

PROGRESS  
COMFORT  
THERMOSTAT  
QUALITY  
INSPIRE  
SUPPLY  
CARING  
CONVENIENCE  
SATISFACTION  
DYNAMIC  
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DEVELOP HOME  
RELAXATION  
ACCOUNTABLE  
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INDUSTRIAL  
WELL-BEING  
INSPIRE  
ENERGETIC  
COMMUNITY  
RESIDENTIAL  
CHAMPION  
REASSURE  
RESPECT  
EFFICIENT  
TEMPERATURE  
HEAT  
SERVICE  
WARMTH  
COMMERCIAL  
ACTIVE  
GREEN  
RELIABLE  
DEVELOPMENT



GROWTH INNOVATION VALUE ENERGY

## Vision

We create superior value through innovative energy solutions.

## Mission

Our team of dedicated employees and business partners develops and delivers safe, reliable natural gas solutions that benefit our customers and Saskatchewan.

## Values

**Safety:** We never compromise the safety of our employees and the public.

**Community:** We are leaders in developing a diverse workforce, supporting our communities and environmental stewardship.

**Recognition:** We take time to recognize the individual and team contributions of our employees.

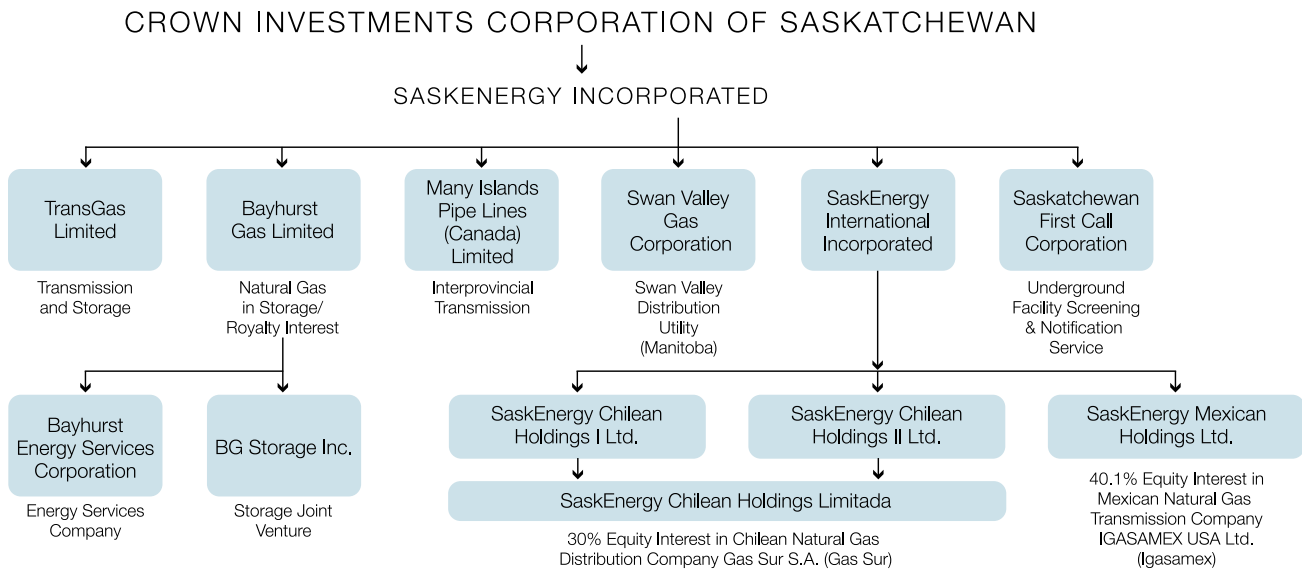
**Accountability:** We are accountable for our decisions, our actions and the results.

**Spirit:** We create a positive, welcoming and enjoyable work environment that supports employees in achieving their career goals and life balance.

**Communication:** We have open, honest and respectful communication that builds strong relationships.

**Integrity:** We are honest, respectful and apply high ethical standards.

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**SaskEnergy Incorporated (SaskEnergy or the Corporation)** is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower, SaskTel and SGI) and various commercial investments.

SaskEnergy's main business is the natural gas Distribution Utility. SaskEnergy owns and operates the Distribution Utility, which has the exclusive legislated franchise to distribute natural gas within the Province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery and commodity rates. All rate changes are subject to review by the Saskatchewan Rate Review Panel, an independent body, prior to receiving Provincial Cabinet approval.

SaskEnergy's corporate structure includes six wholly owned and five indirect wholly owned subsidiaries, as follows:

**Bayhurst Gas Limited (Bayhurst)** owns, produces and sells natural gas from its storage facility in the west-central area of Saskatchewan. Bayhurst also owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta.

**Bayhurst Energy Services Corporation (BESCO)**, a wholly owned subsidiary of Bayhurst Gas Limited, is an energy services company. BESCO owns a 50 per cent interest in a natural gas processing plant in southeastern Saskatchewan, which is operated through an unincorporated joint venture with ATCO Midstream Limited.

**BG Storage Inc.**, a wholly owned subsidiary of Bayhurst Gas Limited, owns a 50 per cent interest in a natural gas storage business, which is operated through an unincorporated joint venture with Faro Energy Ventures Ltd.

**Many Islands Pipe Lines (Canada) Limited (MIPL)** is a transmission company that owns nine transmission pipeline interconnections to Alberta, two into the United States, and one into Manitoba, all of which connect to the TransGas system. MIPL is regulated by the National Energy Board.

