

MANAGEMENT'S DISCUSSION AND ANALYSIS



INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected the operations and financial results of SaskEnergy and its wholly owned subsidiaries for the year ended December 31, 2009. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects. This style of reporting enables readers to view SaskEnergy from the perspective of management.

This MD&A, together with the Corporation's 2009 audited consolidated financial statements and related notes, form the basis for financial reporting. It contains an in-depth discussion about SaskEnergy's consolidated financial results as well as its liquidity and capital resources. It also includes a brief discussion on the current business environment and how it affected the Corporation's financial results.

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks. Risks are outlined in the Risk Management section of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated by or implied by such statements.

BUSINESS ENVIRONMENT

Impacts of the Global Economy

Compared to the robust growth experienced in 2008, economists anticipated significant downward pressure in 2009 in the wake of the credit crisis. They predicted weak employment levels together with low housing, retail and consumer demand in general. A combination of declining energy and other commodity prices, a strengthening Canadian dollar and the struggling economy in the United States affected Saskatchewan's position in 2009. Despite the impacts of this uncertain and volatile global economy, the Saskatchewan economy fared better than most Canadian jurisdictions in 2009 and is poised to lead the nation in economic growth in 2010.

The North American energy sector was affected by the global pressures and uncertainties that characterized the last 18 months. In particular, crude oil and natural gas prices moved from record highs in 2008 to ten-year lows in 2009. Such volatility in prices created both significant challenges and opportunities for the Corporation. The challenge manifested itself in balancing the goal of providing stable yet competitive rates to our customers. Accordingly, the Corporation was able to reduce natural gas commodity rates twice in 2009 to the lowest rates since 2001. The Corporation leveraged the opportunity of the low natural gas price environment to secure and store natural gas inventories that will provide stability for commodity rates and future earnings from gas marketing activities.

Along with the improved business environment in the fourth quarter of 2009, the Corporation concluded a transaction selling its 50.1 per cent interest in Heritage Gas Limited, which has operated in Nova Scotia since 2003. Cash proceeds were applied to reduce debt and further strengthen the Corporation's financial position going forward. The



\$8 million gain resulting from the sale of the investment supplemented the Corporation's earnings in 2009 and its ability to return dividends to the shareholder. The Corporation continues to have a debt to equity ratio that positions it well to mitigate borrowing requirements in the future and to ensure sufficient access to credit in order to fund working capital for operations, system maintenance and expansion, as well as business development activities within the Province. The Corporation anticipates continued access to adequate credit throughout 2010 via the Province of Saskatchewan and external credit facilities.

Economic instability did have some impact on the ability of SaskEnergy's customers to pay their energy bills in 2009, as bad debts increased over 2008. However, the vast majority of the Corporation's over 347,000 customers continued to pay their bills on time; over 95 per cent of the Corporation's receivables remained current or outstanding for fewer than 30 days.

In terms of its natural gas price management programs, SaskEnergy conducted business with counterparties in accordance with established risk management policies. These risk management policies include procedures that require ongoing monitoring of the creditworthiness of customers and counterparties and limitations on the amount of credit that can be extended. In the upcoming year, the Corporation will continue to comply with these policies and monitor closely the credit situation of customers and counterparties in order to mitigate the risk of financial losses.

Overall, in 2009, SaskEnergy experienced limited impact from the global economic situation. It retained access to adequate levels of credit and was able to fulfill borrowing requirements at low interest rates. Similarly, customers and counterparties were able to fulfill their obligations to SaskEnergy. As the Saskatchewan economy is linked to the global economy, primarily through the export of goods and services, the expectation is that the Province

will benefit from any rebound of commodity prices and the United States' economy. From a financial and operational perspective, SaskEnergy is well positioned to contribute to the economy and provide ongoing safe and reliable service to its customers throughout the Province.

Natural Gas Industry

Natural gas prices in Saskatchewan are set in an open market and are influenced by North American supply, demand and economic conditions. After the global recession in late 2008, a slow economic recovery in 2009 resulted in natural gas prices in Western Canada persisting in a downward trend from approximately \$6.50 per GJ at the beginning of the year to below \$3.00 per GJ in late summer. This was followed by a winter price response of \$5.45 per GJ by year end. The effects of the slow economic recovery and unconventional shale gas production were the key drivers of natural gas prices in 2009.

The slow pace of the economic recovery did little to improve the sharp drop in natural gas demand from the North American industrial and power generation sectors. Concurrently, although the financial credit crisis resulted in a decrease in traditional natural gas developments, technological advancements led to a rapid increase in unconventional natural gas, predominantly in the production of shale gas. North American production of natural gas from shale was so strong in 2009 that, despite drilling activity dropping to less than half of its 2008 peak, production levels did not materially decline until the fourth quarter of the year. The lower demand and increased production resulted in an overabundance of natural gas inventories in 2009. In late November, United States natural gas in storage reached an all-time record high of 3.84 trillion cubic feet. Demand for natural gas began to show signs of recovery in the last quarter of 2009 in conjunction with a modest rebound in market prices.



Within Saskatchewan, demand for natural gas continued to be strong, buoyed by the relatively strong Saskatchewan economy and the preference of natural gas as a cleaner, more cost effective fuel. Driven by the weaker natural gas prices throughout 2009, exploration and production declined noticeably. However, forward market prices remained strong, supporting the industry to develop new, future reserves. SaskEnergy utilized this market opportunity to leverage assets at Beacon Hill and capture some of these margins through a long-term storage strategy.

SaskEnergy sets its commodity rates for 12-month periods in order to provide customers with rate stability. Through the use of storage and a price-risk management program, SaskEnergy was able to reflect purchases made at the 2009 lows in its commodity rate adjustments.

Saskatchewan First Policy

The Provincial Government announced its Saskatchewan First Investment Policy in 2008, which focused on Crown corporations working with the private sector to encourage Saskatchewan-based investments. A focus on Saskatchewan investment opportunities will add value to the Province and create growth opportunities for SaskEnergy.

As part of the Corporation's commitment to the Saskatchewan First Investment Policy, SaskEnergy successfully completed a transaction in November 2009 to divest of its 50.1 per cent holding of Heritage Gas Limited in Nova Scotia. Proceeds of \$73.3 million were used to reduce debt and supplement the dividend paid to the shareholder on the resulting gain on sale of \$8.4 million. The Corporation's strong debt to equity ratio will further the Corporation's ability to invest in Saskatchewan-based opportunities in the energy sector and its core network. For example, during 2009, SaskEnergy, together with its joint venture partner ATCO Midstream Ltd., initiated an expansion in southeast Saskatchewan at the Kisbey Natural Gas Processing Plant, a \$43 million project to be completed in the

first half of 2010. Concurrently, SaskEnergy will continue to work towards a pragmatic exit from its two remaining out-of-Province equity holdings in Chile (Gas Sur) and Mexico (Igasamex).

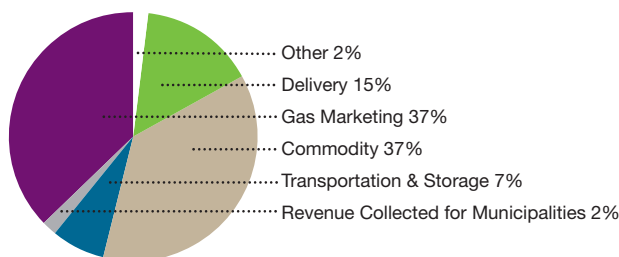
This shift in growth priorities to a focus on Saskatchewan business opportunities is integral to SaskEnergy's growth. Therefore, the Corporation is aligned with the Saskatchewan First Investment Policy. SaskEnergy has integrated Saskatchewan-based business development opportunities into its Strategic Plan within the context of helping to ensure that Saskatchewan's economy and energy sectors remain strong. These initiatives will be undertaken with private sector involvement in the form of both direct and joint ownership structures to leverage our energy partners' expertise and capital while managing the business challenges of new developments in the Province.



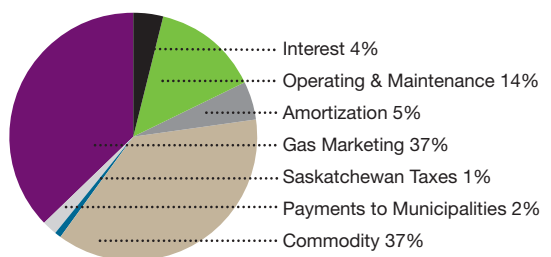
CONSOLIDATED FINANCIAL RESULTS

Net Income (\$ millions)		
	2008	2009
Net Income	30	93

Total Revenue Composition 2009



Total Expense Composition 2009



Overview

Due to the sale of Heritage Gas and the subsequent winding up of Nova Scotia Holdings operations, the Corporation has removed the results of Nova Scotia Holdings and Heritage Gas from its current and comparative results for revenue and expenses. For more information, refer to note 10 in the notes to the Consolidated Financial Statements.

The consolidated financial results encompass SaskEnergy and its wholly owned subsidiaries. SaskEnergy's consolidated group of companies generated net income of \$93 million in 2009, including fair value adjustments and declared dividends of \$51 million to CIC.

Total revenue for 2009 was eight per cent lower than in 2008 as sales to utility customers and sales from gas marketing activities decreased due to lower natural gas prices, which were partially offset by increased volume as a result of colder than normal weather. Additionally, delivery revenue increased due to growth in volumes of natural gas distributed to customers and higher delivery rates.

With regard to expenses, lower prices paid for natural gas were partially offset by increased volumes, resulting in a reduction in both the commodity cost of gas sold and the gas marketing cost of gas sold. Consequently, total expenses were 13 per cent lower than in 2008.

Although total revenue was lower in 2009, it was offset by an even larger decrease in total expenses, which resulted in an increase in net income from \$30 million in 2008 to \$93 million in 2009. Included in 2009 net income was \$29 million of favourable fair value adjustments related to financial instruments compared to \$25 million of unfavourable fair value adjustments in 2008. As a result, net income before the impacts of fair value adjustments was \$64 million in 2009 and \$55 million in 2008. Dividends are paid to CIC based on this figure. It is important to recognize that the commodity and gas marketing margins and fair value accounting will produce significant variability in net income levels year over year.

As governments and the general public continue to focus on the environment, SaskEnergy expects a



strong demand for natural gas – the cleanest burning fossil fuel. Opportunities in business development will further expand SaskEnergy's business within Saskatchewan, while at the same time helping the environment. Expanding demand for natural gas is expected to result in modest growth for the well-established distribution and transmission utilities. The Corporation also anticipates additional margins from gas marketing activities as market opportunities become available. With a solid financial position and a positive outlook for the future, the Corporation anticipates strong financial returns with a net income target of \$58 million for 2010. The annual net income forecasted excludes the impact of accounting standards related to fair value adjustments for financial instruments. These adjustments are not known until the end of the fiscal year.

