

## President's Message



**SaskEnergy**

2007 Annual Report

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Welcome to our 2007 Annual Report, “Clean Energy, Green Future.”

The 2007 Annual Report continues the evolution of strong and balanced corporate reporting that began in the last few years, with this year’s discussion focusing extensively around the four strategic mandates (“Our People”, “Our Service”, “Our Growth” and “Our Future”) that were formed as part of our new strategic plan. The strategic plan, which was developed co-operatively over an 18-month period under the leadership of our Senior Management team, had the active input of employees at different levels in the company at virtually every stage in its development. We are confident that it provides us an excellent roadmap for the next decade, as employees recognize that our success is inextricably linked to having sustainable performance in each of these four key strategic mandates. As a reader, you will notice our commitment to openly discussing our progress in these measures, to sharing our successes and to continuously improving our efforts – these are the hallmarks of a transparent company.

A growing Province and a thriving industry provide a solid foundation for our new plan, one that is positively impacting our core businesses, but which is also providing new opportunities for us to contribute by leveraging our expertise. We see the partnership approach, which we developed over the last decade through initiatives like the SaskEnergy Network, the TransGas Customer Dialogue process and recently through our joint venture flare gas initiative, as extremely important. These initiatives allow for joint efforts with the private sector to facilitate growth.

Consider the following supporting developments in 2007:

- More than 4,000 net new customers, in over 350 communities, were connected to the distribution network – by far the strongest growth since 1999;
- TransGas proposed a 25 per cent expansion in storage services by 2011 through the “Energy to Store” project, increasing to a total of 40.5 Petajoules of capacity;
- The joint venture purchase with ATCO Midstream Limited of the Kisbey Gas Gathering and Processing Facility (Kisbey Natural Gas Processing Plant) in southeast Saskatchewan was completed. This is a sound business opportunity which will result in added benefits to producers for an otherwise stranded commodity, and will reduce by 10 per cent the amount of natural gas flared in Saskatchewan;
- The possibility of diversifying our pipeline expertise through transmission of different products, like carbon dioxide, to contribute to climate change solutions within our Province.

The added dimensions of these sound Saskatchewan business ventures are being built off our focus on safe and reliable operations and service delivery of SaskEnergy/TransGas. They are also in keeping with the “Green Future” theme of this year’s report.

There is a national consensus on the need to reduce Greenhouse Gases for the future of our environment. Natural gas is the cleanest burning of the existing fossil

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fuels and we have established a solid track record of promoting the use of natural gas in a responsible and energy-wise manner.

First, our existing customers are becoming more energy efficient, with our active encouragement. The benefits of new housing stock are being supported through a number of programs which are either being administered directly by or supported through SaskEnergy. For example, over 20,000 Saskatchewan homeowners have taken advantage of programs like the EnerGuide for Houses Grant Program, the ENERGY STAR® Prime Rate Loan Program, the Programmable Thermostat Rebate and the Provincial Sales Tax Rebate on new furnaces.

Second, new customers are also getting more energy efficient. Our La Ronge project will allow some 800 customers to receive the benefits of natural gas, replacing more costly and environmentally harsher forms of energy like coal, oil and propane. We also offer a commercial boiler program for businesses that captures efficiency gains of up to 30 per cent – a win-win for Saskatchewan businesses and the environment.

Third, we are getting more energy efficient in our operations, through environmental programs which range from initiatives like right-sizing our vehicle fleet to direct programs aimed at reducing Greenhouse Gases and other pollutants in our operations.

At our company, it is about a mindset of focusing on service delivery and finding cost-effective energy solutions for our customers. I am proud to indicate

that these efforts are being duly recognized. I was very gratified to learn that in a 2007 national customer service survey of 10 Canadian electric and natural gas utilities, SaskEnergy was chosen as the leading company, based upon attributes such as our accessibility, the ease of doing business with us, our environmental work and our social responsibility.

Our work in the community, much like our work as a business, is founded on a partnership approach that is delivered Province-wide. We participated in 1,288 projects in 317 communities, using not just the financial support but often the effort of our SaskEnergy volunteers. We look for projects where we can leverage our investment to help the organizations attract even more funding, such as our initiatives with KidSport™ Saskatchewan and the Heart and Stroke Foundation of Saskatchewan.

Good times also create their own challenges and like all strong companies, we too are faced with the need to deliver solutions. We are in an increasingly competitive labour market, and “Our People” strategies as outlined in our strategic plan are aimed at retaining and attracting our talent by delivering competitive compensation and a welcoming learning environment for employees. We need to keep increasing the Aboriginal and diverse portions of our workforce. Our partnerships with the Dumont Technical Institute and the Saskatchewan Indian Institute of Technologies are delivering entry level employees in the trades to our company.

All of these realities constantly remind us that there is no room for complacency in the midst of “good times.” This is why we put our efforts behind a strategic direction, action plans and “stretch” targets that we know will serve us well. We will adjust and modify these efforts as we scan the environment and move forward, but the strategic mandates of “Our People”, “Our Service”, “Our Growth” and “Our Future” will remain. We look forward to working with our Board of Directors to contribute to building our Province.

