

**THE CONSUMERS' ASSOCIATION OF CANADA,
SASKATCHEWAN BRANCH**

**An Assessment of the
Application from SaskEnergy
to Increase the Commodity
Rate of Natural Gas in
Saskatchewan**

AUGUST 18, 2008

THE CONSUMERS' ASSOCIATION OF CANADA, SASKATCHEWAN BRANCH

306 – 220 THIRD AVENUE SOUTH

SASKATOON, SK, S7K 1M1

PHONE: (306) 242-4909 FAX: (306) 955-5810

E-Mail: office.cacsk.office@sasktel.net Website: www.consumersask.com

1. Introduction.

The Consumers' Association of Canada, Saskatchewan Branch, welcomes the opportunity to participate in the hearings of the Saskatchewan Rate Review Panel on the Commodity Rate application from SaskEnergy dated July 16, 2008 and updated on August 11, 2008.

We reviewed the original application with care. The initial review immediately triggered the following questions:

- Why did SaskEnergy request a Commodity Rate increase of 55.7% on July 16?
- How did SaskEnergy reconcile that request with its claim that the "bill impact" for a residential customer would be 37% only?
- What are the consequences of that increase for consumers in Saskatchewan?
- Why had SaskEnergy not been able to collect \$22 million from its current customers for gas delivered as recorded in the Gas Cost Variance Account?
- Is it fair and reasonable to collect those monies from next year's customers as proposed by SaskEnergy?

On August 11, SaskEnergy submitted an amended request to reduce the increase from \$10.21/GJ to \$8.71/GJ.

- Why did SaskEnergy submit a revised rate request on August 11?

Natural gas is an essential commodity for most residents and businesses in Saskatchewan. The Consumers' Association of Canada, Saskatchewan Branch, concluded that the above and other important questions in conjunction with the essential nature of natural gas warranted a submission to the Saskatchewan Rate Review Panel.

2. SaskEnergy's Commodity Rate Application.

The issue before the Rate Review Panel is to assess the request from SaskEnergy to increase the current Commodity Rate of natural gas it sells to its 330 000 customers in Saskatchewan.

The current Commodity Rate, approved by the Rate Review Panel last year, is \$6.57/GJ.

The new Commodity Rate proposed for October 1, 2008 onwards is \$8.71/GJ as per the amended request of August 11.

The requested increase represents an increase of \$2.14/GJ or 32.57% from the current rate.

The impact of the increase on SaskEnergy's customers will depend on the amount of gas demanded by each customer beginning October 1, 2008. This will be discussed further in a subsequent section.

3. The Approach of the Consumers' Association of Canada, Saskatchewan Branch

We realized we had to learn more about the wholesaling, retailing, and distribution of natural gas to consumers across Canada and how that industry operates in different jurisdictions across Canada. CAC/SK decided to retain Dr. Roger Higgin to assist us. Dr. Higgin has many years of experience with the natural gas industry in Canada. He is a consultant with Econalysis in Toronto, a firm specializing in preparing and assessing rate applications before rate review boards across Canada. A copy of Dr. Higgin's credentials is attached as Appendix C to this submission.

We attended the hearing in Saskatoon on August 13 before the Saskatchewan Rate Review Panel. We listened to the presentation by SaskEnergy and to the opinions and questions expressed by persons attending that session. CAC/SK made a presentation and submitted many questions to SaskEnergy through the Review Panel.

We have attached a copy of our introductory remarks presented at that hearing. It is attached as Appendix A to this submission.

We have also attached a copy of the questions we submitted on August 13 about the Commodity Rate application with the responses supplied by SaskEnergy to each question. That document is attached in Appendix B to this submission. References will be made to Appendix B throughout this submission.

We appreciate the efforts by SaskEnergy to respond quickly to our questions.

4. SaskEnergy's Assessment of the Consequences of the Proposed Rate Increase.

SaskEnergy's updated application of August 11 attempts to assess the consequences of the requested rate increase. It does so by estimating the annual percentage increase in the total bill of the average customer in each rate class. The response to Question 6.1 (Appendix B) illustrates SaskEnergy's customer classification system.

Unfortunately, SaskEnergy's analysis of the assessment consequences is done by **adding** the requested increase in the Commodity Rate to the requested increase in the Delivery Rates. SaskEnergy did not provide separate assessments of the consequences of each rate application which makes it impossible to track the consequences of each in terms of their separate impact on each customer class and within each customer class.

CAC/SK notes that SaskEnergy, by adding the rate impact of the Commodity Rate application to the rate impact of the Delivery Rate application, must accept the fact that the sum of combined impacts will be greater than our estimate of the 32.57% increase in the Commodity Rate.

SaskEnergy began its analysis by determining that "the average monthly increase" will be \$19.36 for Residential customers and \$26.43 for Farm customers with higher amounts for commercial and industrial customers.

The updated document suggests the annual impact of the **combined** Commodity Rate and Delivery Rate applications will range from 24% for Residential customers to a high of 27% for General Service III customers measured in terms of “annual percentage bill increase for each customer class”. (See also Question 6.1 Appendix B).

CAC/SK had requested more information from SaskEnergy in order to assess the impact of the Commodity Rate application within and across SaskEnergy’s established customer classes. That information was not forthcoming. (See Question 4 and the response, Appendix B). **Consequently, CAC/SK is not able to assess the impact of the Commodity Rate request and its consequences on different customers classified by size within a specific class, nor can we assess the cost consequences across the different rate classes.**

SaskEnergy’s impact assessment of the rate increase is troublesome for two reasons:

1. SaskEnergy “unbundled” its gas supply and gas delivery functions in 1998. (See Question 1, Appendix B) The supply functions and delivery functions are subject to very different internal operating mandates with respect to mark-ups and pricing decisions. They are treated as separate divisions within the firm and separate rate applications have been submitted and will be reviewed separately by SRRP.

CAC/SK believes the principle of corporate accountability requires SaskEnergy to present its impact assessments without bundling the impact of the two separate rate applications.

2. It is difficult to reconcile the proposed Commodity Rate increase of 32.57% with SaskEnergy’s total bill impact assessment of a 24% increase for the average residential customer. (See Question 6.1, Appendix B) The comparison begs the question how SaskEnergy arrived at its assessment conclusions.