Commodity Margin

The commodity rate that SaskEnergy charges distribution system customers is designed to ensure that, in the long term, the Corporation neither profits from nor incurs a loss on the sale of natural gas. Whereas the price SaskEnergy pays to procure natural gas for its customers in the open market constantly fluctuates throughout the year, the commodity rate remains fixed until a new rate is approved by the Provincial Cabinet.

The Gas Cost Variance Account (GCVA), which is not recorded in the Corporation's financial statements, is used for rate-setting purposes to track the variances between the cost of natural gas sold and the revenue earned through the commodity rate. Balances in the GCVA are either refunded to, or collected from customers as part of future commodity rate applications. The GCVA is audited annually by the Provincial Auditor. The financial information and related audit report are then provided to the Saskatchewan Rate Review Panel (SRRP).

In the first quarter of 2009, SaskEnergy's commodity rate was \$8.51 per GJ, and from April 1 to October 31 the commodity rate was \$5.96 per GJ. Rounding out the year from November 1 to December 31, the commodity rate was \$5.21 per GJ. The average commodity rate was \$6.77 per GJ in 2009 compared to an average rate of \$7.24 per GJ in 2008. The lower average rate, combined with increased volumes sold of 61 PJ in 2009 compared to 58 PJ in 2008, resulted in commodity sales of \$451 million (\$19 million higher than commodity sales of \$432 million in 2008). This included the impact of the natural gas purchase price risk management program in 2009.

Volatility of natural gas purchase prices and a downward movement of market prices during 2009 resulted in an average cost of natural gas of

Commodity Margin (\$ millions)

	2008	2009
Commodity sales	432	451
Commodity cost of gas sold	(470)	(418)
Commodity margin (loss)	(38)	33
Less: Fair value adjustments	47	(21)
Realized commodity margin	9	12



\$6.51 per GJ, which was lower than the 2008 average cost of \$7.85 per GJ. As a result, the commodity cost of gas sold was \$418 million, which was \$52 million lower than the \$470 million paid in 2008.

SaskEnergy utilizes a natural gas purchase price risk management program to assist in managing the volatility of natural gas purchase prices so that the Corporation can deliver stable, competitive commodity rates to its customers. With purchase prices for natural gas often based on a floating index price, the Corporation may use derivative instruments, primarily contracts for the physical delivery of natural gas (physical contracts), natural gas financial price swaps (swaps) and natural gas financial price options (options) to effectively manage the future purchase price of natural gas. The use of derivative instruments is governed by the Corporate Derivatives Policy and related Natural Gas Price Risk Management Policy. Between the time the derivative contract is entered into and the contract is settled, changes in the fair value of the derivative contract are recorded as either commodity sales or commodity cost of gas sold, depending on the nature of the contract. Upon settlement of the contract, the amount paid or received by SaskEnergy is recorded as commodity sales or commodity cost of gas sold.

The commodity margin, which is commodity sales less the commodity cost of gas sold, is affected by the difference between the commodity rate and the purchase price paid for the natural gas sold as well as the volume of natural gas sold. The commodity margin for 2009 was a \$33 million gain versus a \$38 million loss in 2008. However, included in the 2009 gain on commodity sales was a \$21 million favourable fair value adjustment resulting in a realized commodity margin of \$12 million. This compared to a \$47 million unfavourable fair value adjustment and a \$9 million realized commodity margin in 2008, both of which are reflected in the GCVA.

The favourable fair value adjustment of \$21 million for commodity cost of gas sold includes the reversal of the previous year's \$43 million unfavourable fair value of derivative instruments as well as the current year's unfavourable fair value of derivative instruments of \$22 million. The \$22 million unfavourable fair value was primarily due to future purchases with an average purchase price of \$5.97 per GJ compared to a market price of \$5.45 per GJ at December 31, 2009.

Gas Marketing Margin

A component of SaskEnergy's gas marketing activity is the sale of natural gas from a Bayhurst-owned storage facility in west-central Saskatchewan, which was in the

Gas Marketing Margin (\$ millions)

	2008	2009
Gas marketing sales	576	446
Gas marketing cost of gas sold	(539)	(417)
Gas marketing margin	37	29
Less: Fair value adjustments	(23)	(9)
Realized gas marketing margin	14	20



process of being decommissioned. Although natural gas was continually being removed during the decommissioning phase, an opportunity was identified in 2009 to re-inject natural gas into the facility. This re-injection capability has enabled the Corporation to establish a program whereby it purchases natural gas during periods of relatively low prices, injects it into the facility and resells it later to earn a margin. In 2009, 30 PJ of natural gas was injected into the facility and will be sold over the next five years.

The Corporation also optimizes its contracted transmission and storage capacity during off-peak periods by purchasing and selling natural gas in the open market to provide customer rate benefits and generate an additional margin. Additionally, through a competitive bid process, SaskEnergy provides certain Saskatchewan large end-use customers with natural gas and related natural gas management services.

When conducting its gas marketing activities, the Corporation enters into purchase and sale transactions in the open market. Given the volatility of market prices, these transactions are subject to natural gas price risk. Similar to the commodity margin, in order to manage natural gas price risk for its gas marketing activities, the Corporation may use derivative instruments, principally physical contracts and swaps. Derivative contracts are recorded at fair value until the date of settlement, with changes in fair value recorded in either gas marketing sales or gas marketing cost of gas sold, depending on the type of transaction.

For the year ended December 31, 2009, the Corporation generated \$446 million in gas marketing sales compared to \$576 million in gas marketing sales in 2008. This reflects the lower price of natural gas during the year as volumes sold actually increased by 27 PJ. Gas marketing cost of gas sold was \$417 million, versus \$539 million in 2008. As a result, the gas marketing margin in 2009 was \$29 million, compared to \$37 million in 2008, an \$8 million decrease.

For 2009, a \$9 million favourable fair value adjustment increased the gas marketing margin. This fair value adjustment was primarily due to future contracts with an average selling price of \$6.73 per GJ, compared to a market price of \$5.74 per GJ at December 31. In 2008, there was a \$23 million favourable fair value adjustment that increased the gas marketing margin. On a realized basis, the gas marketing margin was \$20 million for 2009, compared to \$14 million for 2008.

Delivery Revenue

In 2009, delivery revenue was \$184 million, which was \$9 million higher than the \$175 million in 2008. Because the primary reason SaskEnergy customers consume natural gas is for space heating purposes, winter weather (November to March) significantly influences volumes distributed. Volumes distributed in 2009 rose to 67 PJ compared to 65 PJ in 2008. Consistent with the growth in volumes, 2009 was 12 per cent colder than normal (normal determined



by the 30-year average), while 2008 was 5 per cent colder than normal.

In addition to winter weather, the actual volume delivered is affected by the number of customers on the distribution system and the average usage per customer. During the past two years, SaskEnergy has experienced a comparatively high level of growth in net new customer connections. In 2009, new customer connections were located throughout the Province as SaskEnergy added customers in 344 communities.

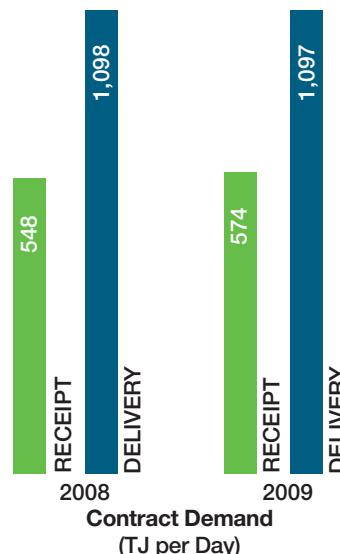
Consistent with the increased emphasis on energy conservation, there has been a reduction in the average usage of natural gas on a per customer basis. This reduction is a result of improvements in building insulation, the introduction of new housing stock, development of more energy efficient natural gas equipment and a general focus on energy conservation by customers. Although these initiatives reduce delivery revenue per customer, energy conservation is important to the future sustainability of SaskEnergy's distribution system. In fact, SaskEnergy administers Provincial and Federal Government energy conservation programs to help consumers use natural gas more efficiently, thereby encouraging them to choose natural gas to meet their long-term energy needs.

Transportation and Storage Revenue

The level of natural gas drilling activity in Saskatchewan, as well as the level of production from existing natural gas wells, has a direct impact on provincial natural gas production. The number of natural gas wells drilled in the Province decreased substantially from 1,203 in 2008 to 230 in 2009. The decline in drilling occurred across Western Canadian conventional natural gas production areas and was strongly influenced by production costs as well as lower natural gas prices experienced in 2009. Therefore, natural gas production in Saskatchewan continues to decline, resulting in lower transportation flows on the transmission system.

Deliveries by the transmission system to customers within Saskatchewan, or to points where the natural gas is subsequently exported, are based on the volume of receipts onto the system as well as withdrawals from storage. Contracted capacity for deliveries within Saskatchewan remained relatively stable. However, export volumes were down. While overall receipt volumes remained relatively stable, receipt of Saskatchewan-produced natural gas was down. There was an increase in Alberta receipts, however, this natural gas was injected into storage. Consequently, the volume of natural gas exported declined to 41 PJ in 2009 compared to 54 PJ in 2008.

Underground natural gas storage facilities offer customers an essential service in managing their natural gas supply. The strong demand for storage services continued as storage service was fully contracted for the twelfth consecutive year. Driven primarily by the reduction in transmission revenue, TransGas rates were increased by an average of 8.6 per cent on February 1, 2009. Coupled with the rate increase, a number of cost reduction measures were also implemented.



The transmission and storage rate adjustments, partially offset by lower transportation volumes, resulted in increased transmission and storage revenue of \$80 million in 2009 compared to \$77 million in 2008.

Revenue Collected for and Paid to Municipalities

Under provisions of *The SaskEnergy Act*, the Corporation is required to collect a percentage of natural gas sales to, or natural gas transported for customers on behalf of municipalities. The Corporation then remits the full amounts collected to the respective municipalities. The Corporation does not profit on these transactions. The related revenue and expenses were \$26 million in 2009 and \$25 million in 2008.

Other Revenue

Other revenue, which includes royalty revenue, natural gas and liquid sales and income from equity investments, decreased by \$6 million compared to the prior year.

Revenue from a gross overriding royalty on 450 natural gas-producing properties in Saskatchewan and Alberta was \$3 million in 2009. Compared to 2008, lower average natural gas selling prices resulted in a decrease of \$3 million in royalty revenue.