**Saskatchewan First Call Corporation (Sask 1<sup>st</sup> Call)** provides a centralized “Call Before You Dig” underground facility screening and notification service. *Sask 1<sup>st</sup> Call* was established primarily for safety reasons to maintain a database of oil, natural gas and other underground infrastructures. *Sask 1<sup>st</sup> Call* provides a service whereby landowners and other stakeholders can contact *Sask 1<sup>st</sup> Call* to request the location of pipeline- and non-pipeline-related facilities of its subscribers. *Sask 1<sup>st</sup> Call's* rate structure is intended to recover all operational costs and operate on a break-even basis.

**SaskEnergy International Incorporated (SEII)** holds SaskEnergy's investments outside Canada. SEII holds a 30 per cent equity interest in Gas Sur, S.A. (Gas Sur), a natural gas distribution company in Chile, as well as a 40.1 per cent equity interest in IGASAMEX USA Ltd. (Igasamex), which owns a natural gas transmission service company in Mexico.

**Swan Valley Gas Corporation (SVGC)** owns a natural gas distribution utility in the Swan Valley area of western Manitoba. SVGC serves customers in the towns of Swan River, Benito and Minitonas, as well as a major industrial customer at Minitonas. SVGC is regulated by the Manitoba Public Utilities Board.

**TransGas Limited (TransGas)** owns and operates the Transmission Utility and has the exclusive legislated franchise to transport natural gas within the Province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business as well as gathering and processing facilities, which are integrated with the transmission pipeline system. TransGas' transportation and storage rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rate matters are openly discussed with a representative group of customers.

At SaskEnergy, the core of our business is **giving** customers across Saskatchewan access to safe, efficient and dependable service at the best possible rates.

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#### GROWTH



### Supporting strong Saskatchewan economic development

The McCulloughs are one of the nearly 5,500 customers added during the 2010 construction season, which saw new SaskEnergy connections and customer-related activity in over 470 communities across the Province. These totals, representing the second largest annual growth level in company history, are even more significant considering many customers were added during Saskatchewan's wettest spring and summer in more than a century.

Thanks to some improved business processes, the leveraging of private sector contractors, good customer communications, and a strong employee work ethic, we got the job done. Our co-operative approach is helping us maintain our high standards of customer service for everyone from families to industrial clients, in cities, towns and villages across Saskatchewan.



James, Sommer, Melissa and Britton McCullough

#### INNOVATION



### Leveraging expertise and partnerships to achieve energy solutions

Kevin Hudson, Alternative Energy Engineer with Saskatoon Light & Power (SL&P), designed a process that will capture the gas produced naturally by the decomposition of organic materials in the City of Saskatoon Landfill and use it to generate electricity. The captured heat from this electrical generation process will be used by SaskEnergy, in turn, to pre-heat natural gas at our Saskatoon Town Border Station #1.

SL&P and SaskEnergy are in the process of developing the Turboexpander Power Generation Facility at SaskEnergy's Saskatoon Town Border Station #1, located near the City Landfill. The project can lower the City of Saskatoon's greenhouse gas (GHG) emissions by over 90,000 tonnes per year and provide enough "green" electricity to power as many as 2,600 homes. Meanwhile, SaskEnergy can reduce our annual GHG emissions by nearly 5,000 tonnes each year and generate enough electricity to power up to 600 homes.



Kevin Hudson (Saskatoon Light & Power)

Together with similar waste heat-related projects at TransGas compressor stations, successful results from the Turboexpander facility would represent another step toward SaskEnergy's goal of being energy self-sufficient by 2015.

To help achieve this, we **give** our employees opportunities to shape innovative solutions, support to achieve their career goals and the flexibility to maintain a healthy work/life balance. In our growing number of private and Crown sector alliances, we **give** our corporate expertise, resources and experience to create exciting new opportunities we could not have achieved alone.

VALUE



### Delivering safe and reliable service at competitive rates

As a District Mechanic Operator II at the TransGas Melville Compressor Station, Dwight Guy plays a key role in the company's natural gas storage operations.

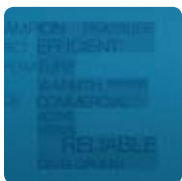
Salt cavern natural gas storage was originally developed to meet peak winter demand, with stored natural gas supplementing gas already in the pipeline system, to realize a safe and reliable service to the Province. Over the years, TransGas storage services have created value for customers and the company in numerous other ways, from commercial offerings to gas marketing strategies. Now, through partnerships with the private sector, such as our joint venture storage field development with Faro Energy Ventures Ltd., SaskEnergy's expertise and external capital are coming together in new ways for mutual gain.



Dwight Guy – District Mechanic Operator II

To take advantage of such opportunities, TransGas has undertaken projects to increase its storage capacity by 20 per cent by 2012. Once complete, the development will bring the total TransGas storage capacity to over 48 Petajoules — nearly \$200 million of customer gas (at 2010 prices).

ENERGY



### SaskEnergy and TransGas employees providing leadership to the business and the community

Shannon Doka knows a lot about energy. As the project lead for the SaskEnergy Home Energy Efficiency Program (HEEP), she can certainly give you tips on how to use less of it around your home. At the same time, she is uniquely qualified to describe the amount needed to organize and take part in HEEP's 43 retrofit project days in 57 communities. Thanks to her dedication and organizational skills — and the support of groups like The Salvation Army and the Saskatchewan Institute of Applied Science and Technology (SIAST) — the program exceeded its goal, improving 2,615 homes over five years.



Reg Forbes (SIAST), Shannon Doka – SaskEnergy Community Involvement Coordinator, Kathy Wick and Chad Jeremy (The Salvation Army)

Throughout SaskEnergy, people like Shannon bring more than skill to their work. Thanks to their creativity, determination and flexibility, our company has consistently taken on challenges and succeeded. Whether striving to increase already high customer satisfaction levels, assisting those in need when severe weather strikes, or volunteering in the community, SaskEnergy and TransGas employees are proud to be known as “people with energy”.

