ M³ variance between forecast and actual heat value will have a \$2.7 million impact to the GCVA.²⁶ The heat value forecasted in this application is 38.5 GJ/M³. This is reasonably consistent with current heat value of gas procured.

Although SaskEnergy's application does not highlight impacts related to heat value variance, the Panel continues to be concerned about the fairness of some customers paying more than others to achieve the same heating energy depending on their geographic location.

SaskEnergy has been reluctant to transition to billing in energy at this time because of the "current economic environment and fiscal restraints" and "a transition to billing in energy would require conditions conducive to adding additional financial and staffing resources as well as the support of SaskEnergy's owner."²⁷ The corporation also indicated that making this change could also result in customer confusion regarding their billing.

Despite these challenges, the Panel believes that billing in energy would eliminate the need for forecasting heat value and the associated risks related to heat value variance. Most gas utilities in Canada bill in gigajoules (GJs). The Panel urges SaskEnergy to pursue measures required to shift to billing in energy as soon as possible.

Future Applications

The Panel agrees with its consultant's recommendation that SaskEnergy provide more detailed explanations in future applications regarding intercompany allocations, transportation and storage rates, depreciation calculations, corporate capital tax calculations, the decommissioning of assets, other revenue forecasts, and productivity and efficiency measures. These more detailed explanations include:

- **Intercompany Allocations:** If there are any material changes to the allocation percentages or the methodology, SaskEnergy review these details and rationale for the proposed change as well as any other alternatives that were considered.
- **Transportation and Storage Rates:** The Panel wishes to work more closely with SaskEnergy on determining what information can be made available to ensure greater transparency and to provide the Panel and the public with better assurance that these costs are reasonable and prudently incurred.
- **Depreciation Expense:** The Panel would benefit from more substantive information from SaskEnergy regarding depreciation calculations, including providing the depreciation base that reconciles to the plant in service, depreciation rates, and calculated depreciation expense by account included in the depreciation study.

²⁵ 1st Round Information Request 28(c).

²⁶ 1st Round Information Request 28(c).

²⁷ 1st Round Information Request, 27(c).

- Corporate Capital Tax: SaskEnergy provide more detailed information to support the calculation of corporate capital tax.
- Decommissioning Assets: Future applications would benefit from further and more detailed information regarding how decommissioning assets are removed from rate base, the calculation of accretion expense, and its impact to the rate base adjustment.
- Other Revenues: SaskEnergy provide a more detailed discussion regarding how it forecasts Other Revenues, how this compares to peer utilities, and whether using historical actuals to forecast revenues for late payments, customer connections, and miscellaneous revenues may provide more accurate forecasts.
- Productivity and Efficiency Measures: SaskEnergy provide a statement in the descriptions for each productivity and efficiency program that indicates how it meets its own stated definition for productivity and efficiency initiatives. Restraint programs that have been, or that will be undertaken, should be clearly identified and described.

Risks and Considerations

The following should not be considered a complete analysis of all the risks that SaskEnergy is subject to, but the Panel has considered the following potential risks and considerations in making these recommendations. These risks may appear at a future date and have an impact on the customer, the corporation and the public. All stakeholders should be aware of these risks and considerations as they may have an impact on future rate applications.

Natural Gas Prices

Although current natural gas prices have remained low, it is expected that over time, natural gas prices will increase and this may drive future commodity rate increases. Price fluctuations are due to the dynamics of supply and demand and can have an impact on future applications. Variances are tracked in SaskEnergy's Gas Cost Variance Account (GCVA) as they occur and pass through to the ratepayer.

Weather

Weather remains a constant risk for a gas utility. If weather is colder than normal, then its revenue will be higher and customer bills will increase since more volume will be consumed. If weather is warmer than normal, customers will consume less natural gas, resulting in lower bills and lower delivery revenue for SaskEnergy.

Interest Rates

SaskEnergy holds both short term and long term debt. There have been changes in the overnight bank rates recently which may impact future borrowing costs. With the significant capital program plan of SaskEnergy, financing costs associated with this capital plan could be impacted going forward which could put additional upward pressure on delivery rates. However, interest expense is a forecast risk that is taken by SaskEnergy and any losses or benefits that accrue due to higher or lower actual interest expense compared to forecast are borne or attributable to the corporation.