The Corporation generated \$4 million in revenue through its natural gas processing operations. This was a decrease of \$4 million as average prices for products were lower due to the reduction in commodity prices for the majority of the year.

SEI holds equity investments in Gas Sur and Igasamex, which operate natural gas-related businesses in Chile and Mexico respectively. The Corporation's share of income from these equity investments was \$3 million, approximately \$1 million higher than the prior year. SEI's share of Igasamex's 2009 net income was \$2 million. Igasamex's net income was \$5 million, which was \$3 million higher than 2008 as Igasamex continued to have success signing and connecting new industrial customers.

SEI's share of Gas Sur's 2009 net income was \$1 million. Gas Sur's net income of \$3 million was \$1 million higher than 2008, reflecting slightly lower natural gas costs. SaskEnergy will continue to work towards a pragmatic exit from its two remaining out-of-Province equity holdings in Chile (Gas Sur) and Mexico (Igasamex).

Sale of Heritage Gas Limited

On October 1, 2009, the Corporation sold its 50.1 per cent interest in Heritage Gas Limited for net proceeds of \$73.3 million resulting in a gain of \$8.4 million. For further information, see note 10 of the Consolidated Financial Statements.

Discontinued Operations – Nova Scotia Holdings Ltd.

During the fourth quarter of 2009, the Corporation approved a plan to wind up operations of its wholly owned subsidiary Nova Scotia Holdings Ltd. As a result, the Corporation classified the operating results of Nova Scotia Holdings Ltd. as discontinued operations in 2009. The net income from discontinued operations was \$5 million for 2009. For further information, see note 10 of the Consolidated Financial Statements.



Operating and Maintenance Expenses

Operating and maintenance expenses were \$148 million for 2009, which was an increase of \$10 million (7 per cent) over 2008. The increased operating and maintenance expenses for 2009 were attributable to higher labour costs as well as higher third-party contractor costs. Also affecting the increase was a change in accounting policy for intangible assets, resulting in more of these costs being expensed rather than capitalized as was done in the past.

In order to ensure the safe and reliable operation of over 80,000 km of transmission and distribution pipeline systems that serve over 347,000 customers, SaskEnergy employs approximately 1,100 people, including temporary and seasonal staff. The competitive labour market in the Province resulted in increased labour costs as the Corporation needed to attract and retain skilled and knowledgeable staff.

Growth in customer connection activity levels also contributed to pressures on operating costs. The incremental workload related to activation of new customers was performed by staff during normal business hours. As a result, a certain amount of regular maintenance activities were completed after normal working hours or through the use of contractors, increasing both labour and third-party contractor costs. In a similar manner, additional work was required to alter underground facilities for improvement projects undertaken by customers.

As a result of strong economic activity within the Province, there was a nearly four per cent increase or approximately 2,250 more line locate requests from the public to have SaskEnergy locate and mark its underground facilities. For safety reasons, line location services are imperative in preventing third parties from contacting underground natural gas facilities.

With rising cost pressures, SaskEnergy is continually looking for ways to become more efficient. Some initiatives that the Corporation implemented to reduce costs included electronic billing and the implementation of a mobile work management system

whereby service technicians are dispatched to work assignments via computers within their vehicles. In total, \$6 million in proposed efficiencies are targeted for 2010.

Interest Expense

There was a \$2 million increase in interest expense from 2008 to 2009, reflecting an increase in interest on long-term debt partially offset by a decrease in interest on short-term debt. The increase in interest on long-term debt was directly related to the purchase of natural gas injected into the Bayhurst storage facility.

The Corporation repaid \$39 million of long-term debt with an average interest rate of 9.8 per cent during the year. It issued \$83 million in long-term debt with an average interest rate of 3.2 per cent in the first and last quarter of the year.

Amortization Expense

Due to a higher asset base, amortization expenses of \$57 million were \$2 million above the previous year.

Saskatchewan Taxes

Saskatchewan taxes include corporate capital taxes paid to the Province on capital employed as well as property taxes paid to municipalities. Saskatchewan taxes of \$8 million were incurred in 2009, which was consistent with 2008.



LIQUIDITY AND CAPITAL RESOURCES

Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary sources of liquidity and capital for SaskEnergy. Sources of liquidity include Order in Council authority to borrow up to \$400 million in short-term loans from the General Revenue Fund and a \$35 million line of credit with the Toronto-Dominion Bank. Over the longer term, *The SaskEnergy Act* allows the Corporation to borrow up to \$1.3 billion of debt.

On average, SaskEnergy generates approximately \$100 million of cash from operations per year. Looking forward, SaskEnergy's ability to generate cash from operations, together with the \$400 million of short-term debt the Corporation is authorized to borrow, provides sufficient liquidity and capital to meet its near-term funding requirements.

The volatility of natural gas prices contributes to the liquidity risk inherent in the distribution utility business. A sudden increase in natural gas costs could result in a significant net cash outflow before the rates charged to customers can be adjusted to reflect the higher costs. In the interim, SaskEnergy relies on its credit lines to fund the difference between the cost of natural gas and the revenue earned on its commodity sales to distribution utility customers.

Due to the nature of SaskEnergy's distribution utility business, cash flows tend to be cyclical as winter weather produces the majority of commodity sales, while natural gas purchases are distributed throughout the year. In the summer, purchases in excess of sales are injected into storage, while in the winter, sales volumes in excess of purchase volumes are withdrawn from storage. Consequently, cash receipts tend to exceed cash expenditures from December to May, while cash expenditures tend to exceed cash receipts from June to November. SaskEnergy relies on temporary loans from the General Revenue Fund to finance natural gas injections into storage during the summer. These loans are then repaid between December and May as

customers pay for natural gas consumed for heating purposes during the winter months.

The loss of liquidity and rising credit spreads during 2008 and early 2009 had relatively little effect on SaskEnergy. The Corporation was able to obtain short-term loans from the Province of Saskatchewan as required, and its uncommitted line of credit with the Toronto-Dominion Bank remained unchanged. SaskEnergy's access to long-term capital is strengthened by its ability to borrow debt through the Province of Saskatchewan. SaskEnergy borrowed \$50 million of long-term debt in March and an additional \$33 million in November. The Province also continued to have good access to short-term money markets. The interest rate on these most recent debt issues compares favourably to the lowest rates on SaskEnergy's overall debt portfolio.

SaskEnergy's debt to equity ratio was 64 per cent debt and 36 per cent equity at the end of 2009. Proceeds of \$73.3 million from the sale of the Corporation's 50.1 per cent interest in Heritage Gas Limited in November were used to reduce short-term debt and improve the Corporation's debt to equity ratio bringing it closer to industry norms.

Cash Provided by Operating Activities

In 2009, cash provided by operating activities increased significantly versus 2008. Earnings net of non-cash items (i.e. amortization and fair value adjustments) were \$107 million, which was comparable to, but slightly lower than earnings net of non-cash items in the previous year. Cash from operations would have been even higher. However SaskEnergy undertook a strategy to purchase lower priced natural gas during the year and increase its storage levels. This additional natural gas in storage was purchased for gas marketing activities and will be held for resale in 2010 and subsequent years when it is expected to generate additional profit and cash flow for the Corporation.



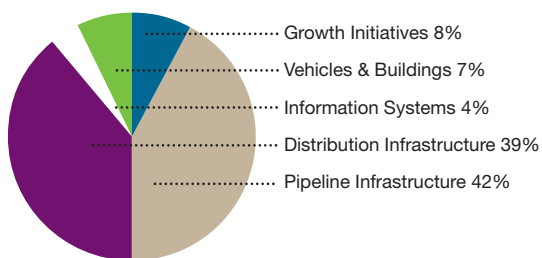
Cash Provided by Operating Activities (\$ millions)		
	2008	2009
Earnings net of non-cash items	109	107
Net change in non-cash working capital related to operations	(98)	(31)
Cash provided by operations	11	76

Cash Used by Investing Activities

In 2009, cash used for investing activities was \$26 million, compared to \$82 million in 2008.

Investments were made as follows:

Total Investment Activities 2009



SaskEnergy is planning future capital expenditures of approximately \$103 million in 2010. Most of this additional capital will be spent towards maintaining, improving and expanding the natural gas transmission and distribution systems within the Province. Approximately \$4.9 million of that amount has been designated for new business development projects within the Province of Saskatchewan.



Cash (Used In) Provided by Financing Activities

During 2009, SaskEnergy used \$54 million in financing activities. SaskEnergy raised \$83 million from the issuance of long-term debt to the General Revenue Fund. The proceeds from these loans were applied to reduce the promissory notes to the Province of Saskatchewan by \$55 million and long-term debt repayments, net of debt retirement funds, in the amount of \$47 million. SaskEnergy also paid dividends of \$36 million to its parent, CIC.

As SaskEnergy pursues its business development strategy over the next three years, it will need to issue sufficient debt in order to repay approximately \$130 million of maturing long-term debt and to secure the incremental capital required to pursue its business development opportunities. SaskEnergy currently has access to capital resources needed to accommodate its future funding requirements.

Cash (Used In) Provided by Financing Activities (\$ millions)

	2008	2009
Proceeds from long-term debt	120	83
Repayments of long-term debt (including debt retirement funds)	(78)	(47)
Dividends paid	(44)	(36)
Increase (decrease) in bank indebtedness and short-term debt	75	(54)
Cash (used in) provided by financing activities	73	(54)

Summary

SaskEnergy's access to capital through the Province of Saskatchewan and the continued profitability of core business operations will provide the capital resources and liquidity needed for the continued operation and expansion of its infrastructure and the development of new business opportunities.





SASKENERGY'S STRATEGIC PLAN AND KEY SUCCESS MEASURES

SaskEnergy's Strategic Plan, which has completed its third full year of implementation, contains four key mandates that support the vision and mission of the Corporation. The Our Future, Our Growth, Our Service and Our People mandates play an important role in helping employees determine how their everyday work and efforts contribute to the direction of the Corporation.

Each year, SaskEnergy comprehensively sets and measures targets for all aspects of its business according to the highest standards – those it sets for itself to “create superior value through innovative energy solutions” as outlined in its strategic vision.

The 2009 SaskEnergy Annual Report reflects the Corporation's efforts to demonstrate best practices in corporate and financial reporting. SaskEnergy benchmarks all activity against best-practice industry standards through a reporting scorecard aligned with the Strategic Plan. Part of the 2009 Management's Discussion and Analysis is based on assessing key success measures found within the scorecard.