March 31, 2011

The Honourable Dr. Gordon Barnhart  
Lieutenant Governor  
Province of Saskatchewan

May it please Your Honour:

I respectfully submit the annual report of SaskEnergy Incorporated for the year ended December 31, 2010, in accordance with *The SaskEnergy Act*. The Financial Statements are in the form approved by the Treasury Board, and have been reported on by the Corporation's auditors.

[Original signed by D. Duncan]  
Honourable Dustin Duncan  
Minister Responsible for SaskEnergy



On behalf of Premier Brad Wall and the Government of Saskatchewan, I welcome you to the 2010 SaskEnergy Annual Report.

As someone who grew up in southeastern Saskatchewan with family involvement in the oil and gas industry, I consider it a special privilege to serve as the Minister Responsible for SaskEnergy. While I have always understood the importance of the energy sector to Saskatchewan, the opportunity to support how the Corporation contributes to our Province's energy strengths has been very gratifying.

Throughout 2010, I had the opportunity to visit different work locations, meet with SaskEnergy employees and participate in public events. I came away very impressed with the level of commitment the employees and the company demonstrate toward their communities and customers. It was a pleasant reminder of all the efforts, often unnoticed, which go toward providing safe, reliable and affordable natural gas service to our homes and businesses.

Ultimately, those efforts are reflected in the performance of the organization, which is detailed in the 2010 Annual Report. As you read through these pages, you will see the evidence of SaskEnergy's leadership from areas as broad as successful business partnerships to environmental stewardship to building a diverse workforce for tomorrow. With this solid foundation and strategic vision, I am confident that SaskEnergy will continue to succeed well into the future.

Sincerely,

[Original signed by D. Duncan]  
Honourable Dustin Duncan  
Minister Responsible for SaskEnergy



On behalf of the Board of Directors, it is my pleasure to join the Minister Responsible for SaskEnergy, the Honourable Dustin Duncan, in presenting the 2010 SaskEnergy Annual Report.

The Corporation built on an existing successful financial and operational foundation to enjoy another good year. While the Board closely reviews these critical indicators of corporate health, the Government of Saskatchewan's Crown Sector priorities are also a particular focus for our stewardship.

These are both exciting and important times for the company and indeed, for the Province as a whole. As Saskatchewan's population and energy sector grow, the Corporation has effectively responded to both the high number of residential customer connections and the needs of business. This elevated activity did not diminish SaskEnergy's focus on safe and reliable activities and employee safety.

Within these demands must be a desire throughout SaskEnergy on focusing on effective service delivery and management of cost drivers of the business. In 2010, the Board provided oversight on management efforts related to productivity improvements and process enhancements. SaskEnergy simultaneously maintained high levels of customer satisfaction. It is these qualities and this level of execution across many factors that make SaskEnergy a strong Crown corporation and well poised to succeed in the future.

I would like to recognize the contributions of Ralph Hesje, who left the Board after over eight years of service, and welcome Curt Chickoski, Grant Gayton, Sharon Hodgson and Alfred Labas as new members. The Board is committed to ongoing effective stewardship of SaskEnergy and wishes to thank the Executive team, management and all employees for their contributions this past year. We look forward to 2011.

Sincerely,

[Original signed by R. Pletch]

Robert Pletch

Chair, SaskEnergy Board of Directors



SaskEnergy enjoyed a strong financial and operational year, supporting our Province's growing energy needs while maintaining safety, reliability and competitive rates for our customers. We have similarly demonstrated strong alignment with the Government of Saskatchewan's Crown Sector priorities. Some 2010 key indicators include:

- 5,470 customers were added to our natural gas distribution system, well above the 10-year average, with our 350,000<sup>th</sup> customer added in mid-November.
- Distribution rates, reflecting our internal cost structure, remained the lowest in Canada, while TransGas transportation rates were competitive with those in jurisdictions such as Alberta. Meanwhile, natural gas commodity rates have fallen to their lowest levels since 2001.
- Solid financial results were achieved with a focus on efficiency integration as well as service delivery.
- Safe and reliable service was maintained throughout a year of increased digging activity, and customers expressed historically high perceptions of SaskEnergy and TransGas service delivery.

### **Managing our Corporate Cost Structure**

I recognize our management team and all employees for providing leadership relative to productivity improvements in 2010 while balancing increasing activity levels. Building on nearly \$11 million of efficiency gains realized throughout 2009 and 2010, we have identified a further \$5 million of new opportunities in 2011.

Within these efforts, technology integration continued to improve service and reduce costs, a key imperative in a large service area with low customer density. In addition, collaboration activities with the private sector and SaskPower/SaskTel were critical to service delivery evolution. I believe the many initiatives undertaken have provided a strong approach to efficiency and productivity that is successfully meeting elevated activity levels while maintaining highly competitive rates.

### **Supporting Saskatchewan Growth**

As our distribution business grows in support of Saskatchewan's energy business and economy, the dynamics of our natural gas transmission business are evolving as well. While lower natural gas well drilling and new system receipt points reflect the lower pricing environment, overall usage and delivery of natural gas continues to rise.

Overall, domestic natural gas deliveries, highlighted by industrial and power generation growth demands, rose to 215 Petajoules (PJ), well above the 10-year average of 205 PJ. In concert with these developments is an increased storage demand. Our second "Energy to Store" initiative will expand our commercial storage availability by 20 per cent; an initial capacity offering was implemented in mid-2010.

We are also realizing several new business growth initiatives, leveraging our distribution, transmission and storage expertise. These opportunities range from initiatives that optimize underutilized facility capacities through gas marketing to those where we leverage private sector involvement and capital, creating a net benefit to us and our Province.

### Energy Efficiency

We are supporting our Province's national leadership in energy efficiency programming, while executing our strategy to meet and surpass the Government of Saskatchewan's greenhouse gas (GHG) reduction targets by 2020.