We can conclude only that SaskEnergy must believe that its customers will react to the proposed rate increase by reducing their purchases of natural gas or that SaskEnergy expects “a mild winter”.

What information does SaskEnergy possess about its customers’ willingness to and/or ability to pay the higher rates? What information does SaskEnergy possess about the expected weather for the upcoming winter?

Does it mean SaskEnergy is expecting the same weather conditions as last winter and that Residential customers will react to higher rates by accepting less comfort at home during “heating season” rather than paying the higher rates? Alternatively, does SaskEnergy anticipate a mild winter and a corresponding reduction in gas consumption? We asked a question about the impact of a change in the winter weather. (See Question 6.2 and the response, Appendix B). We concluded that SaskEnergy’s impact assessment was not heavily influenced by expectations of changing weather conditions.

CAC/SK could not replicate SaskEnergy's own impact calculations for any of the customer groups presented. Nor could CAC/SK evaluate the validity of SaskEnergy's total impact conclusions in the current application.

The absence of important information in the public documents, including the critical assumptions behind calculations, is troublesome. It speaks to the failure of SaskEnergy to satisfy the principle of corporate accountability.

CAC/SK is concerned about the impact assessment issue because all gas consumers in Saskatchewan will be adversely affected by the proposed rate change and some more than others.

That does not mean the rate increase by SaskEnergy is not justified. It simply means that somebody, somewhere in Saskatchewan, has to recognize the differential consequences of the proposed rate increase on the consumers and accept responsibility to address those adverse consequences for the least advantaged among us, particularly low income families and seniors.

Nevertheless, CAC/SK believes it is not the responsibility of SaskEnergy and the Saskatchewan Rate Review Panel to address those concerns in assessing the current application. Rather, the SRRP must and should focus on the substantive merits of the Commodity Rate application and assess it accordingly.

5. A General Description and Assessment of SaskEnergy's Commodity Rate Application

The documents submitted with SaskEnergy's Commodity Rate application and the presentations at the hearing in Saskatoon seek to explain and justify the increase. Without repeating in detail the many arguments advanced by SaskEnergy, we will summarize our understanding of SaskEnergy's explanations.

5.1 SaskEnergy as a buyer of gas.

SaskEnergy purchases its gas requirements in the North American gas market. That market is subject to frequent changes in demand and supplies which can result in volatile price movements. The fact that SaskEnergy submitted two Commodity Rate applications within a span of 26 days with significantly different rate requests is a measure of that volatility. (SaskEnergy also anticipates a trend towards increasing gas prices in the future.)

SaskEnergy resells that gas to its customers in Saskatchewan subject to a constraint that the resale shall remain revenue neutral to SaskEnergy. That is, the resale shall seek to recover only the purchase costs of the gas without any mark-ups or mark-downs.

The administrative costs of purchasing and reselling are to be added to the commodity rate as shall the costs of developing, maintaining, and operating its gas inventories. We assume the capital costs invested is subject to SaskEnergy's stipulated rate of return for purposes of estimating inventory charges.

The climate in Saskatchewan generates strong seasonal variations in gas consumption and SaskEnergy uses inventories to purchase gas in the off-season to meet seasonal peak demands during the heating season.

We accept SaskEnergy's proposition that it must pass the increased cost of its gas purchases to its customers. **We have concerns about the current manner by which the changing gas costs are passed on to the customers. Those concerns will be discussed more fully when we review the selling functions of SaskEnergy.**

We accept also the existence of the revenue-neutral constraint although its source was not revealed. Is it self-imposed, is it a standard industry practice or is it imposed by an external authority? **We have concerns about the impact of this constraint and the consequences it may have on SaskEnergy's performance as an efficient buyer of gas on behalf of its many customers in Saskatchewan.**

- In the presence of a mandate which requires SaskEnergy to supply gas to its customers with zero percent mark-up except for the administrative and inventory cost discussed above, what incentives are present to encourage and/or force SaskEnergy to be an efficient supplier of gas? **How does SaskEnergy measure "efficiency of purchasing"?**
- What incentives and factors will drive and determine SaskEnergy's Gas Price Risk Management strategies and tactics in the absence of normal monetary incentives?

CAC/SK believes that a sound risk management strategy can be a critical factor in the successful operations of natural gas suppliers. We have raised that issue at previous SaskEnergy rate application hearings and we have asked for information about SaskEnergy's Risk Management Policies. We have not been successful in obtaining that information.

A review of the proceedings of utility boards across Canada reveals that gas companies elsewhere employ risk management policies to address problems arising from the price volatility of the gas market in conjunction with their attempts to provide price stability for their own customers.

The evidence also reveals that the companies routinely provide information about the results of their risk management policies in terms of the benefits and costs which accrue to their own customers from these policies.

CAC/SK asked a question about SaskEnergy's risk management policies again on August 13. The question and SaskEnergy's response can be found under Question 7.1 in Appendix B.

We previously drew the Panel's attention to the recommendations from the external consultants we cited in our opening statement regarding SaskEnergy's price risk management strategies. (See item(a) of Appendix A)

We also draw the Panel's attention to the following statement from its own Website called About SRRP:"it [the Panel] does not have the authority to

implement any of its recommendations. The final decision on whether there will be action on any recommendations is left to the provincial Cabinet.”

What is the impact of SaskEnergy’s Risk Management policy on its Commodity Rates? We do not know. No information is provided.

Is that policy subject to regular reviews by any external agency? If so, by whom and how often? We do not know. No information is provided.

The consequences of the revenue-neutrality constraint on SaskEnergy’s performance as a buyer of gas are not clear and should be explored more fully. Information about SaskEnergy’s risk management policies should be made available to allow the public to assess their net benefits. Do they generate net savings to SaskEnergy’s customers?

5.2 SaskEnergy as a seller of gas

During its presentation in Saskatoon, SaskEnergy revealed that it seeks to protect its customers from the price volatility SaskEnergy itself experiences purchasing gas in the North American gas market. SaskEnergy seeks to accomplish rate stability for its customers by fixing the commodity rate in advance for a period up to one year at the beginning of each gas year, October 1 of one year to September 30 of the following year. We know that many residential consumers of gas appreciate that objective because it makes it easier to budget for regular monthly household expenditures.