This scorecard is representative of SaskEnergy's four key mandates, Our Future, Our Growth, Our Service and Our People, through 41 key success measures used to monitor and direct organizational performance. The Our Future mandate encompasses several key success measures: Competitive Rates, Community Investment, Environment, Governance and Financial Health. These measures are in place to reinforce the Corporation's commitment to achieving sustainable operations within the Province. The Our Growth

mandate includes the following specific measures: Core Growth, Business Development and Incremental Net Income from Business Development. These measures reflect the Corporation's Saskatchewan-based growth initiatives and development of new core and non-core business ventures. The Our Service mandate includes the following key success measures: SaskEnergy and TransGas Reliability Indices, Customer Satisfaction, SaskEnergy Response Time Index and TransGas Emergency Index. These measures reflect the Corporation's commitment to providing safe and reliable service, and customer service excellence. Finally, the Our People mandate highlights the following measures: Physical Safety, Employee Satisfaction and Representative Workforce. These measures are designed to ensure the future success of the Corporation through a safe, engaged, productive and diverse workforce.

The scorecard provides an all-inclusive picture of the Corporation's 2009 financial results and important operational information about SaskEnergy and its subsidiaries. The future year scorecard targets within the key success measures were assessed in 2009 and reflect the 2010 business plan.



OUR FUTURE

Strategic Measure	2008 Actual	2009 Actual	2009 Target	2010 Target	2011 Target	2012 Target
Competitive Rates						
SaskEnergy Commodity	\$864 – Lowest in Canada	\$831 – Fourth Quartile	Top Quartile	Top Quartile	Top Quartile	Top Quartile
SaskEnergy Delivery	\$381 – Lowest in Canada	\$401 – Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada
TransGas Export Rates	Lower than average TCPL (Nova) TransGas 26.3¢/GJ Nova 29.2¢/GJ	Lower than average TCPL (Nova) TransGas 31.0¢/GJ Nova 32.0¢/GJ	Lower than average TCPL (Nova)	Lower than average TCPL (Nova)	Lower than average TCPL (Nova)	Lower than average TCPL (Nova)
Community Investment						
Investment (<i>millions</i>)	\$1.80	\$1.85	\$1.60	\$1.60	\$1.60	\$1.60
Projects Supported	1,321	1,229	1,300	1,300	1,300	1,300
Communities Impacted	328	331	270	270	270	270
Percentage of Goods/Services Sourced in Saskatchewan	81%	80%	74%	74%	74%	75%
Total Contracts – Percentage of Aboriginal Labour Content	22%	16%	11%	12%	13%	14%



OUR FUTURE

Strategic Measure	2008 Actual	2009 Actual	2009 Target	2010 Target	2011 Target	2012 Target
Environmental						
Customer Efficiency Programs – # of Customers Impacted (Direct & Indirect)*	New Measure for 2009	4,826 14,983	7,500 15,500	7,500 15,500	7,500 15,500	7,500 15,500
Internal Energy Efficiencies*	New Measure for 2009	290 TJ/year	33 TJ/year	33 TJ/year	33 TJ/year	33 TJ/year
Climate Change & Greenhouse Gas Reductions*	New Measure for 2009	25,145 Tonnes/year	28,000 Tonnes/year	5,000 Tonnes/year	5,000 Tonnes/year	5,000 Tonnes/year
Governance						
	Substantially Compliant with CSA Governance Guidelines**	Substantially Compliant with CSA Governance Guidelines**	Substantial Compliance with CSA Governance Guidelines**	Substantial Compliance with CSA Governance Guidelines**	Substantial Compliance with CSA Governance Guidelines**	Substantial Compliance with CSA Governance Guidelines**
Financial Health						
Financial Health -Debt/Equity Ratio	66/34	64/36	65/35	68/32	68/32	68/32
Rate of Return on Equity						
-Distribution	1.4%***	16.9%***	8.8%	8.8%	9.9%	9.4%
-TransGas	7.0%	12.9%	8.9%	8.7%	8.7%	8.7%
-Consolidated	12.5%	13.5%	15.3%	12.9%	12.4%	11.6%
Net Income Before Fair Value Adjustments (millions)	\$55	\$64	\$72	\$58	\$57	\$55
Capital Investment (net) (millions)	\$98	\$99	\$118	\$103	\$106	\$110

* New measurement created for 2009.

** Canadian Securities Administrators (CSA) Corporate Governance Guidelines “National Policy 58-201” and guidelines for disclosure of Corporate Governance Practices “National Instruments 58-101.”

*** The Distribution Rate of Return on Equity result for 2009 exceeded the target due to favourable results from non-core gas marketing revenue efforts and colder than normal weather throughout the year. The Distribution Rate of Return can also be adversely impacted, as occurred in 2008 through warmer-than-normal weather. Rates are set using rolling 30-year average weather profiles, consistent with industry practice.

Note: Targets for 2010 and beyond are based on the 2010 business plan.



Competitive Rates

This measure reflects SaskEnergy's and TransGas' commitment to the cost-effective delivery of natural gas services to all customers in Saskatchewan. Competitive rates permit SaskEnergy to support economic growth through an energy advantage of conducting business in the Province.

In 2009, SaskEnergy's commodity rate was comparable to most other Canadian utilities, with an average cost to residential customers of \$1,232 per year. Although SaskEnergy did not meet its target of top quartile, the Corporation made two significant applications to decrease its commodity rate. In April 2009, the commodity rate decreased by 30 per cent to \$5.96 per GJ and again in November 2009 by another 12.6 per cent to \$5.21 per GJ. With both of these rate decreases, customers were paying the lowest commodity price in nine years. Other Canadian utilities adjust their commodity rates more frequently and, therefore, reflected the lower natural gas prices of 2009 earlier than SaskEnergy. SaskEnergy's rate strategy provides price protection for its customers during the winter months when consumption of natural gas is the highest. Over the last number of years, SaskEnergy's natural gas commodity management strategy has produced significant benefits for Saskatchewan consumers. For seven of the last 11 years, the Corporation has offered the lowest provincial commodity rates in Canada.

SaskEnergy met its target of having the lowest residential delivery rates among major utilities across Canada. Based on the previous twelve months, a typical residential customer paid \$401 for delivery service. This rate is \$21 less than in Calgary, which had the second lowest delivery rate in the country.

SaskEnergy's rates are approved by Provincial Cabinet based on recommendations for proposed rate changes from the Saskatchewan Rate Review Panel (SRRP), an independent body that reviews all rate changes proposed by SaskEnergy.

TransGas, which benchmarks its export rates against those of TCPL (Nova) in Alberta, was

successful in meeting its target of having rates lower than average TCPL (Nova) export rates at a rate of 31.0¢ per GJ. In 2009, TransGas rates were one cent less per GJ than those of TCPL (Nova) in Alberta.

Community Investment

SaskEnergy believes that being a responsible and contributing member of the communities it serves is an essential part of its business strategy. Working closely with customers and members of Saskatchewan communities helps to ensure the longevity of successful business operations.

In 2009, SaskEnergy met its financial target by investing \$1.85 million in community and charitable sponsorships across the Province. Those sponsorships benefited 1,229 projects in 331 communities. The Corporation strategically prioritizes its sponsorships based on the following categories: Education and Leadership, Community Initiatives, Saskatchewan Pride, Environmental Stewardship and Saskatchewan Growth.

An important element of SaskEnergy's community investment portfolio involves the support of growth in communities throughout the Province. In 2009, SaskEnergy exceeded its target by purchasing 80 per cent of its required goods and services within the Province. Another significant component of SaskEnergy's community investment involves supporting Saskatchewan's strong and vibrant Aboriginal labour market. This emerging market serves as an opportunity to create employment and sustainable business opportunities for Aboriginal people today and into the future. In 2009, SaskEnergy surpassed its goal by awarding 16 per cent of all contracts to Aboriginal businesses.

Environmental

SaskEnergy places a strong emphasis on environmental sustainability. The Corporation partners with the private and public sectors to



develop and introduce energy efficiency programs, opportunities and technologies that play a role in conserving energy and reducing GHG emissions. This measure is used to evaluate the Corporation's environmental impact.

Each year, SaskEnergy develops, delivers and funds several energy efficiency programs and rebates. In 2009, the Corporation impacted 4,826 customers directly, which was short of target. Programs that benefit our customers directly include: the \$15 Programmable Thermostat Rebate, the ENERGY STAR® Loan Program, the Commercial Boiler Program, the SaskEnergy Home Check-Up, the Energy Efficient Rebate for New Homes-Gas Appliances rebate and the Home Energy Efficiency Project. The number of customers reached in this category was less than targeted because fewer customers participated in the Programmable Thermostat Rebate and the ENERGY STAR Loan Program than anticipated. Feedback from the industry shows that many customers used cash or already had low interest financing in place for the purchase of new furnaces as they were completing other retrofits in their homes.

By helping 14,983 customers, SaskEnergy was successful in achieving its targeted number of customers indirectly impacted by energy efficiency programs. Programs that have an indirect impact on our customers include: the Saskatchewan EnerGuide for Houses Program (SEGH), the Energy Efficient Rebate for New Homes and the SaskEnergy Network Home Heating Tune Up furnace maintenance and safety programs. SaskEnergy works strategically with the Provincial and Federal Governments to help coordinate and implement a number of these programs. This past year, SaskEnergy was recognized at a national level for having the highest participation rate in the SEGH program across Canada. The program has supported more than \$200 million of investment in energy efficiency retrofits in Saskatchewan, supporting both local retail and contracting businesses.

In addition to the measurable customer participation in these programs, other customers may be improving their efficiency through the low-cost and no-cost tips provided on the saskenergy.com website and through other mediums such as trade shows, brochures, radio and television.

In 2009, SaskEnergy improved its level of internal energy efficiency by 290 TJ. This measure significantly exceeded its target of 33 TJ and has helped further SaskEnergy's and TransGas' commitment to environmental sustainability. This major gain in efficiency was largely a result of reduced compression equipment utilization at Beacon Hill, including the Pierceland and Mannville Fields. Although the Corporation made great strides with its internal energy efficiencies, some work remains to be completed in order to meet climate change and GHG reduction targets. Due to certain project delays, the Corporation fell approximately 10 per cent short of reaching its GHG emissions reduction target of 28,000 tonnes. Nevertheless, SaskEnergy/TransGas made considerable progress this year with 25,145 tonnes of GHG emissions being reduced. The Corporation is on schedule to achieve the Provincial Government's "Go Green" target of a 20 per cent reduction of 2006 emission levels by 2020.

Governance

SaskEnergy's commitment to advanced governance practices demonstrates accountability to all stakeholders. Effective governance helps ensure that SaskEnergy operates as a financially viable and responsible Corporation.