On the residential side, almost 11,000 customers participated in energy efficiency programs either directly delivered by or administered through SaskEnergy, led by another 6,200 homeowners who completed the Saskatchewan EnerGuide for Houses program pre-retrofit evaluation in 2010. Living in a province where winter extremes are a reality, it is gratifying that our customer participation rates in these important programs rank the highest in Canada.

Internal environmental stewardship through energy conservation, waste heat capture development and GHG reduction initiatives, recognizing climate change directions, were also important steps forward in 2010.

### Safety and the Employee Team

Public attention on energy industry safety practices was heightened in 2010. At SaskEnergy, the safe operation of our 80,000-kilometre natural gas infrastructure system has been a constant focus.

SaskEnergy's pipeline integrity program employs sophisticated and predictive modeling, based on industry best practices, and a variety of tools, ranging from visual to in-line inspection. With proper preventative maintenance, we continue to cost-effectively extend the lifespan of our infrastructure, some of which dates back to the 1950s. But safe and reliable service also depends on a technical workforce constantly maintaining an understanding of all necessary operational procedures, a focus in 2010 highlighted by the development of enhanced certification for employees on critical tasks.

The strength of our employee team has ultimately allowed us to make the progress we have achieved in 2010. It is both heartening and humbling to see our customer service perceptions, which have reached some of their highest levels ever in recent years.

The composition of our workforce has evolved, becoming much younger and more diverse, reflecting the changes in the Province. We have also seen the ongoing transition between the first and second generation of natural gas professionals, from those who built the province-wide natural gas system to those providing today's leadership with different tools but the same vigor. This year's Annual Report theme, "Growth, Innovation, Value, Energy", salutes the contributions of both groups.

Our Executive team is indeed fortunate to lead an organization where people get things done ... and done well for customers, communities and stakeholders. We look forward to doing so again in 2011.

Sincerely,

[Original signed by D. Kelln]

Doug Kelln

President and Chief Executive Officer, SaskEnergy

CONSOLIDATED FINANCIAL INFORMATION <sup>1</sup>	2010	2009	2008	2007	2006
(\$ millions)					
Commodity sales	276	451	432	400	389
Gas marketing sales	386	446	576	485	594
Delivery revenue	185	184	175	167	153
Transportation and storage revenue	77	80	77	82	86
Other	28	49	46	37	32
<b>Total revenue</b>	<b>952</b>	<b>1,210</b>	<b>1,306</b>	<b>1,171</b>	<b>1,254</b>
Commodity cost of gas sold	306	418	470	373	395
Gas marketing cost of gas sold	329	417	539	450	558
Operating expenses	280	282	267	260	248
<b>Total expenses</b>	<b>915</b>	<b>1,117</b>	<b>1,276</b>	<b>1,083</b>	<b>1,201</b>
Net income	37	93	30	88	53
Dividend	49	51	43	53	35
Total assets	1,644	1,587	1,561	1,411	1,327
Property, plant and equipment (net)	1,057	1,004	945	978	955
Capital expenditures	140	130	114	100	71
<b>OPERATING STATISTICS</b>					
Distribution volumes (Petajoules)					
Residential/Farm	34	37	36	33	32
Commercial	30	31	30	29	27
Industrial	82	62	72	70	66
<b>TOTAL</b>	<b>146</b>	<b>130</b>	<b>138</b>	<b>132</b>	<b>125</b>
Transmission volumes (Petajoules)					
Domestic	215	205	216	208	204
Export	24	62	81	121	155
<b>TOTAL</b>	<b>239</b>	<b>267</b>	<b>297</b>	<b>329</b>	<b>359</b>
Number of customers					
Distribution	352,560	347,327	342,606	336,512	332,148
Transmission	135	132	129	129	124
<sup>1</sup> Certain of the prior year amounts have been reclassified to conform to the current year's presentation.					

# FIVE-YEAR OPERATING SUMMARY – DISTRIBUTION

SaskEnergy 2010 Annual Report

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	2010	2009	2008	2007	2006
Sales in million cubic metres <sup>1</sup>	3,794	3,415	3,675	3,498	3,339
Residential annual average usage (cubic metres) <sup>2</sup>	2,856	3,414	3,303	3,153	2,938
Degree days <sup>3</sup>	5,531	6,227	5,990	5,700	5,345
<b>PIPELINE</b> (kilometres)					
Distribution Utility					
SaskEnergy Incorporated	67,342	67,046	66,709	66,340	66,043
Swan Valley Gas Corporation	120	120	120	120	120
<b>TOTAL</b>	<b>67,462</b>	<b>67,166</b>	<b>66,829</b>	<b>66,460</b>	<b>66,163</b>

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

<sup>2</sup> The prior year amounts have been reclassified to conform to the current year's presentation.

<sup>3</sup> A unit measuring the extent to which the temperature falls below 18° Celsius (In a normal year, the degree days are 5,538).

	2010	2009	2008	2007	2006
Peak day natural gas flows (Petajoules)	1.07	1.19	1.50	1.49	1.53
Date of peak day flow	Jan. 7	Mar.11	Jan.28	Feb.14	Feb.16
Storage cavern sites	8	8	8	8	8
Storage caverns	27	26	26	26	25
Storage field sites <sup>1</sup>	3	3	3	3	3
Producing field sites <sup>1</sup>	1	1	1	1	1
<b>PIPELINE (kilometres)</b>					
TransGas Limited					
Transmission	13,889	13,803	13,592	13,573	13,528
Gathering	202	199	199	197	197
Many Islands Pipe Lines (Canada) Limited	435	435	435	435	435
Bayhurst Gas Limited	113	113	113	113	92
<b>TOTAL</b>	<b>14,639</b>	<b>14,550</b>	<b>14,339</b>	<b>14,318</b>	<b>14,252</b>
<b>COMPRESSOR STATIONS</b>					
TransGas Limited					
	22	22	22	22	22
Bayhurst Gas Limited	3	3	4	4	3
<b>TOTAL</b>	<b>25</b>	<b>25</b>	<b>26</b>	<b>26</b>	<b>25</b>
<b>COMPRESSION HORSEPOWER</b>					
TransGas Limited					
	82,250	81,100	82,200	82,200	82,200
Bayhurst Gas Limited	6,300	6,300	6,835	6,835	6,300
<b>TOTAL</b>	<b>88,550</b>	<b>87,400</b>	<b>89,035</b>	<b>89,035</b>	<b>88,500</b>
<sup>1</sup> Includes Bayhurst Gas Limited.					