Carbon Tax

The federal government announced a new carbon tax that would set a minimum price on carbon of \$50/tonne by 2022. The floor price will begin at \$10/tonne in 2018, and increase by \$10 a year for the next four years. SaskEnergy has confirmed, if imposed on SaskEnergy or energy products consumed by the ratepayer, the average household in the province could see an annual increase of \$50 during the first year of taxation, which could increase to \$250 per year in 2022.

Collective Agreements

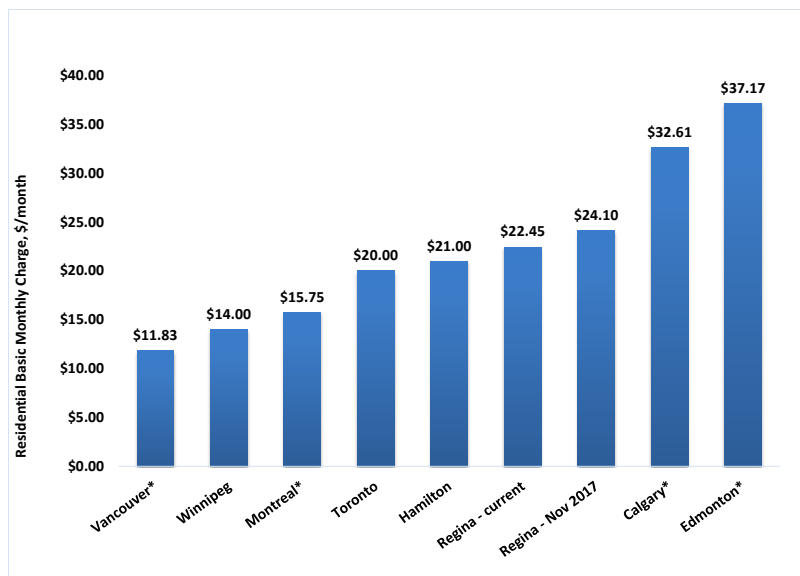
The collective agreement between SaskEnergy and its employees' union, Unifor, expired on January 31, 2017. There is risk that the overall collective agreement rates may be higher than SaskEnergy is forecasting, which may apply pressure to rates.

The Competitiveness of the Proposed Rates

If the Panel’s recommendations are approved, SaskEnergy’s delivery rates will remain among the lowest for major metropolitan centres in Canada for all customer classes. However, total bills that include the commodity rate charges show that the bill for Residential customers would be the third highest, and the Commercial customer bills would be among the third lowest among jurisdictions. The Panel did not request an assessment of competitiveness for Small Industrial customers from the consultant since these customers tend to have unique operating requirements that make comparisons across jurisdictions difficult. Based upon this research, the Panel has concluded that SaskEnergy’s rates will remain competitive even if the requested rates were implemented, although the Residential basic monthly charge will remain one of the highest among the jurisdictions surveyed.

Residential Rates

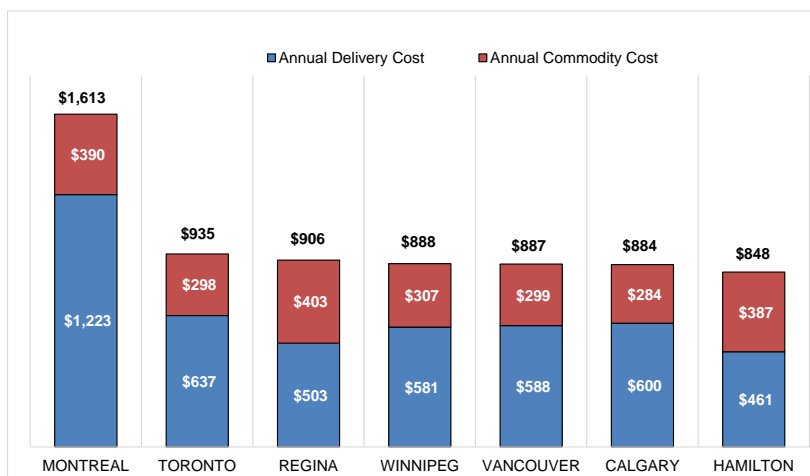
Residential Basic Monthly Charge Comparison (\$/Month)²⁸



This chart compares the Basic Monthly Charges for Residential customers and indicates that the proposed Basic Monthly Charge for SaskEnergy residential customers is slightly higher than the average for major Canadian centres (SaskEnergy proposed BMC is \$24.10 -Panel’s recommended BMC is \$23.20) compared to \$22.10 which is the average for other jurisdictions.