In its 2007 Annual Report SaskEnergy made repeated reference to its objective of pursuing Energy Efficiency in its own operations and persuading its customers to do likewise by offering financial incentives to retrofit homes, to purchase high efficiency furnaces and programmable thermostats, etc. During periods of volatile price changes in the gas market and with expectations of increasing gas prices in the future, SaskEnergy may wish to reconsider if the pursuit of rate stability for its customers on an annual basis is compatible with the simultaneous pursuit of Energy Efficiency. There is strong evidence suggesting that increasing input prices always encourages the search for more efficient energy solutions.

We assume that rate stability is a self-imposed objective and constraint. We also believe it may be at the root of many of our concerns and questions.

Customer price stability may be a laudable objective but will be difficult to accomplish in the face of (i) price volatility in the gas market or the cost of gas to SaskEnergy, and (ii) uncertainties associated with the forecasting of the “load factor” because of the unpredictable changes in customer demand during the heating season related to the level and changes in the temperatures during the winter season.

SaskEnergy seeks to accomplish rate stability by comparing its cost of gas sold with the fixed rate at which that gas is sold as recommended by SRRP and approved by the Cabinet. Any differences between these two values are credited or debited to a notional account called the Gas Cost Variance Account or GCVA for short. When the cost of gas purchased exceeds the fixed commodity rate charged for gas to SaskEnergy’s customers, the balance in GCVA measures the monies owed by customers to SaskEnergy. The opposite is true when the fixed rate exceeds the cost of gas, the account balance measures monies owed by SaskEnergy to its customers.

The concept of a notional variance account is simple and straight forward, the settlement of variance account balances can present many problems. The information provided by SaskEnergy suggests it is a pooled account of the sum of the monthly transactions of all its 337,000 customers. That represents over 4 million individual transactions of small and large payment deficiencies distributed within and across four different rate classes.

CAC/SK notes that the rate application dated July 16 estimated these customers owed SaskEnergy \$22 millions as of October 1, 2008. The updated rate application of August 11 revised the estimated GCVA balance down to \$16 million also in favour of SaskEnergy. Both applications proposed that SaskEnergy would collect the outstanding account balance arising from its customer transactions occurring the current gas year of 2007/2008 ending on September 30 2008 by levying a surcharge on its Commodity Rates during the 2008/2009 gas year and become payable by all customers during the next year.

The Consumers' Association of Canada, Saskatchewan Branch, is very concerned about the method proposed by SaskEnergy to clear the GCVA at the end of the current gas year. We are not concerned about the need to collect the outstanding balance.

We understand the estimated balance of \$16 million represents monies SaskEnergy could not collect in the current gas year of 2007/2008 ending on September 30, 2008 because the rate is fixed although the cost of gas exceeded that fixed rate. Customers would therefore accumulate individual notional deficiency balances on their personal SaskEnergy commodity accounts which would be transferred to the pooled GCVA.

Some customers will run up large deficiency balances, others will accumulate small deficiencies. It depends on their usage of gas. SaskEnergy bills its customers monthly by measuring or estimating the volume of gas consumed. It knows how much gas is consumed by every customer.

The proposed solution ignores the individual customer's usage of gas in the current year and proposes instead to include a \$/GJ surcharge in the commodity rate applicable to all customers during the next year. It transfers the deficit problem from the past year's customers to next year's customers. They will not all be the same customers, customers come and go during every gas year.

The inter-temporal transfer of the deficit incurred by one group on account of their use of gas during the year forces a different group of consumers in the following year to cover that deficit. The inter-temporal transfer has been converted to an inter-generational transfer. Such conversions always cause inequitable results and should be avoided.

Furthermore and without more information about the distribution of the estimated values of the individual variance account balances by rate classes and the distribution of these values across rate classes we cannot rule out the possibilities that the proposed solution will introduce cross-subsidies among SaskEnergy's customer classes.

The Consumers' Association of Canada, Saskatchewan Branch, believes the proposed solution to settle the GCVA is unacceptable because it is structured to be inequitable.

We believe it is possible to develop acceptable alternatives which can address our concerns and be compatible with the offering of rate stability for the customers of SaskEnergy.

6. *Conclusions and Recommendations*

The Consumers' Association of Canada, Saskatchewan Branch, has participated in many SRRP rate hearings in the past because the consequences of increasing rates charged by Crown corporations affect so many customers. It is a fact that very few customers of the Crown corporations have the time to represent themselves before SRRP and public participation in hearings will be limited.

CAC/SK has assumed responsibility to represent those customers who cannot, for whatever reason, represent themselves and whose interests and concerns may not be fully addressed.

We believe we represent the interests of thousands of SaskEnergy's customers when it comes to the issue of the proposed Commodity Rate increase. It is an important issue because the societal consequences of the implementation of the proposed rate change are far reaching. The onus is on SaskEnergy to present sufficient and pertinent information that will permit concerned members of the public and community organizations to understand why a rate change is necessary and its consequences.

6.1 *Our findings:*

We have throughout this submission identified our concerns about the Commodity Rate application:

- 1. We believe that SaskEnergy's impact assessment is confusing to readers and inadequate in scope.**
- 2. We are concerned about our inability to assess SaskEnergy's performance as a gas buyer and the extent to which its current purchasing policies are beneficial to its gas customers. How does SaskEnergy handle the volatility it faces in the gas market? Has it been successful? Does it need to be concerned about gas price volatility?**
- 3. We are concerned about SaskEnergy's performance as a seller of gas and the manner in which it operates the GCVA, the account used to address the price volatility faced by SaskEnergy's customers. The current account balance is excessive; the proposed account clearance policy is unacceptable. It appears its gas supply management is not well structured and defined.**

The Consumers' Association of Canada, Saskatchewan Branch, did not find that sufficient and pertinent information was made available. The responses from SaskEnergy to our Submission of Questions, Appendix B to this submission, did not contain as much information as we had expected.