## OUR FUTURE

OUR FUTURE

### Financial Performance

SaskEnergy recorded another strong financial year in 2010, while delivering competitive rates to its customer base. Consolidated net income from operations was \$55 million, thanks to solid performance in the SaskEnergy distribution and TransGas transmission businesses, and the continuing success of the Corporation's gas marketing initiatives and other business ventures. Consolidated rate of return on equity was 11.8 per cent.

### Productivity and Efficiency Initiatives

SaskEnergy identified and implemented \$11 million of productivity improvements and process changes throughout 2009 and 2010. Through some 50 individual initiatives, ranging from field-impacting improvements like enhanced electronic mapping, vehicle right-sizing and enhanced line heater technology to support functions like expanding e-billing utilization and widening the use of video conferencing, the SaskEnergy employee team is collectively focused on effective operations. These initiatives and their results have been shared with partners in the business community, and stakeholders like the Saskatchewan Rate Review Panel (SRRP).

### Mobile Compressor Unit

A major TransGas operational change, which also promotes enhanced efficiency, is the deployment of mobile compressor technology, an identified industry best practice in Canada. With the purchase of a 1,150-horsepower portable compressor unit from Calgary's Bidell Equipment Inc., TransGas can better meet the needs of multiple locations requiring short-term compression and respond to compression needs throughout its transmission network more expediently. Just as significantly, the capital deployment savings of these units as opposed to static compressor systems are as much as 50 per cent or more. Building on the success of projects at Unity and other locations, mobile compressor units are expected to increasingly provide operational and business flexibility as transportation requirements change on the TransGas system.

### Energy Efficiency Programming

Saskatchewan has continued its nationwide leadership in energy efficiency programming, led by the more than 44,000 homeowners who have completed an initial evaluation for the Saskatchewan EnerGuide for Homes program since 2007, representing more than 12 per cent of the available housing stock in the Province. Presenting conservation initiatives for customers to manage their energy costs, while reducing their environmental footprint, will be a continuing focus of SaskEnergy's public messaging.

## OUR GROWTH



### OUR GROWTH

#### **350,000 Customer Milestone**

As Saskatchewan's population reached record levels in 2010, SaskEnergy achieved its largest customer base ever, surpassing the 350,000 mark in November. Despite an extremely challenging construction year, with wet weather throughout the spring, summer and early fall, SaskEnergy's construction crews, supported by private sector partners, succeeded in adding nearly 5,500 new residential, business and industrial customers in 2010. Since 2007, SaskEnergy has added almost 20,000 new customers at an annual rate more than double the company's 10-year average, with 2011 projected to be another strong year of customer growth.

#### **Industrial Sector Demand**

In recent years, industrial demand for natural gas has grown significantly within the Province, with a further 25 per cent increase anticipated over the next 10 years. Increased volume related to potash production was added to deliveries, while the continuing growth of natural gas as a reliable and cost-effective source of electricity generation is reflected through projects like the new SaskPower Yellowhead Power Station. For 2011, natural gas usage at several planned enhanced oilfield operations will be another private sector driver of growth in natural gas deliveries.

#### **Alameda-Whitewood Pipeline Project**

Construction began this year on a major TransGas pipeline designed to access the growing supply of natural gas being developed in southeastern Saskatchewan's oil-rich Bakken region. Scheduled to be in service in 2011, the 117-kilometre pipeline from Alameda to Whitewood will transport up to 35 Terajoules (TJ) per day of natural gas that has been captured and processed by oil companies in the region. The pipeline will also have a positive environmental impact, reducing CO<sub>2</sub> emission levels generated from natural gas flaring in the area by the equivalent of annual emissions produced by heating 105,000 homes in Saskatchewan — roughly every household in Saskatoon and Regina combined.

#### **Natural Gas Marketing**

SaskEnergy's expertise and its integrated ownership of distribution, transmission and storage facilities has allowed the Corporation to generate additional revenue, sharing benefits between customers and the company. By taking advantage of periodic underutilized capacity in its storage facilities, the company was able to allocate an additional \$5.5 million in revenue to support existing rate structures.

## OUR SERVICE



### Safety and Reliability

Another key indicator of the Province's robust economy is the record 106,382 requests placed by customers to SaskEnergy's *Sask 1<sup>st</sup> Call* service. In 2010, SaskEnergy performed more than 67,500 line locates to mark company infrastructure prior to someone working near it. Staff also responded to nearly 23,000 calls for safety service, which included over 10,000 natural gas odor calls. This reinforces the critical nature of SaskEnergy's commitment to safe and reliable operations, reflected by the fact that more SaskEnergy employees have safety as their core job function than any other responsibility.

### New Customer Information System

To continue to accurately and successfully produce bills and provide customer care services for the future, SaskEnergy is in the process of replacing its aging Customer Information System (CIS). In 2010, the company selected Regina-based CGI Information Services and Management Consultants to implement the new system and provide an Oracle software solution. Throughout the year, the SaskEnergy CIS project team worked with subject matter experts from across the company to align SaskEnergy's business processes with the new software's functionality. Once complete in 2012, the new CIS will better allow SaskEnergy to continue providing the highest possible levels of customer service.