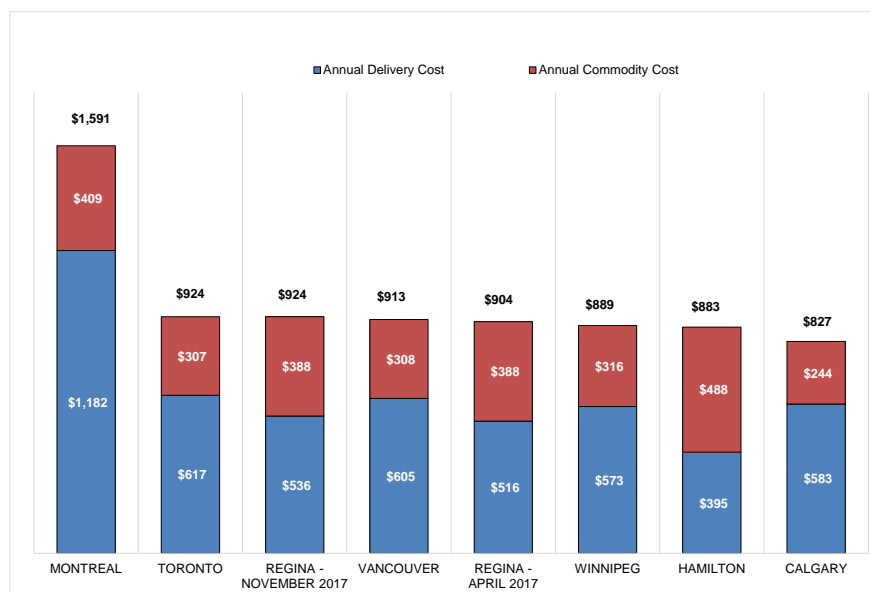
²⁸ Regina proposed rate from Schedule 2 of 2017 Delivery Service Rate Application. Vancouver charge from FortisBC, as of January 1, 2017: <http://www.fortisbc.com/NaturalGas/Homes/Rates/Mainland/Pages/default.aspx>, fixed charges for Calgary and Edmonton are from SaskEnergy’s June 26, 2017 presentation and reflect fixed charges from ATCO Gas North and ATCO Gas South rate schedules plus a Direct Energy Regulated customer charge, current rates available at: http://www.atcogas.com/Rates/Current_Rates/and_Direct_Energy_Regulated_at_https://www.directenergyregulatedservices.com/images/docs/170825-DERS-Sep-2017-Interim-South-DRT-Rate-Schedules.pdf, Winnipeg charge from Centra Gas, current rates as of August 1, 2017: https://www.hydro.mb.ca/regulatory_affairs/energy_rates/natural_gas/current_rates.shtml, Toronto charge from Enbridge gas, current rate as of July 1, 2017: <https://www.enbridgegas.com/homes/accounts-billing/residential-gas-rates/purchasing-gas-from-enbridge.aspx>, Hamilton charge from Union Gas, Southwestern Ontario, rates as of July 1, 2017: <https://www.uniongas.com/~media/aboutus/rates/residential/m1.pdf?la=en>, Montreal rate from GazMetro, rate as of March 1, 2017: <https://www.gazmetro.com/en/residential/customer-centre/billing-and-pricing/pricing/> [all web sites are accessed on August 22, 2017].

Annual Average Residential Delivery and Commodity Costs May 2016 – April 2017 (based on average consumption of 2,800 m³/year)²⁹



This chart shows the actual annual residential delivery and commodity costs for May 2016 through April 2017.