6.2 *Our Recommendations:*

- 1. SaskEnergy should be asked to present a new Customer impact assessment analysis in this case based on Commodity Rates only. This should take into account the range of gas use in each rate class and the impact of the weather.**
- 2. SaskEnergy should be asked to prepare a report of its Risk Management policies and practices and a historical review of the benefits and costs of its Risk Management practices as a buyer of gas. The net benefits can be described as the “savings” which benefitted its Saskatchewan customers. The report and review need not involve any confidential information.**
- 3. SaskEnergy should be asked to review its current practices with respect to the GCVA and consider the implementation of quarterly clearances. That review must include a description about how it determines its GCVA Reference Prices on an ongoing basis and manages the gap between those prices and the fixed Commodity Rate.**
- 4. SSRP should ask SaskEnergy to prepare a report on SaskEnergy’s ranking in the Canadian Gas utility industry based on a review of Best Practices in gas supply management.**

CAC/SK noted the absence of SaskEnergy’s big customers from the current hearings in sharp contrast with the SaskPower hearings earlier this year. SaskEnergy reported in its response to our Question 11, Appendix B that the alternative supplier of gas in Saskatchewan is now in receivership and has ceased operations. We expect the big customers will once again become interested in the operations of SaskEnergy.

It is important that SaskEnergy tell us more about itself as a buyer and a vendor of gas, the challenges it faces, and how it addresses those challenges. It can then compare its response to changing gas market conditions with comparable gas companies in Canada. Customers and interested parties can relate to comparisons of this nature.

- 5. SRRP should initiate a customer survey to determine customer tolerance for price volatility, the clearance of GCVA, and their wish to be informed about the real price of gas on a continuing basis.**

APPENDIX A

A NOTE TO READERS OF APPENDIX A

These are notes prepared by CAC/SK for its presentation to SRRP during the hearing on August 13 in Saskatoon.

Some members of the public asked for copies of the oral presentation and we decided to make the notes available to all who attended that hearing and to make it part of our final submission on the Commodity Rate application.

INTRODUCTORY REMARKS BY CAC/SK REGARDING ITS SUBMISSIONS OF QUESTIONS AT THE SRRP HEARING HELD ON AUGUST 13 2008

CAC/SK welcomes the opportunity to participate in the hearings on the rate applications from SaskEnergy and we appreciate the efforts made by the SRRP to conduct the public meetings.

We are concerned however about the tight timelines imposed on the participants in these specific hearings and at this time of the year. We hope that future hearings will permit more time for preparations and will not be held during the peak of the holiday season.

CAC attaches great significance to these specific hearings. We have reviewed the record of hearings on rate applications by SRRP as recorded on its web site. This is the 10th rate application from SE since 2000. 8 applications have been Commodity Rate applications, 2 have been Delivery Rate applications. Of the 8 CR applications, 6 have requested rate increases and 2 requested rate decreases. The record also shows the disposition of these applications by SRRP (except for the current one) and the reasons for the decisions.

We are now looking at a record with many applications and many decisions spanning many years. CAC is satisfied it is now possible to begin an analysis of what SE is doing and how SRRP is responding and assessing that in the context of time since 2000. In other words, it may be possible to observe a pattern of conduct and performance over time and to assess the significance of SRRP's decisions during the last ten years.

WHY ARE WE HERE TONIGHT?

Officially, we are here to review and comment on the requests from SE to increase the CR and DR or the price of gas and the cost of bringing that gas to our homes, farms, offices, shopping malls, churches, schools, hospitals, factories, etc.

Yet, we know that the market price of gas is not controlled or set by SRRP. We also know it is expensive to build and maintain a gas distribution system to allow customers across Saskatchewan access to gas. We know it is efficient to have only one distributor of gas and one distribution system. We cannot afford to have competing distribution systems.

It would appear to CAC that there are two issues before us.

The first issue is prompted by the rate applications and consists of assessing the performance of SE in supplying and distributing gas in Saskatchewan in its capacity as a wholesaler, retailer, and distributor of gas in order to determine if the requested rate increase should be allowed.

CAC recognizes that SE faces many constraints in the discharge of its tasks as a wholesaler, retailer, and distributor of gas. We believe the following are critical:

- Price volatility in the North American gas market
- Unpredictable seasonal changes in customer demand for gas
- Maintenance of sufficient gas inventories to meet demand at all times

- Requirement to sell gas at cost to customers without mark-ups
- Avoidance of price volatility in the retail market for its customers

These constraints impose challenges and problems captured by the CR application submitted by SE. A proper assessment of that application requires us to evaluate how well SE is performing subject to the constraints it is facing. We accept that performance should be evaluated in terms of efficiency (least cost) and equity (fairness).

The CAC reviewed the CR application and recognized a fair assessment required an “industry-knowledgeable” reader. We also recognized, without being “industry-knowledgeable”, that the sum of monies involved in GCVA and the proposed solution to address the deficiency balance raised equity issues and possible introduction of cross-subsidies. No information was provided to assess the distributional magnitudes.

To allow the CAC to properly assess the SE applications currently before the SRRP it retained Dr. Roger Higgin from Econalysis in Toronto to assist with that assessment. Dr. Higgin reviewed the applications and recommended that CAC should use the occasion of this hearing to ask for more information about SE. The submissions you received today contain the questions we are putting forward.

CAC/SK intends to prepare a submission on the CR application. We understand the deadline is August 15 but we will not be able to meet that deadline because of the additional information we are seeking. We expect to forward our submission Monday of next week. We also intend to prepare a submission on the DR application and we will forward it to SRRP by September 15.

CAC would also like to speak to a second issue tonight which is strictly speaking not before this hearing but is important to us, and we believe, to the SRRP.

The second issue has two parts, (a) the effectiveness of these regulatory proceedings, and (b) the changing format of these regulatory proceedings.

(a) The effectiveness of these regulatory proceedings.

In preparation for this hearing we reviewed the past decisions of SRRP and paid particular attention to reports prepared by consultants to SRRP with respect to SE. The October 18, 2005 report by BCUC, Page 11, last paragraph and the October 23 2006 report by AEUB, Page 8, fourth paragraph, both recommend that “greater regulatory oversight of SE’s gas contracting and price risk management strategy, prior to their implementation, would be appropriate.”

Has that occurred? If not, why not? We are not asking for a response but we suggest that the time has come to consider the effectiveness of the current regulatory proceedings in Saskatchewan.

(b) The changing format of these regulatory proceedings.

The CAC has participated in many hearings before the SRRP. We wish to share with SRRP our concerns about some subtle changes in the hearings and the proceedings.

The hearings are called public meetings and members of the public are encouraged to attend and voice their view and opinions. If people cannot attend in person they may submit opinions by other means. We believe it is appropriate to allow easy access for customers of the crown corporations and members of the public to voice their views about how the firms conduct their business.