### Collaboration Initiatives

With an emphasis on improving efficiency and effectiveness to better serve customers, SaskEnergy began joint service installation trenching with SaskPower in Regina and Saskatoon, and participated in a joint line locating pilot project with both SaskPower and SaskTel in Regina. SaskEnergy also continued to partner with the City of Swift Current on an automated meter reading solution in that city and is researching further opportunities to use similar technology with SaskPower. The learnings from these projects will support efforts to initiate a province-wide, joint advanced measurement infrastructure solution with SaskPower, with initial field work starting in 2012.

### Customer Satisfaction

In 2010, 800 randomly selected Saskatchewan residents took part in the annual SaskEnergy Customer Satisfaction survey, which noted a significant increase in the "Overall satisfaction with SaskEnergy" rating from customers. Over 40 per cent of respondents rated their satisfaction a 7 out of 7 this year (compared to just over 30 per cent in 2009). As well, 97 per cent of customers surveyed rated SaskEnergy's reliability of service a 5 or higher and 90 per cent of customers rated SaskEnergy a 5 or higher for providing high standards of customer service.

The 2010 TransGas Customer Satisfaction Survey, issued to 320 transmission customers in October, brought more excellent results. While representing a slight decline from the rating in the 2009 survey, TransGas' overall mean rating score in 2010 was 4.7 out of a possible 5.0 rating, the equivalent of a 93 per cent level of customer satisfaction.

## OUR PEOPLE



### OUR PEOPLE

#### **“The Summer of Storms”**

In 2010, SaskEnergy and TransGas employees showed that they can be counted on when lives are on the line. In many of the communities hit by severe weather during Saskatchewan’s “Summer of Storms”, including Saskatoon, Maple Creek, Yorkton, Raymore, North Battleford and Shell Lake, these employees were often among the first on the scene. Shutting off the gas supply to homes in flooded areas, working with firefighters and other emergency responders, securing homes and businesses — they went beyond the call of duty to assist customers, friends and neighbours. In many of these cases, these same SaskEnergy and TransGas employees were back at the scene, after hours, as community volunteers helping out in any way they could.

#### **Commitment to Safety**

In 2010, SaskEnergy made significant improvements in its safety performance, including a 41 per cent reduction in lost time injuries, a 39 per cent reduction in medical aids and a 34 per cent reduction in preventable vehicle collisions. As a result, the company’s Total Recordable Injury Frequency Rate, a measure that involves lost time injuries, medical aids and hours worked, was its lowest in 14 years. 2010 also marked the eighth consecutive year that SaskEnergy conducted a Safety Stand Down Week, a designated time for Executive members to talk about safety issues with employees. This year’s theme was “Safety Starts With Me”, and 32 sessions were held at various locations throughout the Province in April.

#### **Employees Supporting the Community**

Throughout 2010, SaskEnergy and TransGas employees continued to act as leaders in supporting the communities the Corporation serves. Whether they were living up to the “Champion of Volunteers” title at events like the Ford Women’s World Curling Championships and SaskEnergy Hockey Day in Saskatchewan, being strong contributors to annual United Way campaigns around the Province, or supporting delivery of over nine tonnes of food for the annual Farm Credit Canada Food Drive, the selflessness of SaskEnergy employees made a huge difference across the Province once again this year.

#### **Competency Assessment Plan Program**

Groups from across SaskEnergy and TransGas worked together in 2010 to develop a framework and pilot program for a corporate Competency Assessment Plan (CAP) initiative. Upon its launch in 2011, the new program will affect approximately 500 field employees and contractors (over 40 per cent of SaskEnergy’s workforce), who will be formally assessed at regular intervals on a variety of tasks specific to their positions. Once fully implemented, the CAP program will have a tremendous positive impact on SaskEnergy operations — reducing pipeline incidents and worker injuries while maintaining company alignment with industry best practices.

## INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial condition and results of operations for the year ended December 31, 2010. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects, enabling readers to view SaskEnergy from the perspective of management. The MD&A should be read in conjunction with the Corporation's audited consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks, which are described in the Risk Management section of the MD&A. All forward-looking statements reflect the Corporation's best estimates and assumptions based on information available at the time the statements were made. However, actual results and events may vary significantly from those included in, contemplated by or implied by such statements.

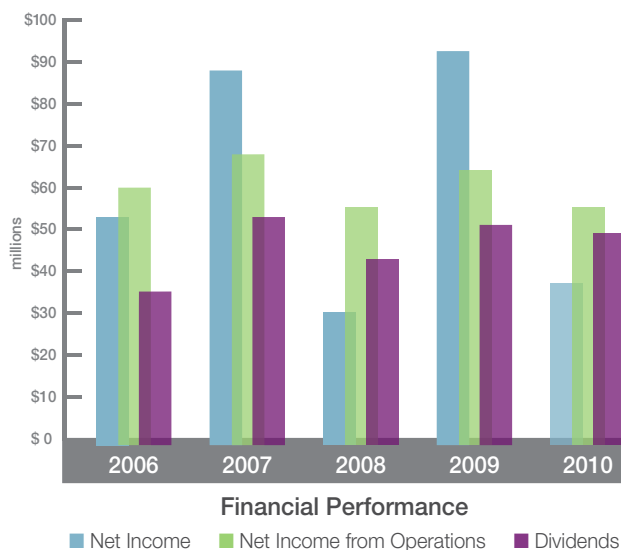
The Corporation's financial results are subject to fluctuations, especially given the volatility of natural gas prices. In order to compare financial performance from period to period, the Corporation uses the following measures: net income from operations, realized margin on commodity sales and realized margin on gas marketing sales. Each measure removes the impact of fair value adjustments and the revaluation of natural gas in storage as these market value adjustments are unrealized and subject to considerable variation. These are non-GAAP measures as there is no standardized meaning, and they may not be comparable to similar measures presented by other entities.