SaskEnergy benchmarks its governance practices against the Canadian Securities Administrators (CSA) Corporate Governance guidelines. This measurement ensures that the Corporation's customers and employees receive fair and equitable treatment and that the correct levels of authority and accountability are established so that all employees can accomplish their work without unnecessary



limitations or risks. Full details on corporate governance results are discussed beginning on page 90.

Financial Health

SaskEnergy's financial health is based on the Corporation's maintenance of an appropriate capital structure while providing reasonable industry-standard financial returns to the owner. The Corporation works hard to balance the interests of both the Owner and its customers by focusing on short-term profitability and long-term sustainability.

In 2009, capital expenditures of \$130 million were \$20 million below the target of \$150 million due to the deferral of certain business development projects to 2010. Although the Corporation's capital expenditures were slightly lower than anticipated, additional long-term debt was required for the purchase of natural gas, which was injected into long-term storage and remained there at year end. Proceeds of \$73.3 million generated from the sale of Heritage Gas Limited were utilized to reduce debt. Consequently, the debt to equity ratio of 64 per cent debt and 36 per cent equity was better than targeted.

Before the effects of fair value adjustments in 2009, consolidated net income was \$64 million, which was \$8 million below the \$72 million target. This variance was primarily due to lower than anticipated transportation revenues as contract volumes did not reach budget levels, thereby reducing export and receipt revenues. Furthermore, lower than expected results from gas marketing activities were partially offset by a margin on commodity sales resulting from transactions discussed in the consolidated financial results. With consolidated net income lower than anticipated, the rate of return on equity was 13.5 per cent compared to a target of 15.3 per cent.

Our Future Outlook

Each year, organizations strive to seek efficiencies and make decisions that are responsible, profitable and beneficial to customers and stakeholders. As the economy fluctuates, SaskEnergy's fundamental goal will remain the same: provide customers with safe and reliable natural gas service through a competitive rate structure.

SaskEnergy and TransGas respect and value the sound financial policies and governance practices that are used to help successfully guide the Corporation. SaskEnergy's distribution utility and its regulated rates strategy, together with TransGas and Bayhurst's natural gas buy/sell operation provide our customers with competitive and affordable rates. This strategy, combined with strong financial principles, will help manage growth activities to produce appropriate non-regulated returns and support the long-term financial health of the Corporation. SaskEnergy expects growth in both new and existing operations within the Province and projects net income between \$55 million and \$60 million per year over the next five years.

Moving forward, SaskEnergy is committed to strengthening Saskatchewan communities and the environment. Specifically, the Corporation will work towards the monetization of its out-of-Province investments in Gas Sur and Igasamex, looking to achieve a fair return.

SaskEnergy will operate in an environmentally responsible manner by balancing business requirements with operational and environmental impacts and energy consumption. The Corporation will also work towards the achievement of federal and provincial climate change targets.

A top priority in 2010 will be to continue seeking efficiencies throughout the Corporation. Building on a strong year, SaskEnergy and TransGas will look for more opportunities to minimize costs and look for new opportunities for revenue and efficiency gains. The Corporation will develop relationships and work with community stakeholders and customers to ensure the sustainability of SaskEnergy's operations in the Province.



OUR GROWTH

Strategic Measure	2008 Actual	2009 Actual	2009 Target	2010 Target	2011 Target	2012 Target
Core Growth– Capital Investment in New Infrastructure* (millions)						
SaskEnergy (net)**	New Measure for 2009	25.9	20.3	29.2	19.6	18.5
TransGas (net)**		27.8	32.7	23.6	10.6	24.1
Business Development*						
Direct Capital Investment	New Measure for 2009	10.9	27.2	4.9	30.5	34.0
Total Leveraged Capital		44.5	70.2	35.1	34.5	47.0
Incremental Net Income from Business Development*						
New Business Development Saskatchewan Focused	New Measure for 2009	-0.4	2.4	2.5	3.2	4.8
External Investments		15.4	6.5	1.4	–	–

* New measurement created for 2009.

** Net of customer contributions.

Note: Targets for 2010 and beyond are based on the 2010 business plan.



Core Growth – Capital Investment in New Infrastructure

The Core Growth measurement tracks capital expenditures related to SaskEnergy customer connections and TransGas capital expenditures for storage and transmission system growth.

Given the strength of the Saskatchewan economy in 2009, SaskEnergy met its Capital Investment in New Infrastructure target with a total of \$25.9 million expended on system expansions and customer growth. SaskEnergy also experienced strong customer growth in 2009 with almost 5,000 new customer connections.

TransGas' Capital Investment in New Infrastructure measure was slightly below target for the year due to some capital projects being deferred until 2010. In other cases, the economic climate resulted in certain projects costing less than initially anticipated.

Business Development

The Business Development category is comprised of two measures. The Direct Capital Investment measure identifies the amount of capital investment needed to initiate new, non-core business development opportunities in the Province. The Total Leveraged Capital measure records the total estimated capital related to the entire project scope of the business development activities in which SaskEnergy is participating.

In 2009, SaskEnergy did not meet its Direct Capital Investment target. This was largely a result of changes in the business plan for the expansion of the Kisbey Natural Gas Processing Plant. Originally, the expansion was considered to be a larger project. But, project timing was adjusted to reflect commodity, labour and material prices resulting in a delayed completion date, a smaller-scaled project and lower overall project expenditures in 2009.

In addition, the Total Leveraged Capital measure was below target due to delays with a projected

TransGas storage expansion that included collaboration with an external party. Further efforts are planned for 2010 to add economic storage capacity that will contribute to corporate income. In 2010, this measure will reflect work completed on the Energy to Store 2 project.

SaskEnergy initiated other non-core business growth for Saskatchewan around innovative energy solutions, the capture of flare gas and other related hydrocarbon liquids, and the evolution of a CO₂ transportation infrastructure. Specific projects included:

Waste Heat Recovery (WHR) – TransGas initiated projects at the Rosetown and Coleville compressor stations to capture waste heat from exhaust stacks. That waste heat will generate electricity for TransGas' own internal use as well as delivery to the SaskPower grid. There are preliminary plans to apply this technology, developed by Innovative Steam Technologies, on a smaller scale to as many as 12 additional compressor units in the TransGas system.

Biomass to methane opportunities – In 2009, SaskEnergy began working with Saskatoon Light & Power on the delivery of a landfill gas-to-methane and power generation project. The results of the study, including business modeling and economic viability, will be available in early 2010. In addition, SaskEnergy is assessing a project to convert forestry residues into pipeline grade methane near La Ronge. SaskEnergy is working with the Saskatchewan Ministry of Environment and other external parties to conduct an assessment of the engineering resources required to ensure technologies can function at the appropriate scale for Saskatchewan.

Straddle Plant – TransGas is assessing the opportunity to partner with a private sector company to construct a straddle plant in southeast Saskatchewan. The objective of the straddle plant would be to capture incremental natural gas liquids, thus generating additional revenues. In 2009, TransGas made progress related to the assessment



of the project. TransGas selected a private sector partner through a Request for Proposal process, and market analysis is underway.

CO₂ Aquistore Project – The Aquistore Project is a multi-stakeholder research partnership with the Petroleum Technology Research Center (PTRC) that will determine the viability of using deep saline aquifers for long-term sequestration of CO₂. SaskEnergy is participating in this partnership to potentially assist with the CO₂ pipeline service component of the project.

Incremental Net Income from Business Development

This measure allows SaskEnergy to monitor the success of new business development initiatives as well as its external investments relative to net income earned each year. The New Business Development target for net income assumes incremental revenues from new business development activities related to natural gas processing, storage and marketing activities.

In 2009, SaskEnergy fell short of achieving its target for Net Income from Business Development initiatives. This was mainly a result of lower than expected natural gas processing income due to a decrease in prices for natural gas and natural gas liquids, an extended plant outage in the fourth quarter of 2009 and a decision to defer completion of the Kisbey Natural Gas Processing Plant expansion.

SaskEnergy's external investments were below target, with net income totaling \$15.4 million in 2009. The reduction in operating net income was primarily due to a decision to divest SaskEnergy's interest in Heritage Gas Limited. This out-of-Province investment produced an \$8.4 million gain on sale. The Corporation's existing international investments, Gas Sur and Igasamex, were on budget and will be divested with a goal to maximize returns.

In 2009, both international investments were profitable. However, Gas Sur's net income was

below target due to electrical transmission interconnection delays resulting in the new electrical turbine being operational for only six months of the year. Igasamex was affected by the global recession due to Mexico's reliance on the US economy. However, Igasamex's annual income was still above target, largely as a result of its success in signing and connecting new industrial customers.

Our Growth Outlook

As business climates continually evolve and change, SaskEnergy recognizes the need to do the same. The Corporation's growth strategy leverages its core expertise to identify and execute profitable new business ventures in Saskatchewan, building on new and existing industry relationships.

Looking ahead, the Corporation plans to expand its transmission, storage and distribution utility infrastructure as well as its service offerings to capture core business growth opportunities. SaskEnergy/TransGas will place emphasis on a diverse group of business projects, including the implementation of CO₂ transportation services, expansion of TransGas storage facilities by 15 per cent, further expansion of WHR technology at TransGas compressor stations and development of a straddle plant in southeast Saskatchewan to extract and market natural gas liquids from natural gas within the TransGas system. The Corporation will devote a sustained focus to the continued use of external partners, expertise and capital to support its core competencies.

Bayhurst Gas' gas marketing strategies will also be used to maximize gas commodity marketing opportunities and profits by leveraging its expertise and long-term storage opportunities at Beacon Hill. The Corporation will build and leverage industry relationships that contribute to the identification and development of new opportunities.



OUR SERVICE

Strategic Measure	2008 Actual	2009 Actual	2009 Target	2010 Target	2011 Target	2012 Target
Reliability Index						
SaskEnergy	7.5	8.2	9.0	9.0	9.0	9.0
TransGas	8.9	9.7	9.2	9.2	9.2	9.2
Customer Satisfaction						
SaskEnergy	87%	88%	85%	85%	85%	85%
TransGas	95%	96%	85%	85%	85%	85%
SaskEnergy Response Time Index*	New Measure for 2009	9.8	9.0	9.0	9.0	9.0
TransGas Emergency Index*	New Measure for 2009	9.3	9.5	9.5	9.5	9.5

* New measurement for 2009.

Note: Targets for 2010 and beyond are based on the 2010 business plan.



Reliability Index

The Reliability Index is a measure for determining SaskEnergy's and TransGas' ability to provide service to its customers without disruption. The Reliability Index utilizes several lead indicators, such as the percentage of planned maintenance, training and job observations completed, as well as lag indicators, such as system outages and their related effects on customers. Utilizing a weighted calculation, the Reliability Index calculates the values of both sets of indicators to arrive at a score ranging from 0 to 10, with 10 being the highest attainable score.