CAC has also noticed that it is becoming increasingly difficult for members of the public to offer views without spending many hours of reading and reviewing carefully the applications coming before the SRRP. An application for a rate change may look simple if we focus on the absolute or relative numbers involved but assessing whether the requested change is reasonable or justified requires more than attending a hearing and voicing an opinion. It requires an understanding of the business and the constraints and opportunities facing the firms in that industry. We are concerned about the trend of the parties appearing before SRRP to rely on “industry experts” to frame the critical issues and to structure their submissions.

We believe this is beginning to develop and we are concerned about how the SRRP intends to protect the importance of the “public input” in future rate application hearings and permit members of the public to continue to make informed statements and offer sound opinions.

APPENDIX B

A NOTE TO READERS OF APPENDIX B

Appendix B is a copy of the submission the Consumers' Association of Canada, Saskatchewan Branch presented at hearing held in Saskatoon on August 13, 2008.

SSRP forwarded the questions to SaskEnergy and it returned the list of questions with its responses to each question. It is therefore a record of the questions and the responses to the questions.

The responses from SaskEnergy appear in blue characters below each question.

CAC/SK has omitted to include the cover page of its "submissions of questions" from Appendix B.

SASKENERGY'S COMMODITY RATE APPLICATION

QUESTIONS WITH SPECIFIC REFERENCES TO THE COMMODITY RATE APPLICATION DOCUMENT FILED ON JULY 16, 2008 AND THE UPDATE DOCUMENT FILED ON AUGUST 11, 2008.

1. Reference: Table Page 1 and last paragraph Page 3.

It is our understanding that SaskEnergy unbundled its services in 1998.

- 1.1. What triggered the decision to unbundle the services in 1998 and who approved of that decision?

Unbundling of SaskEnergy services allowed natural gas marketers to offer natural gas supply choices to SaskEnergy customers, and provided more cost transparency to customers. Most major utilities had already unbundled their services, and SaskEnergy was aligning itself with industry standard. The Provincial Cabinet approved this change as it does with all SaskEnergy rate changes.

- 1.2. Please provide a history of SaskEnergy's Commodity Rate adjustments since the 1998 unbundling in terms of the timing and the change in the rate levels, and if possible, provide the corresponding AECO Forward price at the time of each rate change.

See SaskEnergy's website for historical rates.

http://www.saskenergy.com/residential/resrates_hist.asp

2. Reference: Page 3, paragraph 2

- 2.1 Please provide details of SaskEnergy's methodology for forecasting the price of gas; which forecasts are used and what determines the length of forecast period.

Please see Section 1.3 Cost of Purchase Gas in SaskEnergy's Commodity Rate Application for the forecast methodology. As stated in this section, SaskEnergy uses the AECO forward prices in its applications.

The length of the forecast period reflects the anticipated time between future rate applications. SaskEnergy usually applies for a commodity rate adjustment each fall on November 1st, so the AECO forward price for the corresponding period is used.

- 2.2 Please explain which "triggers /thresholds" are used by SaskEnergy to inform it when the commodity price should be changed.

SaskEnergy reviews its commodity rate annually each fall with a November 01 implementation date. An interim review is done in the spring and if anticipated gas costs are substantially higher than SaskEnergy's rate, SaskEnergy will apply for a summer adjustment.

Like all other Canadian energy utilities, SaskEnergy uses a Gas Cost Variance Account (GCVA) to keep track of the total imbalance between what it actually pays for natural gas and commodity revenues. If between regular rate applications, natural gas prices have moved such that the GCVA is forecast to grow substantially, SaskEnergy will bring forward a rate application outside the normal annual and semi-annual review timeframe. There is no formal forecasted GCVA balance that triggers a rate application but SaskEnergy views \$20 million as significant, and would typically take action if it is forecast to grow beyond that amount.

2.3 Please provide information on the history of forecast error for the methodology.

As indicated in question 2.1 the AECO forward prices (Canadian equivalent of NYMEX futures), are the natural gas prices used in rate applications. This is the industry standard practice, and the primary function of a GCVA is to capture the difference between the forecasted price (using AECO forward prices) at time of rate application and where the price actually is when the gas is delivered.

3. Reference: Page 4, paragraph 1.2

Please relate the forecast price to the total cost of gas for the period October 1, 2008 to September 30, 2009.

[See Schedule 1.2](#)

4. References: Page 4, Section 1.4 and Page 8, Section 4.1

Please provide details of the 2008/2009 load forecast and gas volume forecast, including the degree day forecast and the average use per customer by rate class. Please refer to Section 4.1 in SaskEnergy's Delivery Rate Application (page 29-36).

5. References: Page 9 Chart and Schedule 1.2 (Updated)

5.1 The Chart shows that AECO prices will fall to below \$10/GJ during the period Jan/08-Jan/10. Please provide complete references to the sources for this Chart **AND** the Forward Price Projections.

The actual AECO prices shown on the chart are the AECO monthly 7A index prices as published in the Canadian Gas Price Reporter. The forward prices are the AECO forward closing prices as July 7, 2008 published by NGX Inc. (a TSX Company). The forward prices change daily (similar to a stock price on a stock market). The AECO monthly 7A index prices can also be found on NGX's website. <http://www.ngx.com>

6. Reference: Page 11 Chart

6.1 For each rate class please provide the range of Customer Bill Impacts taking into account the range of consumption (for normal weather).

The following table contains takes into account the Delivery Rate Application proposal as well as the commodity rate bill impacts.

Customer Class Impacts					
Intra Class Rate Increase (\$0.3271/GJ)					
Customer Class	Total Annual Bill			Annualized Bill Impact	
	Annual Usage m ³ /year	Current Rate \$/year	Proposed Rates \$/year	Change \$/year	Percentage %/year
Residential					
Low	2,500	942	1,169	227.00	24.1%
Average	2,895	1,067	1,327	259.07	24.3%
High	9,000	3,002	3,757	754.80	25.1%
Farm					
Low	2,500	966	1,194	228.20	23.6%
Average	3,948	1,425	1,771	346.78	24.3%
High	9,000	3,026	3,782	756.00	25.0%
General Service II					
Low	5,000	1,793	2,246	452.20	25.2%
Average	12,947	4,218	5,307	1,089.38	25.8%
High	80,000	24,968	31,510	6,542.20	26.2%
General Service III					
Low	100,000	30,622	38,989	8,367.20	27.3%
Average	191,814	58,258	74,081	15,822.50	27.2%
High	660,000	199,182	253,021	53,839.20	27.0%
Small Industrial					
Low	660,001	188,624	242,216	53,592.08	28.4%
Average	810,717	231,106	296,936	65,830.22	28.5%
High	1,320,000	374,666	481,840	107,184.00	28.6%

Note: dollar figures may not cross-add due to rounding to the nearest dollar.