## CONSOLIDATED FINANCIAL RESULTS

(millions)	2010	2009
Net income from operations <sup>1</sup>	\$ 55	\$ 64
Impact of fair value adjustments	3	29
Revaluation of natural gas in storage	(21)	-
<b>Consolidated net income</b>	<b>\$ 37</b>	<b>\$ 93</b>

<sup>1</sup> Refer to non-GAAP measures

For 2010, consolidated net income of \$37 million was \$56 million lower than 2009, primarily due to \$18 million in unfavourable market value adjustments compared to \$29 million favourable market value adjustments last year. Net income from operations, which removes the volatility related to these unrealized market value adjustments, was \$55 million, \$9 million below the prior year. The 2009 net income from operations includes \$13 million of income related to Heritage Gas Limited, which the Corporation sold at the end of 2009. During 2010, the Corporation declared \$49 million in dividends to CIC.



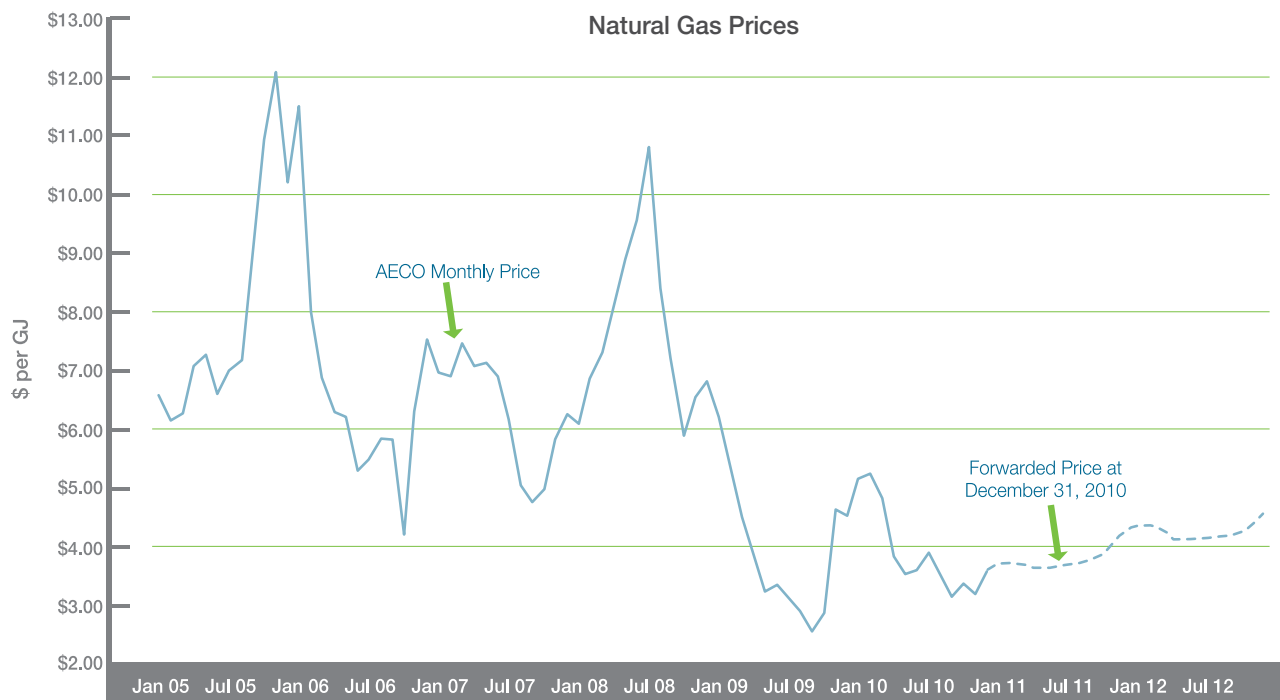
**Natural Gas Industry**

Natural gas prices are set in an open market and are influenced by a number of variables including production, demand, natural gas storage levels and economic conditions. Given the high demand for natural gas to heat homes and businesses during the cold winter months and the demand for natural gas to generate incremental electricity for air conditioning in the summer, weather has the greatest impact on natural gas prices in the near term. Due to the high degree of uncertainty associated with weather, natural gas prices are extremely volatile.

Over the past two years, continuing advances in technology related to horizontal drilling have fundamentally changed the North American natural gas supply. While natural gas locked in shale rock was previously not accessible economically, it can now be produced cost effectively. The economic recovery of natural gas from shale formations has increased the volume of proven natural gas reserves in North

America to levels not seen since 1971. This abundance of proven reserves has resulted in a fundamental downward shift in the long-term price of natural gas.

The long-term price of natural gas is reflected in the forward price of natural gas, which refers to natural gas that will be bought and sold at a future date. The forward open market price of natural gas for the winter of 2010 declined from \$6.30 per Gigajoule (GJ) in January to approximately \$4.00 per GJ in the fall when SaskEnergy set its annual commodity rate. Through the use of storage and its natural gas price risk management strategy, which locks in these forward prices, SaskEnergy was able to lower its commodity rate to \$4.55 per GJ on November 1, 2010. The following is a chart of AECO natural gas prices. AECO is the major natural gas hub in Canada and is located in Alberta. Natural gas in Saskatchewan is priced at a differential to the AECO price and is usually between \$0.05 per GJ and \$0.10 per GJ higher than AECO.