SaskEnergy

With a score of 8.2, SaskEnergy's Reliability Index rating for 2009 was very near its target. The lead indicators that influenced this score included a shortfall in completing certain training and job observations. However, all planned maintenance was completed. Specific lag indicators, including 70 unplanned customer outages, also played a role in the results. It is important to note that the 2009 results reflect an increase over the previous year's rating of 7.5.

TransGas

With a score of 9.7, TransGas was successful in meeting its Reliability Index target in 2009. At year end, only four short, unplanned customer outages were on record.

To help ensure a safe and reliable system, TransGas completed over 35 major pipeline integrity projects this year. Those projects consisted of numerous surveys, direct examinations of facilities and In-Line Inspections of pipelines. Such inspections help to extend the life of the system, lower overall risk and ensure public safety and system reliability.

Customer Satisfaction

Customers are vital to a successful business and the Corporation strives to ensure their expectations are not just met, but exceeded. The strong corporate culture of customer service at SaskEnergy encourages employees to find solutions for customers. As a result, employees play a fundamental role in achieving high customer satisfaction ratings.

SaskEnergy

In 2009, SaskEnergy exceeded its customer satisfaction target with 88 per cent of residential customers surveyed rating their satisfaction with the Corporation as a 5, 6 or 7 out of a total of 7, (a score of 7 represents an excellent score) in a residential survey conducted by an independent Saskatchewan-based market research firm. The survey rated SaskEnergy on the following areas: providing reliable service and a high standard of customer service, environmental responsibility, commitment to helping customers use energy responsibly, initiatives to meet customers needs, educating the public and maintaining low rates.

TransGas

Each year, TransGas completes a Customer Satisfaction Survey to measure its progress in several aspects of business: staff, rate applications, reliability of service and customer service excellence. In 2009, TransGas received a composite score of 4.77 out of a possible 5.0 rating. This score represents a 95.5 per cent level of customer satisfaction, slightly higher than the 2008 results of 94.6 per cent. Of the many aspects of service evaluated, TransGas continues to achieve strong satisfaction ratings with most individual categories earning ratings of over 89 per cent.



SaskEnergy Response Time Index

The Response Time Index is based on three key measurables: average response time to all calls, percentage of calls responded to in one hour or less for locations where SaskEnergy staff is on-site and percentage of calls responded to in 1.5 hours or less for all other locations.

In 2009, the overall Response Time Index rating was 9.8, almost one full point above target. SaskEnergy responded to 98 per cent of urban calls within one hour and 97 per cent of rural calls within 1.5 hours. It is important to note that in situations where customer response times exceed one hour, situations are evaluated and, if necessary, contingent actions are taken to ensure customer safety is not compromised.

TransGas Emergency Index

The TransGas Emergency Index rating is based on a number of leading and lagging indicators that are averaged to produce a composite result. The leading indicators include the percentage of completed emergency equipment checks and maintenance exercises, and the number of presentations. The lagging indicators include the number of line hits, spills and emergencies where responses were not in accordance with corporate procedure.

In 2009, TransGas was slightly below target with an Emergency Index rating of 9.3. This measure was affected by planned service checks on key safety equipment at TransGas compressor stations, as well as delivery of table top emergency exercises in the second quarter of the year. The target was achieved in all other quarters.

Our Service Outlook

Looking ahead, SaskEnergy and TransGas will work to stay connected and engaged with their customers, providing them with safe and reliable service. Employees will take time to understand the needs of customers and provide services that earn high customer satisfaction ratings. The Corporation's focus on creating customer solutions will be supported by a corporate culture of creativity and innovation, leveraging technology where applicable.

In 2010, the Corporation will see a large number of technological advancements, including the selection of a new Customer Information System (CIS) and continued deployment of Automated Meter Reading (AMR) technology. Research on, and development of the CIS project will continue, with a goal of achieving a more flexible, centralized and enhanced billing system in 2012. Also, testing of the new AMR technology will help achieve several productivity and efficiency gains. SaskEnergy and TransGas will also be engaged in the development of a Competency Assessment Program, which will be used to determine operator qualification and to identify all skill gaps for training and development.

SaskEnergy and TransGas are committed to achieving continued customer service excellence and to ensuring resources are readily available regardless of organizational, functional and geographical boundaries.



OUR PEOPLE

Strategic Measure	2008 Actual	2009 Actual	2009 Target	2010 Target	2011 Target	2012 Target
Physical Safety						
Lost Time Frequency Rate	Fourth Quartile*	Fourth Quartile*	Top Quartile*	Top Quartile*	Top Quartile*	Top Quartile*
Medical Aid Frequency Rate	Second Quartile*	Second Quartile*	Top Quartile*	Top Quartile*	Top Quartile*	Top Quartile*
Preventable Collision Frequency Rate	Second Quartile*	Second Quartile*	Top Quartile*	Top Quartile*	Top Quartile*	Top Quartile*
Employee Satisfaction						
Hay Group Survey**	Survey not completed in 2008	Second Quartile	Top Quartile	Top Quartile	Top Quartile	Top Quartile
Representative Workforce						
First Nations and Métis	13.7%	13.8%	14.0%	15.5%	16.5%	17.5%
Women in Supervisory Roles***	–	36.2%	36.0%	36.5%	37.0%	38.0%
Youth	17.3%	16.9%	15.0%	16.0%	17.0%	18.0%
People with Disabilities	3.6%	3.5%	4.0%	4.5%	5.0%	5.5%
Visible Minorities	3.4%	3.8%	4.0%	4.5%	5.0%	5.5%
Diversity Hires****	31.5%	29.3%	40.0%	40.0%	40.0%	40.0%

* Quartile refers to ranking relative to other Canadian Gas Association and Canadian Energy Pipeline Association companies.

** The first year SaskEnergy measured employee satisfaction using the Hay Group survey was 2007.

*** New measure for 2009.

**** Diversity Hires include First Nations/Métis, Women, People with Disabilities and Visible Minorities.

Note: Targets for 2010 and beyond are based on the 2010 business plan.



Physical Safety

Everyday, SaskEnergy's top priority is to send each and every employee home safely. This strong commitment is reinforced through the Corporation's dedication to attaining high standards in its safety performance measures. SaskEnergy strives to place in the top quartile with respect to the Lost Time, Preventable Vehicle Collision and Medical Aid Frequency Rates relative to other Canadian Gas Association (CGA) and Canadian Energy Pipeline Association (CEPA) companies.

In 2009, the Corporation experienced higher than normal incidents requiring lost time, which played a major role in its fourth quartile rating for its Lost Time Frequency Rating. It is important to note that the majority of incidents resulting in lost time were considered minor in nature. The Medical Aid Frequency Rate was also below target, but an improvement over the 2008 results. While a large majority of the vehicle-related incidents reflected in the Preventable Vehicle Collision Frequency Rate were also considered minor in nature, SaskEnergy recognized the need for a continued focus on safe driving behaviours, including safe backing practices. To create improvements in all of these areas, the Corporation organized driver assessments, training and thorough root cause investigation procedures for incidents. During the 2009 Safety Stand Down Week, a week dedicated to safety awareness, there was also a specific focus on vehicle safety and employee accountability.

Also in 2009, SaskEnergy participated in the industry-based Enform Safety Audit, which is a review of the Corporation's safety measures. SaskEnergy achieved a very positive rating of 95 per cent, which is a further improvement over last year's strong result of 88 per cent. The audit targets several different elements including: communication systems, management commitment and involvement, rules and work procedures, incident reporting and investigation, training and hazard identification, and control.

Employee Satisfaction

SaskEnergy recognizes the direct correlation between engaged employees and a successful organization. That is why the Corporation participated in the Hay Group Survey in both 2007 and 2009. The survey provides an avenue for determining employee satisfaction through the following key areas: overall recognition, decision making/independence, opportunity for personal growth, competitiveness of compensation and benefits, and work/life balance.

In 2009, the Hay Survey results represented a slight decrease in overall satisfaction as compared to the 2007 results. As a result of the survey, SaskEnergy is actively studying the issues identified by employees and constructing a comprehensive plan to address the needs of the Corporation. Nevertheless, this year demonstrated the highest participation in the survey to date with 83 per cent of employees having completed the company-wide survey.

Representative Workforce

To help achieve representative workforce targets, SaskEnergy partners with many local, community-based organizations. Some of the organizations include: the Saskatchewan Tribal Councils, the Regina Open Door Society, the Saskatchewan Independent Living Centre, the Saskatchewan Visible Minority Employees Association as well as educational institutions such as the Saskatchewan Indian Institute of Technology and Gabriel Dumont Technical Institute.

In 2009, SaskEnergy was successful in achieving a majority of its representative workforce targets. Specifically, SaskEnergy's First Nations and Métis results (13.8 per cent) were supported through the Corporation's partnership with the University of Saskatchewan's Aboriginal Centre. This partnership provided the opportunity for new First Nations and Métis employee hires, furthering growth within the



professional/management First Nations and Métis segment of SaskEnergy's workforce. Other positive results included the Youth (36.2 per cent) and Visible Minorities (3.8 per cent) categories, which were on target. The People with Disabilities category (3.5 per cent) was slightly below target, and continued focus will be given to addressing this area in an industry where the physical demands of core business must be balanced against greater integration of disabled individuals into the workforce. The Corporation also met its target for the Women in Supervisory Roles category, which was a new measure in 2009. This positive result reflects the achievements of SaskEnergy's succession management strategy. The strategy provides a proactive method for senior management to identify and provide the appropriate training and coaching to women interested in assuming management roles.

Overall, Diversity Hires (29.31 per cent) were below the stretch target of 40 per cent. This was primarily due to the Corporation's limited hiring requirements in 2009. Although the Corporation strives to achieve a high diversity rate, it also recognizes the importance of hiring youth, which is a group that is not included as part of the overall diversity target. In 2009, SaskEnergy was successful in hiring 63 per cent of its employees from the youth or diversity categories.

Our People Outlook

SaskEnergy and TransGas are committed to creating a healthy workplace environment where employees are engaged and share the realization of business results. Moving forward, the Corporation will anticipate future workplace requirements, including the need to deliver effective training, coaching and mentorship of employees, as well as work to reinforce managers' and supervisors' leadership roles in employee coaching and accountability. The Corporation will work with the Communications, Energy & Paperworkers Union (CEP) Local 649 to

negotiate a new Collective Bargaining Agreement in 2010. SaskEnergy will also place emphasis on recruitment and retention to help mitigate the effects of an ageing workforce.