Lastly, I say a genuine heartfelt thank you to the two most important groups to our company – our customers and our employees. We recognize that we provide an essential service, but without our customers, there can be no company. And without our skilled employees, in more than 50 locations across Saskatchewan, we could not deliver service. As your President, I am both proud and humbled to be part of this organization. Thank you for your commitment in 2007 and beyond.

Sincerely,



Doug Kelln  
President and Chief Executive Officer

## Financial and Operating Highlights

<b>CONSOLIDATED FINANCIAL INFORMATION*</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<i>(\$ millions)</i>					
Commodity sales	400	389	376	387	375
Gas marketing sales	485	594	644	327	272
Delivery revenue	167	153	156	162	165
Transportation and storage revenue	88	88	88	88	81
Other	31	30	35	30	30
<b>Total revenue</b>	<b>1,171</b>	<b>1,254</b>	<b>1,299</b>	<b>994</b>	<b>923</b>
Commodity cost of gas sold	373	395	365	349	402
Gas marketing cost of gas sold	450	558	599	290	235
Operating expenses	260	248	258	247	245
<b>Total expenses</b>	<b>1,083</b>	<b>1,201</b>	<b>1,222</b>	<b>886</b>	<b>882</b>
<b>Net income</b>	<b>88</b>	<b>53</b>	<b>77</b>	<b>108</b>	<b>41</b>
Dividend	53	35	29	70	27
<b>Total assets</b>	<b>1,411</b>	<b>1,327</b>	<b>1,371</b>	<b>1,286</b>	<b>1,235</b>
Property, plant and equipment – net	978	955	947	949	941
Capital expenditures	100	71	59	68	79
<b>OPERATING STATISTICS</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Distribution volumes ( <i>petajoules</i> )					
Residential	30	29	30	32	33
Commercial	29	27	28	29	30
Farm	3	3	4	4	4
Industrial	70	66	66	69	70
<b>TOTAL</b>	<b>132</b>	<b>125</b>	<b>128</b>	<b>134</b>	<b>137</b>
Transmission volumes ( <i>petajoules</i> )					
Domestic	208	204	201	211	208
Export	121	155	162	147	146
<b>TOTAL</b>	<b>329</b>	<b>359</b>	<b>363</b>	<b>358</b>	<b>354</b>
Number of customers					
Distribution	336,512	332,148	329,240	327,586	325,504
Transmission	129	124	121	108	115

\*Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

## Five-Year Operating Summary – Distribution

	2007	2006	2005	2004	2003
Sales in million cubic metres <sup>1</sup>	3,498	3,339	3,411	3,607	3,686
Residential annual average usage ( <i>cubic metres</i> )	3,025	2,873	3,060	3,287	3,420
Degree days <sup>2</sup>	5,700	5,345	5,577	5,844	5,817
<b>PIPELINE</b>					
<i>(kilometres)</i>					
Distribution Utility					
SaskEnergy	66,340	66,043	65,872	65,712	65,559
Swan Valley Gas Corporation	120	120	120	120	120
TOTAL	66,460	66,163	65,992	65,832	65,679

<sup>1</sup>Retail, industrial and natural gas marketing.

<sup>2</sup>A unit measuring the extent to which the temperature falls below 18° Celsius. (In a normal year, the degree days are 5,691.)

## Five-Year Operating Summary – Transmission

	2007	2006	2005	2004	2003
Peak day natural gas flows ( <i>petajoules</i> )	1.49	1.53	1.38	1.48	1.46
Date of peak day flow	Feb. 14	Feb.16	Jan.15	Jan. 27	Jan. 22
Storage cavern sites	8	8	8	7	7
Storage caverns	26	25	24	22	23
Storage field sites	2	2	2	2	2
Producing field sites	1	1	1	1	1
<b>PIPELINE</b>					
<i>(kilometres)</i>					
TransGas Limited					
Transmission	13,573	13,528	13,482	13,412	13,358
Gathering	197	197	188	188	187
Many Islands Pipe Lines (Canada) Limited	435	435	435	435	435
Bayhurst Gas Limited	113	92	92	92	92
TOTAL	14,318	14,252	14,197	14,127	14,072
<b>COMPRESSOR STATIONS</b>					
TransGas Limited	22	22	23	22	22
Many Islands Pipe Lines (Canada) Limited	1	1	1	1	1
Bayhurst Gas Limited	4	3	3	3	3
TOTAL	27	26	27	26	26
<b>COMPRESSION HORSEPOWER</b>					
TransGas Limited	82,200	82,200	88,325	93,550	93,550
Many Islands Pipe Lines (Canada) Limited	–	–	–	–	4,000
Bayhurst Gas Limited	6,835	6,300	6,300	6,300	6,300
TOTAL	89,035	88,500	94,625	99,850	103,850