6.2 Please provide the impacts if the 2008/2009 winter is 10% colder (based on Heating Degree Days).

SaskEnergy is unable to provide a response to this specific question due to the depth of analysis required, and the need to provide CAC with a timely response. However, Section 4.1 in the Delivery Rate Application indicates the change in load if the weather is two standard deviations away from normal (1 in 20 years).

7. Reference: Schedule 1.2 (Updated) Lines 2,3, and 13

7.1 Please provide details of the hedging strategy that causes the price reduction shown on line 3 of the Schedule. (Volumes hedged, cost of financial instruments, etc.)

SaskEnergy's hedging strategy is considered commercially sensitive material and is therefore not released to the public. However, it is provided the Panel and its Consultant for review.

7.2 What has been the average price reduction and cost of hedging for each gas year since unbundling in 1998?

SaskEnergy's gas price manage program objectives are not specifically price related, and the results are not recorded as such. For the performance of SaskEnergy's price

risk management program, please see Slide 11 of the presentation at the Public Meetings. Additional copies of this presentation are available on request.

- 7.3 Why should not the Commodity Reference price be set at the average forecast cost of gas shown on line 13 (leaving aside the collection of the recovery of the GCVA balance).

The commodity reference price is set at the AECO forward price which represents the future price for the AECO monthly index. Most AECO financial instruments specify this as the reference point in the derivative contracts. It is one of the components of the forecast cost of gas sold on Line 13.

8. Reference: Schedule 3.0 (Updated)

- 8.1 How often is the GCVA balance cleared?

The balance of the GCVA is refunded or collected in each rate application.

- 8.2 Is there a threshold amount that informs SaskEnergy when this account should be cleared? See response to question

The GCVA balance is cleared with every rate application. This is standard regulatory practice. However, if between regular rate applications, natural gas prices have moved such that the GCVA is forecast to grow substantially, SaskEnergy will bring forward a rate application outside the normal annual and semi-annual review timeframe. There is no formal forecasted GCVA balance that triggers a rate application but SaskEnergy views \$20 million as significant, and would typically take action if it is forecast to grow beyond that amount.

- 8.3 Is there an approved methodology for clearance? Please describe.

SaskEnergy's follows standard regulatory practice of including the clearing of it in each rate application.

- 8.4 How does the methodology currently used by SaskEnergy address equity issues arising from current practices? Please explain.

Being a mature utility, equity issues are minimal at SaskEnergy. Indications from previous Panel Consultants are that a \$20 million GCVA balance is acceptable.

General Questions without Specific References to the Filed Documents.

9. Please provide details on the Gas supply management practices/methodology for Terasen; Manitoba Hydro/Centra Gas; Enbridge Gas Distribution; Union Gas Limited and Gaz Metropolitan in terms of the following:

- Frequency of changes to reference price
- Frequency of changes to Gas supply Rate
- Threshold/trigger mechanisms
- Hedging practices
- Treatment of PGVA/GCVA
- Price Forecast methodology

SaskEnergy does not have this specific information.
Contact information for each of these utilities can be found on the internet.

10. What does SaskEnergy consider Best Practices in Gas Supply Management to be in order to reduce volatility for regulated Supply Customers? Please list attributes.

Need further clarification on this question in order respond.

11. Consumers of natural gas in Saskatchewan are now able to buy gas from suppliers other than SaskEnergy. What has happened to SaskEnergy's market share of the total provincial gas market since the gas market became deregulated? Please provide details of the volume of annual sales to each rate class.

Following is a table showing the volumes by rate class over the past three years. Information prior to this period is not readily available. Please note that there is no impact on SaskEnergy's customers with the entrance of other gas suppliers to the market. The customers still receive delivery service through SaskEnergy, and SaskEnergy's commodity customers only pay for the gas supply and expenses associated with purchasing it. There is no profit margin on the gas supply.

Natural Gas Consumption			
Thousand Cubic Metres			
	2005	2006	2007
SaskEnergy			
Residential	824,377	806,333	795,051
Farm	93,030	83,291	87,215
General Service II	364,889	366,679	345,690
General Service III	131,467	140,037	116,199
Other Gas Suppliers			
Residential	1,595	1,575	1,657
Farm	-	-	-
General Service II	113,097	108,063	118,976
General Service III	104,536	100,767	109,880

Until today, August 15, 2008, about 15% of SaskEnergy's delivery customers purchased their gas from a supplier other than SaskEnergy. However, today CEG advised SaskEnergy that it will no longer provide gas to its customers after today since it is now in receivership as a result of the filing by CEG's parent company, SemGroup L.P., for Chapter 11 under U.S. Bankruptcy Code. SaskEnergy is the default supplier and will be supplying these customers with gas going forward.

There are currently no other gas marketers operating in the Saskatchewan market (other than for large industrials who are not SaskEnergy customers).

12. Will the requested Commodity Rate increase trigger an increase in the transfer payments from SaskEnergy's customers to the urban municipalities? If there is an increase in the transfer payments, has this increase been included with SaskEnergy's estimates of the impact of the rate application for each rate class? What is the projected total increase in transfer payments to all urban municipalities in Saskatchewan and to the cities of Regina, Saskatoon, Prince Albert, and Moose Jaw?

SaskEnergy cannot comment on transfer payments between its customers and urban municipalities and suggest contacting your municipality. However, please note that municipal taxes is collected from SaskEnergy customers based on the dollar amount of their bill. If a customer's bill goes up, the percent stays the same, but 5% of \$110 is more than 5% of \$100. The same is true if a customer's bill declines (he will pay less taxes).