Annual Average Residential Delivery and Commodity Costs based on 2017 Rates (based on average consumption of 2,800 m³/year)³⁰



This chart compares bills at 2017 rates, including rates proposed by SaskEnergy effective November 1, 2017. These last two charts indicate that, of the jurisdictions surveyed, SaskEnergy had the third highest bills for Residential customers at the assumed average consumption level and based on May 2016 to April 2017 rates. SaskEnergy would be at the mid-point with April 2017 rates (before an increase) and would be third highest at November 1st 2017 (after the rate increase).

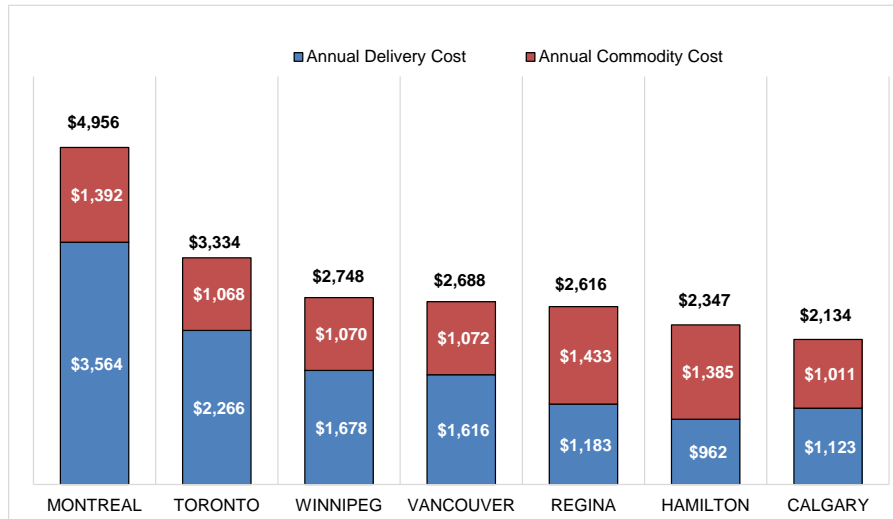
²⁹ 1st Round Information Request 23 (a).

³⁰ 1st Round Information Request 23 (a). Regina bill for November 2017 includes proposed increase of \$20/year for BMC.

Commercial Small Rates

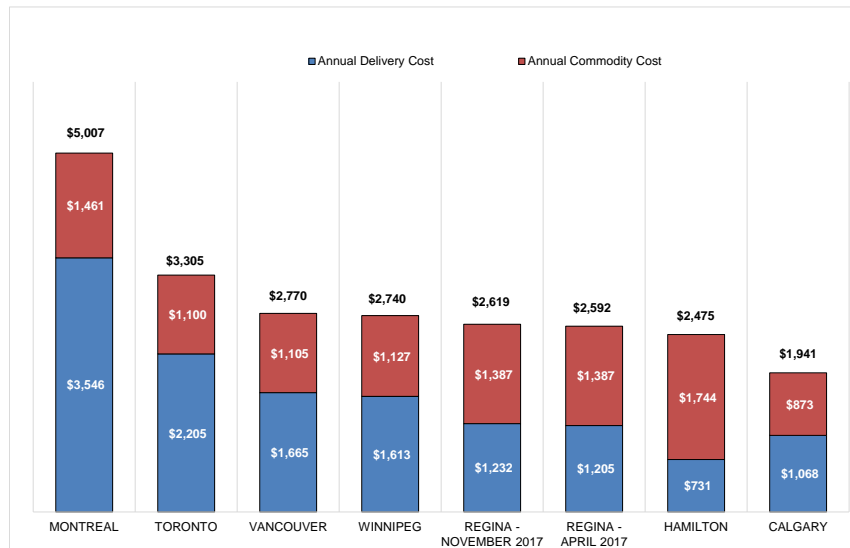
Commercial Small bills in Regina are expected to be the third lowest of the nine jurisdictions surveyed under both current and proposed rates.

Commercial Small Delivery and Commodity Costs May 2016 – April 2017
(based on consumption of 10,000 m³/year³¹)



This chart provides a comparison of average annual bills for Commercial Small customers for rates from May 2016 to April 2017.

Commercial Small Delivery and Commodity Costs for 2017 Rates
(based on consumption of 10,000 m³/year³²)



This chart provides a comparison of bills for 2017 rates which includes both the current and proposed rates for SaskEnergy.