In 2010, SaskEnergy will promote a positive and welcoming work environment and a healthy work/life balance. SaskEnergy will also provide motivated employees with career learning opportunities. Specific initiatives include continuing to provide the option of a compressed work week where customer service is not adversely affected and the use of personal development plans for all employees. Through continued recruitment of First Nations and Métis, youth, women in supervisory roles, visible minorities and people with disabilities, SaskEnergy is committed to moving closer to a fully representative workforce.

RISK MANAGEMENT

The transmission, storage, distribution and sale of natural gas are subject to a number of risks that can affect SaskEnergy's success in achieving its business objectives. These risks, their potential impact on business and SaskEnergy's risk management strategies are discussed in the following table. SaskEnergy's approach to risk management is to take only those risks for which it has appropriate resources, expertise and financial capacity to manage.



RISK TYPE	SIGNIFICANCE	DESCRIPTION	IMPACT	HOW IS IT MANAGED?
Natural gas price risk	Very High	<p>SaskEnergy's exposure to natural gas price risk occurs primarily because the Corporation purchases natural gas at variable market prices and resells it to utility customers at fixed rates.</p> <p>SaskEnergy buys and sells natural gas in its natural gas marketing business and may be exposed to price movement over short periods.</p>	<p>A \$1.00 per GJ change in the market price of natural gas affects the annual purchase cost of natural gas by approximately \$55 million.</p> <p>Losses are limited by policy to less than \$2 million per year.</p>	<p>The risk of natural gas costs rising above the rate at which the natural gas is sold to utility customers is mitigated through SaskEnergy's natural gas price risk management program. Also, SaskEnergy accumulates differences between the cost of gas sold and its rate in a GCVA. The balance in the GCVA may be recovered from or refunded to customers in subsequent periods.</p> <p>Natural gas price risk is subject to the Natural Gas Marketing Risk Management Policy, which limits exposure to price volatility and establishes a program to measure, monitor and report on daily natural gas price risk.</p>
Winter weather	High	<p>In Saskatchewan, variability in winter weather temperature has a direct impact on the volume of natural gas consumed by utility customers.</p> <p>Generally, a cold winter will result in higher natural gas purchase prices, while a warm winter will result in lower prices.</p>	<p>Every 10 per cent change in heating degree days affects SaskEnergy's distribution utility revenue by approximately \$7 million.</p>	<p>SaskEnergy earns a portion of its revenue through a fixed basic monthly charge that ensures revenue generation from customers regardless of the level of natural gas consumption.</p> <p>The impact of higher or lower natural gas prices is discussed above under the natural gas price risk discussion.</p>
Operational risk	High	<p>Operational hazards include severe weather conditions, fire, human error, mechanical failures, third-party pipeline encroachment, hazardous materials and acts of civil disobedience, sabotage and riots. Operational hazards could disrupt the effective operation of SaskEnergy's natural gas storage, distribution or transmission infrastructure, resulting in potential financial loss or service interruption.</p>	<p>The operational risks threaten service reliability and employee and public safety, and cause pipeline damages requiring financial investments for repairs.</p>	<p>SaskEnergy mitigates its operational risks through system integrity programs, public awareness programs, employee and operator training, operating manuals and procedures, and safety programs. The financial impacts of risks are also mitigated, where possible, through insurance. Additionally, the pipeline system is designed to meet customer demand in an extremely cold winter. When the system is not operating at capacity, the winter design capacity enables the system to meet demand even in the event of a disruption.</p>
Regulatory risk	High	<p>The rates that utilities may charge their customers are determined by a regulatory process. The recommendations of the regulatory body, the Saskatchewan Rate Review Panel, and the decisions by Provincial Cabinet have a direct effect on the financial results of the utility.</p>	<p>The impact of a one per cent differential between a commodity rate increase request and an approved commodity rate is approximately \$4 million.</p>	<p>SaskEnergy follows standard regulatory principles in designing rates and operating its system, and presents these practices to the regulator in its rate applications.</p>



RISK TYPE	SIGNIFICANCE	DESCRIPTION	IMPACT	HOW IS IT MANAGED?
Execution risk	Moderate	A shortage of manpower or expertise adversely affects SaskEnergy's ability to properly assess or implement an effective business development strategy.	Growth opportunities are less profitable than current enterprise, reducing overall profit.	SaskEnergy has implemented a Strategic Plan to ensure that adequate resources are acquired and applied in areas of highest priority.
Special interests	Moderate	SaskEnergy is exposed to the risk of higher costs, delays or even project cancellations due to pressure by landowners and other special interest groups. Recent Supreme Court decisions have increased the ability of special interest groups to make claims and oppose projects in regulatory and legal forums.	Delays and increased costs in the construction of projects.	SaskEnergy works proactively with landowners and other interest groups to identify and develop appropriate responses to concerns regarding its projects program.
Interest rate risk	Moderate	SaskEnergy has a significant capital investment in physical assets. About 65 per cent of that investment is financed by issuing debt. The interest paid on debt used to finance assets is a significant component of SaskEnergy's cost structure.	For every \$10 million of debt issued in a year, a 0.25 per cent change in the interest rate will affect annual interest expense by approximately \$25,000. SaskEnergy refinances approximately \$50 million of long-term debt each year.	SaskEnergy manages interest rate risk by financing long-term capital requirements with long-term fixed rate debt, thereby minimizing the impact of changing interest rates on financial results. Furthermore, SaskEnergy manages the maturity dates on its debt to minimize the impact of interest rate risk in any single year. In addition, SaskEnergy may use financial instruments to hedge short-term debt from changes in interest rates.
Declining system throughput	Moderate	While there are currently adequate supplies of natural gas to meet demand within Saskatchewan, the age and declining reserve life of the Western Canadian Sedimentary Basin remains a long-term issue. Conservation initiatives by customers have reduced the average volume of natural gas usage per customer. Conservation initiatives tend to have a higher impact on customer usage in a high natural gas price environment.	As throughput declines, the unit cost of service increases. As use per customer declines, fixed costs of the pipeline system are recovered over lower sales volumes.	SaskEnergy promotes the conservation efforts of its customers. In the future, nonconventional sources of natural gas, such as the Mackenzie Valley Pipeline, natural gas in coal and liquefied natural gas, will supplement conventional supplies. SaskEnergy incorporates an assumption for declining use per customer in its revenue forecasts and rate setting process.



RISK TYPE	SIGNIFICANCE	DESCRIPTION	IMPACT	HOW IS IT MANAGED?
Counterparty credit risk	Moderate	Failure of a counterparty to fulfill contractual financial commitments due to financial distresses such as bankruptcy and insolvency.	The amount of credit extended to individual counterparties is limited so that the annual expected loss should average less than \$4 million and should never exceed \$30 million in a single year.	SaskEnergy mitigates credit risk by constantly reviewing the creditworthiness of large customers and contractual counterparties, limiting the maximum amount of credit extended to any entity and continually monitoring its customer and counterparty credit. Additionally, credit checks and reviews are performed before any transactions are completed, and entities judged to have inadequate credit are required to post security.
Environmental risk	Moderate	<p>The gathering, compression, storage, transmission and distribution of natural gas involve the use of certain chemicals and materials that are considered hazardous to the environment and require special handling procedures.</p> <p>Federal Government GHG conventions present additional risk to SaskEnergy because methane, the largest component of natural gas, is considered a GHG. Consequently, the release of natural gas into the environment may contribute to global warming.</p>	Uncontrolled release of liquid substances or natural gas into the environment (soil, water and air).	<p>The environmental risks presented by natural gas and certain chemicals and materials are mitigated by proper handling and containment procedures, product substitution and employee and operator training.</p> <p>SaskEnergy is working to reduce its GHG emissions to limit its impact on the environment and to manage the financial risks associated with this environmental issue.</p>
Provincial economy	Low	<p>SaskEnergy currently serves more than 92 per cent of all communities in Saskatchewan. It is becoming increasingly difficult to economically expand service to areas not currently receiving natural gas distribution service. Opportunities to expand service within the existing service area depend upon economic growth. Recently, economic growth has put pressure on SaskEnergy's capacity to meet demand for new service.</p>	<p>Growth in the number of customers within existing service areas helps to reduce the unit cost of service.</p> <p>Higher construction and maintenance costs.</p>	<p>SaskEnergy has cost containment strategies to ensure that rising costs do not significantly exceed the growth of the system.</p> <p>Service is only expanded where anticipated incremental revenue is sufficient to recover incremental costs of service. This ensures that existing customers are not adversely affected by the addition of new customers.</p> <p>SaskEnergy has franchise rights to provide distribution service to customers within Saskatchewan and an implied obligation to meet customer demand where economically feasible.</p>



STAKEHOLDER ENGAGEMENT

Communication Models Employed at SaskEnergy

Strong two-way communication models support the achievement of business and corporate results. That is why the Corporation is committed to rigorous and professional communication practices that support the principles of timeliness, openness and transparency with all of its many stakeholder groups.

Customer and Public Communications

As a result of continued business growth, customer contact is increasing at SaskEnergy. In 2009, SaskEnergy estimated that it made contact with its 347,000 plus customers on more than one million occasions. In addition to standard customer billing and meter reading inquiries, growth has occurred relative to the *Sask 1st Call* service. *Sask 1st Call* provides initial customer contact for 30 companies with underground facilities, including SaskEnergy and TransGas. More than 225,000 tickets were produced by *Sask 1st Call* in 2009. To successfully manage increasing customer contact within the existing cost structure, SaskEnergy has also instituted response specialization at its 11 regional customer service offices. For example, the Weyburn customer service office acts as a clearing centre for all web-related inquiries. TransGas fosters personal contact with its smaller transportation and storage customer base of less than 200 through dedicated account representatives. It also promotes contact through the TransGas Customer Dialogue Process where customer rates and operational policies are jointly addressed before recommended implementation.

SaskEnergy also works with the plumbing, heating and mechanical contracting industry, as highlighted by the Industry Dialogue process and the creation of the SaskEnergy Network, through which 140 private sector plumbing and heating contractors can use the SaskEnergy brand to deliver downstream services to

natural gas customers. SaskEnergy and the Mechanical Contractors Association of Saskatchewan also co-operated on the development of a Provincial Technical Training Centre in Saskatoon, which opened in November, 2009.

Critical corporate initiatives, such as creating public awareness around energy efficiency and public safety ("Call Before You Dig") are also promoted through multi-media advertising and communications campaigns, as well as direct-contact programs, such as contractor safety breakfasts, first responder training sessions and landowner mail outs. Major corporate initiatives, such as changes to the Corporation's delivery or commodity rates, are communicated through news conferences and public events, and are supported through information distributed through SaskEnergy's website and on customer bills. Enhanced tools, such as e-billing and equalized payment plans, allow customers greater control over the management of their natural gas bills.