APPENDIX C

This appendix contains the Curriculum Vitae of Dr. Roger Higgin

Roger M.R. Higgin

Roger Higgin has over 30 years of senior executive experience in the energy and environment sectors in both the public and private sectors.. His recent appointments include regulation of gas and electric utilities with the Ontario Energy Board. His other executive positions include COO in a high-tech firm, CEO in natural gas R&D, Assistant Deputy Minister of Energy Ontario Government, Deputy Commissioner of Environmental Services City of Toronto.

As an Associate of ECS since 2000, he combines his policy, strategic business planning and regulatory experience in his consulting work

CONSULTING EXPERIENCE

**Econalysis Consulting Services- Managing Associate Senior Consultant
2000 to present**

- Provision of consulting and advisory services and regulatory intervention support for Electricity, Gas and Telecommunications Regulatory Proceedings

- Electricity
 - Hydro Quebec Interruptible Power Rate
 - OEB RUD Model for Distribution Rates
 - Stakeholder Consultative-Independent Market Operator (IMO)
 - Review of IMO 2002 Fees Submission
 - Review of IMO 2004 Fees Submission
 - Review of IESO 2005 Fees Submission
 - Review of OPA 2006 Fees Submission
 - Review of Manitoba Hydro Wuskwatim Project*
 - OEB Review of Electric C&DM Programs
 - OEB Review of 2006 EDR Rate Handbook
 - HQD PGEE 2006-2010*

- Natural Gas
 - OEB Gas Distribution Access Rule
 - OEB Natural Gas Forum 2004
 - OEB Generic Gas DSM 2006
 - Enbridge Consumers Gas (OEB)
 - ♣ Consultative on Comprehensive PBR Plan
 - ♣ Quarterly Rate Adjustment Mechanism Applications
 - ♣ Consultative on Demand Side Management
 - ♣ Review of 2002 Rates
 - ♣ Review of 2003 Rates
 - ♣ Review of 2004 Rates
 - ♣ Review of 2005 Rates
 - ♣ Review of 2006 Rates
 - Union Gas (OEB)
 - ♣ Unbundling of Rates and Services

- ♣ Consultative on Demand Side Management
- ♣ Quarterly Gas Cost Adjustment Mechanism Applications
- ♣ Review of 2004 Rates
- ♣ Review of 2005 DSM Program
- ♣ Review of 2006 Rates
- ♣ Review of 2006 Interim DSM Program
- Other
 - ♣ Regie Societe en Commandite Gaz Metropolitan Unbundling *
 - ♣ Natural Resource Gas 2001 and 2002 rates ADR Settlement
 - ♣ BCUC Gas- Gas Cost Adjustment Mechanism Staff Paper
 - ♣ BCUC Outsourcing of Customer Care to CustomerWorks LLP
 - ♣ Sithe Energies Canada Application for natural gas Supply Pipeline
 - ♣ ATCO Gas/Electric Transfer of Default Supply to Direct Energy *
 - ♣ Gazifere 2005 Rate Application*
- Telecommunications Sector
 - CRTC PN 00 27 Restructured Bands
 - CRTC PN 00 99 Scope of Price Cap Review
 - CRTC PN 01 125 Monitoring Canadian Telecommunications Industry

***Regulatory Testimony/Expert Opinion**

2006

Regie De L'Energie Quebec

-Gazifere Inc. 2006 Rates-Proposal for Incentive Regulation Mechanism
 Testimony on Behalf of Option Consommateurs

2005

Regie De L'Energie Quebec

-Hydro Quebec Distribution -Review of PGEE 2006-2010
 Testimony on Behalf of Option Consommateurs
 -Gazifere Inc. 2005 Rates-O&M Expense and Corporate Cost Allocations
 Testimony on Behalf of Option Consommateurs

2004

Manitoba Public Utilities Board

-Review of Manitoba Hydro Wuskwatim Project-
 DSM, Windpower alternatives and Business/Partnership Arrangements
 Testimony on Behalf of Manitoba Society of Seniors (Public Interest Law Centre)

2003

Alberta Energy and Utilities Board

-ATCO Gas/Electric Transfer of Default Supply to Direct Energy *
 "No Harm" Test in context of transaction/transfer
 Testimony on Behalf of City of Calgary

2001

Regie De L'Energie Quebec

-Societe en Commandite Gaz Metropolitan Unbundling of Rates
 Testimony on Behalf of Option Consommateurs

Employment History

Ontario Energy Board

Board Member 1996 to 2000 (Retired June 2000)

- Regulation of gas and electric utilities in Ontario. Holding proceedings, writing and rendering Decisions and Orders. Scope included facilities, rates, gas cost and generic proceedings. Examples are rates for Enbridge Consumers Gas and Union Gas, PBR plan for Enbridge Consumers Gas, standard supply service for electricity distributors, revenue requirement and transmission rates for Ontario Hydro Services Company (now Hydro One).
- Member of Rates and Licensing Committees of Board and team member for development of Codes.
- Deregulation
 - Chaired/Participated in the Following Regulatory Proceedings:
 - ♣ 1999 and 2000 revenue requirements and rates for Ontario Hydro Networks (now Hydro One) – Transmission and Distribution
 - ♣ Hearing on Standard Supply Service (SSS)
 - ♣ Rates for unbundled Transmission tariffs for Hydro One
 - Member of Internal Committee on Codes and Standards:
 - ♣ Transmission Access Code
 - ♣ Retail Settlement Code
 - ♣ Affiliate Relations Code
 - ♣ Performance Based Regulation for Electricity Distributors
- Cost of Service Regulation
 - Review of Ontario Hydro Rates 1988-91
 - Review of Ontario Hydro Conservation Programs
 - Presided over and wrote numerous Rates and Facilities Decisions
 - Targeted PBR Decision for Enbridge Consumers Gas
 - Outsourcing of CIS-Union Gas Limited
 - Separation of Ancillary Programs – Union Gas Limited
 - Merger of Union Gas and Centra Gas Ontario
 - Affiliate Relations Rule
 - Gas Marketing Code
 - Member Internal Rates Committee

Unisearch Associates Inc.

General Manager and Chief Operating Officer 1995 to 1996

- Responsible for Business Planning, Reorganization, Refinancing and Restructuring of \$2 million high technology environmental instrumentation and service growth company. Establishment of marketing, production, financial management and securing new bank and equity financing. Strategic & Distribution alliances.