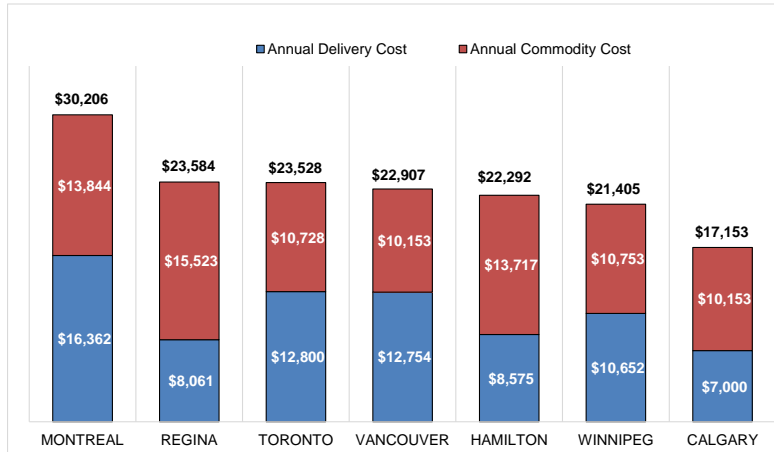
³¹ 1st Round Information Request 23 (a).

³² 1st Round Information Request 23 (a). Regina bill for November 2017 includes proposed increase of about \$27/year.

Commercial Large Rates

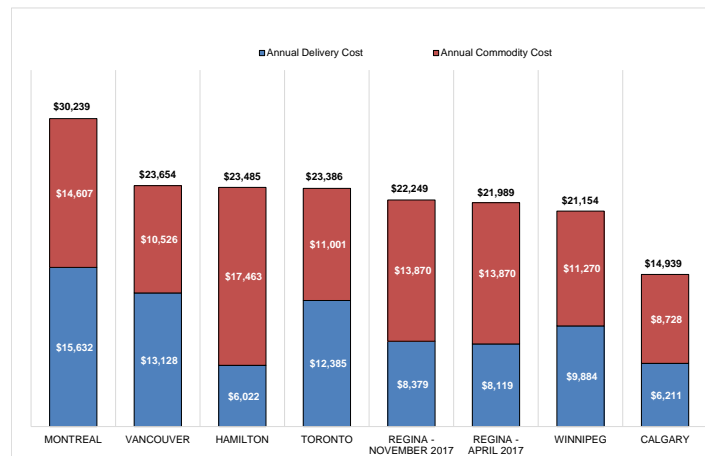
Commercial Large bills in Regina are expected to be the third lowest of the nine jurisdictions surveyed under both current and proposed rates.

Commercial Large Delivery and Commodity Costs for May 2016 – April 2017
(based on consumption of 100,000 m³/year)³³



This chart provides a comparison of average annual bills for Commercial Large customers for rates from May 2016 to April 2017.

Commercial Large Delivery and Commodity Costs for 2017 Rates
(based on consumption of 100,000 m³/year)³⁴



This chart provides a comparison of bills for 2017 rates and includes both the current and proposed rates for SaskEnergy.

³³ 1st Round Information Request 23 (a).

³⁴ 1st Round Information Request 23 (a). Regina bill for November 2017 includes proposed increase of about \$260/year.

The Impacts of the Proposed Rates

Impact on the Customer

Customer bills include a Commodity Rate, a Basic Monthly charge and a Delivery Rate. Bill impacts will vary depending on customer class and usage levels. The Panel is recommending to the Minister an increase to the Basic Monthly Charge and the volumetric Delivery Charge for Residential customers, and an increase to the volumetric Delivery Charge for Commercial Small, Commercial Large and Small Industrial customers. No change in the Commodity Rate is being proposed.

The following table summarizes the estimated bill impacts for average customers in each customer class. At average consumption levels, customers in all rate classes are expected to experience overall bill increases.