The SaskEnergy website also provides access to corporate information, such as quarterly financial updates and annual reports, energy efficiency-related information and suggested safety measures, as well as opportunities for charities and non-profits to request financial support through the Corporation's community investment program.

SaskEnergy's public and customer communications efforts have helped secure its position as a leading Canadian utility in customer satisfaction. In 2009, SaskEnergy finished second among 10 national natural gas and electrical companies in an independent survey of more than 3,000 national customers regarding customer satisfaction. Each year, TransGas also completes a Customer Satisfaction Survey to evaluate its progress in several areas of business: staff, rate applications, reliability of service and customer service excellence. In 2009, TransGas achieved a 95.5 per cent level of customer satisfaction.



Shareholder Communications

As a Crown corporation, SaskEnergy complies with the communications requirements set by the shareholder and by statute, and operates in accordance with the Board-approved external communications policy. Through the Board Chair, the Board is accountable to the Minister Responsible for SaskEnergy. The Minister functions as a communications liaison between the Corporation, Crown Investments Corporation, Cabinet, the Provincial Legislature and the public.

SaskEnergy fully complies with its statutory obligations for approval and disclosure of information. These responsibilities include:

- annual approval of the Corporation's business/performance management plan, including capital expenditures through its holding company, Crown Investments Corporation
- annual disclosure through Crown and Central Agencies, a public legislative committee of government, of all payments of over \$50,000 to employees and suppliers, and of all grants, donations and sponsorships of over \$5,000
- appearances before public committees of the legislature, including Crown and Central Agencies, by senior executive to answer questions relating to the business of the Corporation in preceding years
- compliance with public requests for information, balancing the interests of the Freedom of Information and Protection of Privacy Act.

SaskEnergy also works cooperatively with CIC, the office of the Minister Responsible for SaskEnergy and Executive Council Communications to generate understanding and support for corporate initiatives that affect stakeholders. These communications tools include briefing notes, face-to-face meetings and/or other information packages to ensure elected officials are able to represent the Corporation in

public and through the media by speaking knowledgeably on issues regarding the business operations of SaskEnergy. The Corporation is also expected to respond expediently to correspondence and case work submitted by the office of the Minister Responsible for SaskEnergy.

Project-based Communications

SaskEnergy's distribution, transmission and storage projects can have impacts on the communities in which they are occurring. In addition to fully complying with all legal and regulatory considerations, SaskEnergy will typically hold consultations with affected stakeholders in areas where projects are of greater scope or longer duration. Such communications initiatives include public open houses and meetings with local municipal councils and First Nations representatives. These initiatives allow company officials to explain the environmental impacts of proposed activities, including proposed mitigation plans. They also provide opportunities to enhance general understanding of the project's economic benefits and of natural gas as a heating source. Because Saskatchewan has approximately 75 First Nations Bands and 11 Métis Regions, a dedicated Aboriginal Relations group exists to better foster consultation, dialogue and relations.

Regulatory Communications

SaskEnergy is required to file any applications for delivery and commodity rate changes with the Saskatchewan Rate Review Panel (SRRP), an advisory Panel that provides formal recommendations to the Provincial Cabinet. The applications are available to the public. Typically, the SRRP will ask for additional information to assist in its review, and a public interaction component is provided through public meetings. SaskEnergy filed commodity applications in the spring and fall of 2009, and a delivery application in the fall of 2009. In each



case, after review, the SaskEnergy application was recommended to, and approved by Cabinet. SaskEnergy has historically delivered very competitive rates, with the lowest commodity rates in Canada for seven of the last 11 years, and continued to have the lowest residential delivery rate in Canada in 2009.

TransGas' proposed rate changes are discussed through the TransGas Customer Dialogue, a proxy with representatives from the producer, industrial end-user and gas marketer communities. After rate changes are discussed through Dialogue, they are provided to the Provincial Cabinet for approval. One change to TransGas rates was discussed at Dialogue and accepted by the Provincial Cabinet for implementation on February 1, 2009.

Employee Communications

SaskEnergy regularly communicates with its workforce of over 1,100 employees to ensure prompt and accurate delivery of corporate information.

The primary method of communication is the InfoFlash (a corporate memo containing relevant, business-related information) that is delivered via e-mail to all employees within the company.

New in 2009, SaskEnergy launched an improved corporate Intranet site named Innergy. This communication medium allows employees to access information related to the Corporation, stay informed on upcoming events and initiatives, and link to internal sites for specific departmental information. To ensure the accuracy and quality of information provided, Innergy offers a two-way communication medium for employees to submit feedback regarding information on the website.

SaskEnergy produces a bi annual newsletter called People with Energy. Issues are delivered to all employees, as well as superannuates upon request. The People with Energy newsletter features articles related to corporate and employee initiatives that are taking place throughout the Province. The Corporation also produces bi annual corporate videos

that serve as informative, educational tools to keep employees up-to-date on major projects that are taking place within the Corporation.

SaskEnergy also maintains an "Open Line to the President", a forum whereby employees are able to submit questions or comments anonymously to which the President responds directly. The questions and responses are posted for all employees to view.

In addition to the mediums mentioned above, SaskEnergy supports the use of meetings, presentations and face-to-face communication to deliver important messages to employees, such as safety messages, business and strategic plan information and employee survey results.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation consistently prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP). The Corporation's accounting policies are described in Note 2 of the accompanying Consolidated Financial Statements. The preparation of these statements requires the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Those estimates and judgments are prepared using assumptions that management believes to be most probable given current circumstances. Consequently, actual results may vary from those estimates. SaskEnergy's critical accounting policies and estimates have been summarized below.

Amortization of Property, Plant and Equipment

Property, plant and equipment constitute a significant component of the Corporation's assets. As a result, changes in assumptions related to the calculation of amortization expense may have a significant impact on SaskEnergy's net income.



The Corporation's property, plant and equipment are amortized on a straight-line basis over the estimated service life of the asset. SaskEnergy assesses the estimated service life of its assets on an ongoing basis. Any resulting changes in the estimated service life of an asset are treated as prospective adjustments to amortization.

Financial Instruments

The Corporation uses various natural gas derivative instruments, mainly physical contracts, swaps and options, to manage the risk of natural gas price fluctuations. Prior to settlement, SaskEnergy records all natural gas derivative instruments at fair value.

The fair values of physical contracts and swaps are determined using quoted market prices as at year end. The fair values of options are determined using the Garman-Kohlhagen option pricing model, which requires the use of different assumptions. Those assumptions include quoted market prices as at year end, interest rates and volatility estimates for forward natural gas prices, which are each based on external market sources. In valuing each derivative instrument, assumptions are also made regarding the credit quality of counterparties. Markets for the Corporation's derivative contracts remained active throughout 2009. As a result, external market sources, along with an assessment of credit and liquidity risk, continued to be used in determining the fair value of those contracts.

Up to the date of settlement, changes in the fair value of natural gas derivative instruments are recorded as unrealized gains or losses in the statement of income during the period of change. Given fluctuations in natural gas prices, fair value adjustments vary throughout the length of the contract until final settlement occurs. As a result, the fair value amounts recorded at year end will be subject to change as market conditions vary.

Revenue Recognition

Commodity sales and delivery revenues are recognized when natural gas is delivered to customers. Because it is impractical to read all customer meters on December 31 of each year, SaskEnergy recognizes an estimate of the volume of natural gas delivered but not billed. The volume of unbilled sales is determined by comparing the estimated total volume of natural gas that entered the distribution system to the total volume of natural gas billed to customers. Regular meter readings throughout the year are used to reconcile volumes purchased with volumes billed. At December 31, 2009, the unbilled revenue related to commodity sales and delivery revenue was \$54 million.



CHANGE IN ACCOUNTING POLICY

Effective January 1, 2009, SaskEnergy adopted the following Canadian Institute of Chartered Accountants (CICA) Handbook section in accordance with the transitional provisions:

Handbook	Requirements	Impact
Section 3064 – Goodwill and Intangible Assets	Effective January 1, 2009, new recommendations for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.	Computer software was reclassified from property, plant and equipment to intangible assets, with no impact on the Corporation's operating results.
For additional information related to this change in accounting policy, refer to Note 3 of the Consolidated Financial Statements.		

FUTURE CHANGES IN ACCOUNTING POLICIES

The CICA has adopted the following new accounting requirements, which SaskEnergy will be adopting in future periods in accordance with the transitional provisions of each section:

Handbook	Requirements	Impact
Section 1582 – Business Combinations	Effective January 1, 2011, new recommendations for the accounting and disclosure of business combinations.	No adjustments required for business combinations occurring before January 1, 2011, but would impact any future business combinations.
Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests	Effective January 1, 2011, new recommendations for the preparation of consolidated financial statements and accounting for the non-controlling interest in a subsidiary.	Impact is not yet determined, but is not expected to be material as SaskEnergy's subsidiaries do not have non-controlling interests.



International Financial Reporting Standards

Effective January 1, 2011, publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS). The Public Sector Accounting Board (PSAB) has approved an amendment to the scope of public sector accounting standards. The amendment confirms that Government Business Enterprises (GBE), including SaskEnergy, will be required to follow IFRS for periods beginning January 1, 2011. This will allow for comparison of similar entities in the public and private sector.

SaskEnergy has commenced its IFRS conversion project, and an external advisor has been engaged to assist with project development and implementation. The advisor also assisted in performing a detailed review of major differences between current GAAP and IFRS. SaskEnergy completed a detailed assessment of those international reporting standards with respect to the highest potential for impacts. Board members have been briefed on IFRS, have participated in high level training and have reviewed and approved project plans. Management and staff from SaskEnergy have also participated in IFRS training seminars.

At this time, the impact that IFRS will have on SaskEnergy's future financial position and operational results is not reasonably determinable. However, based on analysis to date, the most significant areas of difference are related to the accounting procedures for property, plant and equipment and financial statement disclosure. In conjunction with evaluating the accounting standards, a review of the information technology and data systems' capability to provide the information required by IFRS has been performed.

For additional information related to these future changes in accounting policies, refer to Note 2 of the Consolidated Financial Statements.

CONTROLS AND PROCEDURES

Management's Report on Internal Controls over Financial Reporting

Management of SaskEnergy Incorporated is responsible for establishing and maintaining adequate internal control over financial reporting defined by the Canadian Securities Administrators. The Company's internal control over financial reporting is a process designed under the supervision and with the participation of executive and financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with GAAP. The Company's internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on financial statements.

Due to inherent limitations, the Company's internal control over financial reporting may not prevent or detect all misstatements. Additionally, projected effectiveness evaluations of future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Company's policies and procedures. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2009.