Gas Technology Canada and CGRI

President and Chief Executive Officer 1992 to 1995

- On behalf of Canadian Natural Gas Distribution Sector, operated \$8 million Natural Gas Research and Development program including Canadian Gas Research Institute Laboratory and the Gas Technology Canada technology development investment portfolio.

**Toronto Department of Public Works and the Environment
Deputy Commissioner Environmental Services Division
1991 to 1992**

- Responsible for new Environmental Services Division with 600 staff dealing with waste management, air and water quality, transportation systems management, infrastructure planning and development, Office of Energy Efficiency, departmental IT planning and capital budgeting.

**Ontario Energy Board
Board Member 1988 to 1991**

- Regulatory/Administrative Commissioner. Chairing Public Hearings-Electric & Gas Utilities. Review of Ontario Hydro Rates and Capital Plans.
- Writing Decisions and Orders.
- Representing Board at meetings & conferences.

**Ministry of Energy
Assistant Deputy Minister- Programs & Technology Division
1984 to 1988**

- Staff complement 74, annual budget - \$35 million.
- Input to Policy and Strategy on all aspects of Energy Supply and Demand
- Allocation of over 80% of the Ministry's budget to Conservation and Renewable Energy program priorities.
- Organizational design and organizational development in the Division.
- Federal/Provincial relations. Representing the Ministry at numerous public events involving speaking engagements, TV and radio.

**Ontario Energy Ventures
President 1986 to 1988**

- In charge of the wind-up of Ontario Energy Corporation's subsidiary (OEV) and \$100 Million in venture capital investments in technology companies.
- Director of eight of the subsidiary companies. Responsible for portfolio management, strategy and negotiations leading to divestiture, conversion of investments into carried interest or folding of companies.

**Ontario Ministry of Energy
Executive Coordinator 1980 to 1984**

- Alternative and Renewable Energy Group.

**Ontario Ministry of Energy
Senior Advisor 1974 to 1980**

- Special Studies and Renewable Energy.

**Ontario Ministry of Environment
1973 to 1974 Branch Head**

- Special Studies and Program Planning, Air Resources Branch.

**Ontario Ministry of Environment
1971 to 1973 District Engineer**

- Air Pollution Abatement Section

1970 to 1971-Consulting Engineer (Self-Employed)

1968 to 1970 Univ. of Toronto Post-graduate Research Fellow and Lecturer

- Chemical Engineering Department

Directorships & Committee Memberships Held

1995-96 Director-Unisearch Associates Inc.

1991-1995 Director -Gas Technology Canada, CGRI,

1984-88 Director - Ontario Energy Ventures

1984-88 Chairman of the Board-Ontario Energy Consortium Kenya/Canada Energy Project

1991 Chairman Energy and Minerals Task Force

Ontario Round Table Environment and Economy

1982-1988 Member-University Research Incentive Fund Selection Committee

Scientific Advisor-Premiers Council Tech Fund and NSERC

Professional Affiliations

Professional Engineers of Ontario

Education

Masters of Business Administration

University of Toronto, Faculty of Management Studies, Dean's List 1986

Ph.D.

Fuel Science and Applied Chemistry, University of Leeds, England, 1968.

Thesis: "Shock Tube Ignition of Hydrocarbon Fuels" - high speed chemical reactions and computer simulation of reactions.

B.Sc. with 1st Class Honours

Fuel Science and Combustion Engineering, University of Leeds, England, 1965.

Majors: Heat Transfer, Chemical Reactions, Coal, Oil and Gas Production and Utilization.

Selected Publications/Presentations

- Demand Side Management A Customer Perspective. CAMPUT Educational Conference Whistler BC April 2003
- PBR for Gas Utilities. Presentation to CGA Seminar. February 2002.
- Higgin, R.M.R., Dean, D.A., "Integrated Resource Planning", Presented at the Annual Meeting of the Ontario Natural Gas Association, Toronto, September 1990
- Higgin, R.M.R., "Non Utility Generation In Ontario", Presented at CAMPUT Educational Conference, Lake Louise, Alberta, May 1990
- Higgin, R.M.R., "Regulation of the Crown Owned Electric Utility In Ontario", Presented at CAMPUT Educational Conference, Lake Louise, Alberta, May 1990
- Higgin, R.M.R., "Conversion of Refuse to Energy in Ontario Canada and the Provincial Energy from Waste Program", Conversion of Refuse to Energy Conference, Berlin, West Germany, October 1979
- Higgin, R.M.R., "Ontario Biomass/Energy from Waste Program", CSCHE Conference, Halifax, 1978
- Orgill, J.F. and Higgin, R.M.R., "The Effect of Component Costs on Solar Systems Design", Renewable Alternatives Conference, Solar Energy Society of Canada, London, 1978
- Higgin, R.M.R., "Windpower Applications in Ontario", CSME Annual Meeting, Toronto, 1978
- Higgin, R.M.R., "Novel Energy Sources", 26th CSCHE Conference, Toronto, 1976
- Higgin, R.M.R., "Solar Heating for Buildings in Ontario", Sharing the Sun, Joint ISES/SESCI Conference, Winnipeg, 1976
- Higgin, R.M.R. and Brown, C.K., "Preliminary Assessment of the Potential of Wind Generators as Fuel Savers in A.C. Community Diesel Power Systems in Ontario", Sharing the Sun, Joint ISES/SESCI Conference, Winnipeg, 1976
- Chisamore, G.C. and Higgin, R.M.R., "Ontario Resources Recovery Program", Conversion of Refuse to Energy Conference, Montreaux, Switzerland, 1975
- Higgin, R.M.R., Ogner, D.J. and Shenfeld, L., "Frequency and Particle Size Distribution of Lead in the Toronto Urban Aerosol", 1975
- Higgin, R.M.R., "Shock Tube Studies of the Dissociation of Ammonia and Methane", Joint ACS/CSCHE Conference, 1970
- Higgin, R.M.R. and Williams, A., "Ignition Delay of Methane/Oxygen Methane/Oxygen/Butane Mixtures in Shock Tubes", 12th International Symposium on Combustion, Poitiers, France, 1968

Articles

- Northern Miner, September 18, 1976; Renewable Energy Resources Merit Continuing Study"
- Conservationist, March 1977
- Ontario's Energy from Waste Program: Perspective March 1981
- Time for Reassessment of Alternatives: Oil Week July 1982