Proposed Customer Bill Impact from Recommended Delivery Rate Change³⁵

	Delivery Service Rate Increase					Annual Bill Change Proposed by SaskEnergy %
	Assumed Av. Annual Consume. (m3/years)	Annual Delivery Bill at existing rates, \$/year	Annual Delivery Bill at "estimated" rates \$/year	Annual Bill Change, \$/year	Annual Bill Change, %	
Residential	2,643	\$503	\$519	\$17	3.3%	3.9%
Commercial Small	12,631	\$1,400	\$1,426	\$25	1.8%	2.4%
Commercial Large	183,067	\$13,493	\$13,877	\$384	2.8%	3.5%
Small Industrial					1.8%	2.4%
Average					2.95%	3.6%

If the rates proposed by the Panel are accepted, Residential customers with average usage of 2,643 M3 would see an increase in their bills of approximately \$17 per year. The Commercial Small rate class would see bills increase by about \$25/year or \$2.08/month, and Commercial Large rate classes would see bills increase on average \$384/year (or \$32/month). The average Small Industrial customer would see their Delivery Charge increase by 1.8% compared to a proposed increase of 2.4%.

Impact on the Crown Corporation – SaskEnergy

The Panel recognizes that SaskEnergy requires a rate increase to continue to meet its public safety requirements and ensure it is aligned with best industry practices. The Panel is confident that the recommended rate increase will provide SaskEnergy sufficient resources to meet its annual investment in infrastructure renewal, return on equity requirements, transportation and storage, and increased operating and maintenance costs together with all other revenue requirement obligations.

Since 2009, SaskEnergy has consistently implemented annual savings of \$5-\$6 million annually through productivity

³⁵ Estimated bill is based on reduction in shortfall for 2017-18 by \$1.64 million (from \$9.1 million as proposed by SaskEnergy in 2017 application to \$7.45 million) to generate the 2.95%. The allocation of reduction is based on share of total costs in COS (Schedule Summary of Revenues and Degree of Cost recovery by Class). The Residential bill also assumes \$0.75/month charge in BMC. The numbers are for illustrative purposes only to provide degree of impact of reduction in shortfall.

and efficiency measures, the Panel is confident that the corporation can achieve this new goal.

There are other recommendations in the report that will have an impact on the manner in which SaskEnergy provides information, which will make future applications more efficient and reduce the amount of time spent on obtaining the necessary data.

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. The recommended rates will enable SaskEnergy to achieve an industry comparable ROE of 8.3%. The public should be aware that due to SaskEnergy's capital investment program, there will be continued upward pressure on rates.

Role of the Saskatchewan Rate Review Panel

Authority

Through Order-in-Council dated December 5, 2012, and amended on December 31, 2014; January 13, 2015; and December 16, 2015, 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	Burl Adams, Kelvington; Daryl Hasein, Biggar; Duane Hayunga, Prince Albert; Steve Kemp, Regina; and Lyle Walsh, Yorkton.

Panel's Terms of Reference

The Minister issued an Order on July 11, 2017 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.

For the delivery rate review, these parameters include:

- The rate structure (i.e. components and classifications)
- The budgeted capital allocation, the base rate, and established corporate policies
- The long-term target rate of return on equity of 8.30%, as approved in the 2016-17 business plan, using industry based rate setting methodology and excluding customer contributions for the distribution utility, the existing service levels
- The revenue-to-cost ratio target range of 0.95 to 1.05
- All transportation and storage rates including those set by TransGas Limited.

The Minister's Order for this review called for the Panel to complete its work no later than October 4, 2017.

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 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 September 18, 2017.

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 August 15th 2017. 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, however, the comments that were provided were critical of the rate increase. Concerns were expressed that it is becoming increasingly difficult for low income earners and those on fixed incomes to pay higher rates. There was also concern expressed that the rates were another form of taxation and that rates should be tied to the cost of inflation. Here is a sampling of the comments:

I think these corporations should be cutting back somehow on their expenses and we just can't keep raising these rates all the time.

If these Crown corporations want more money, then they should look internally first, especially wages and benefits, and no bonuses.

Consumers in this province have had enough and cannot afford the constant rate hikes by all the Crown corporations. Rates keep going up for everything but my wages have not gone up at all.

I hope SaskEnergy isn't allowed to have their rates increased. SaskPower just increased their rates this past year, and as a student, that was a major impact on my finances.

All submissions and a transcript of the public meeting are available on the Panel's website at www.saskratereview.ca.

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 2017 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.