SASKATCHEWAN
RATE REVIEW
PANEL

Media Release

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Panel recommends overall decrease in SaskEnergy rates and change to billing based on Heat Value

The Saskatchewan Rate Review Panel (the Panel) has recommended an overall decrease in energy bills for SaskEnergy customers. On average, residential customers would see their bills decrease by approximately $2 per month, or $28 annually. If approved by Cabinet the rate changes will take effect November 1, 2016.

SaskEnergy's rate application proposed a 14% DECREASE to the overall commodity rate, combined with an 8.6% INCREASE in the delivery rate. The combined effect of these changes would be an average reduction of approximately 3% for an average residential customer.

In its application SaskEnergy stated that the decrease in the commodity rate reflects the continued decrease in the market price of natural gas, while the increased delivery charge is due to increased capital spending, transportation and storage costs, and also an increase in net income that would allow the Company to achieve an industry comparable Return On Equity.

SaskEnergy proposed to implement a heat cost variance account, which would allow the company to recover losses from customers or refund gains to customers due to the varying amount of heat value of natural gas from different sources. SaskEnergy purchases natural gas from suppliers in Saskatchewan and Alberta in energy units (gigajoules) and then delivers that gas and bills it in cubic metres. Since gas from different sources has different heat values, the fixed conversion factor from gigajoules to cubic metres creates inequities for customers in different regions. Since the delivery rate also has a volumetric component, this also results in a loss or gain to the company. Billing by volume also requires SaskEnergy to forecast this value far in advance of the actual delivery. The proposed heat cost variance account would allow SaskEnergy to adjust for these differences between the forecast and the actual heat value.

The Panel's recommendations include the following:

- The Panel recommends that the Commodity Rate be reduced by 13%, rather than the 14% proposed, subject to using a higher conversion factor for Heat Value
- The Panel recommends that the Delivery Rate increase be approved at 8.6%, subject to the same Heat Value factor used in the Commodity Rate
- The Panel recommends that the proposed heat cost variance account not be approved.

These recommendations relate to the heat value variance. If approved as requested, there would very likely be an unwarranted increase in the existing Gas Cost Variance Account which is used to recover or refund all differences in the commodity rate charged. This would mean customers would pay less for the current year, but would be charged a corresponding higher amount in the subsequent year. If the heat cost variance account were approved, the financial forecasting risk would be shifted to customers as delivery revenue losses would be recovered from customers in a future rate application. This does not align with the longstanding goal of achieving billing gradualism and may have resulted in rate shock in subsequent years. The proposed heat cost variance account also does not address the inequities amongst different heat values delivered in different regions of the Province.

The delivery rate increase of 8.6% with the higher heat value conversion factor will result in a revenue shortfall to SaskEnergy of approximately $1.7M. The Panel is asking SaskEnergy to make up this shortfall through expense reductions, as opposed to a rate increase.

Associated with the heat value issue, the Panel is also recommending to SaskEnergy that it commit resources to commence billing in energy units (gigajoules) as soon as possible. Billing by heat value is the industry standard, and will resolve issues of inequity amongst customers. It will also allow SaskEnergy to realize the proper amount of revenue from its commodity and delivery rates and ensure each customer pays for the energy consumed.

As commented in prior reports the Panel is concerned about the increases in Capital expenditures. Overall annual spending on Capital has gone from $50.5M in 2010 to a forecast $102.7M in 2016, a level that is forecast to be sustained over the next few years. The Panel has indicated this would have a significant impact on future rates, and must be monitored to ensure that these impacts are manageable.

The mandate of the Panel is to review the application and provide an opinion on the fairness of the rate adjustments requested, considering the best interests of the customer, the Crown Corporation and the public. The Panel believes these recommended rates, and the heat value recommendations, represent a fair balance of the interests of the affected parties.

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