In Saskatchewan, the physical natural gas landscape is also changing. After over 20 years as a net exporter of natural gas, Saskatchewan is on the cusp of becoming a net importer. The relatively strong provincial economy has resulted in the addition of incremental gas-fired power generation and the growth in general demand for natural gas, particularly in the industrial sector. On the other hand, the low prices affected natural gas production in the Province, causing declines in most regions during 2010. The exception was natural gas production associated with oil production from the Bakken formation, located in southeastern Saskatchewan, which continued to grow. To manage these physical supply changes, TransGas is strategically positioning its capital development with the construction of a larger natural gas pipeline in southeastern Saskatchewan. This pipeline is expected to be in service in 2011.

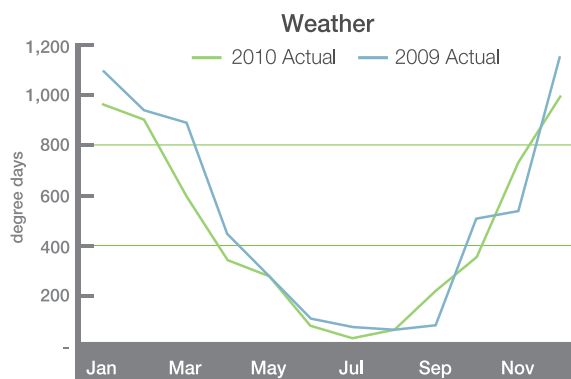
## Revenue

The continued market trends in 2010 toward lower natural gas prices had a significant impact on SaskEnergy's revenue. Total revenue of \$952 million was 20.4 per cent lower than 2009. The Corporation took advantage of this lower market and lowered its commodity rate to levels not seen since 2001 and leveraged its storage and gas marketing capabilities to generate new revenue.

(millions)	2010	2009
Commodity sales	\$ 276	\$ 451
Gas marketing sales	386	446
Delivery	185	184
Transportation and storage	77	80
Revenue collected for municipalities	19	26
Other	9	10
	<b>\$ 952</b>	<b>\$ 1,197</b>

## Delivery Revenue

Delivery revenue of \$185 million was \$1 million above 2009. As most of the natural gas delivered is used for space heating purposes, the volume of natural gas delivered is directly impacted by the weather during the winter months. The weather for 2010 was normal while 2009 was 12 per cent colder than normal (normal is determined by an analysis of the last 30 years) contributing to a 4.2 PJ year-over-year decline in the volume of natural gas delivered.



The Corporation experienced a strong year for customer growth with nearly 5,500 new residential, business and industrial customers added to its distribution system. Despite the customer growth, the volume of natural gas delivered per customer continued its downward trend given the focus on energy conservation and advances in technology (1.6 per cent decline from 2009 to 2010). The Corporation encourages energy conservation through its involvement in numerous energy saving initiatives, such as the SaskEnergy Home Energy Efficiency Project, in recognition of the customer savings and environmental benefits.

Effective January 14, 2010, SaskEnergy received approval for a \$2.10 increase to the basic monthly charge for residential customers, along with modest increases for other customer classes, which offset the decline in natural gas consumption. Even with this rate increase, SaskEnergy maintained the lowest residential delivery rates in Canada.

### Commodity Margin

(millions)	2010	2009
Realized commodity sales	\$ 276	\$ 451
Realized commodity cost of gas sold	(276)	(439)
Realized margin on commodity sales <sup>1</sup>	-	12
Impact of fair value adjustments	(30)	21
(Loss) margin on commodity sales	\$ (30)	\$ 33
<sup>1</sup> Refer to non-GAAP measures		

SaskEnergy sells natural gas to distribution customers at a commodity rate approved by Provincial Cabinet based on recommendations of the Saskatchewan Rate Review Panel (SRRP). SaskEnergy's commodity rate is designed to ensure that, in the long term, the Corporation neither earns a profit nor incurs a loss on the sale of natural gas. However, as natural gas is acquired in the open market, purchase prices fluctuate throughout the year. For rate-setting purposes, SaskEnergy accumulates differences between the commodity revenue earned and the cost of natural gas sold in a Gas Cost Variance Account (GCVA). The balance in the GCVA, which is not recorded for financial reporting purposes, is either recovered from or refunded to customers as part of future commodity rates.

SaskEnergy utilizes a natural gas price risk management strategy to assist in managing the impact of natural gas purchase price volatility. This allows the Corporation to deliver stable, competitive commodity rates to its customers. In order to ensure a secure supply of natural gas, SaskEnergy may enter into derivative forward contracts for the physical delivery of natural gas. The purchase price contained in these forward contracts is typically based on a floating

index price. The natural gas supply has been secured, but the price in the forward contract will be determined by the price of natural gas in the future. SaskEnergy may use other natural gas derivative contracts, primarily natural gas price swaps and options, to manage the future purchase price of natural gas. As derivative instruments, these natural gas contracts are recorded at fair value until the date of settlement. Changes in fair value, which will vary with future natural gas prices and price differentials, are recorded in commodity cost of gas sold. Upon settlement of the natural gas contract, the amount paid or received by SaskEnergy is recorded in the commodity cost of gas sold. At year end, unfavourable fair value adjustments on derivative instruments increased the cost of gas sold by \$30 million. This unfavourable fair value adjustment was primarily due to natural gas price swaps with an average purchase price of \$4.63 per GJ compared to a market price of \$3.95 per GJ at December 31, 2010.

The realized margin on commodity sales removes the unrealized fair value adjustments, as these adjustments can vary significantly and do not necessarily represent the amount that will be paid upon settlement of the related natural gas contract. On a realized basis, the Corporation achieved its goal of neither earning a profit nor generating a loss on the sale of natural gas to its distribution customers as the Corporation broke even on a realized basis compared to the \$12 million realized margin in 2009. During 2010, both the average revenue generated from commodity sales and the average cost of natural gas sold were \$4.94 per GJ. For 2009, the average revenue generated from commodity sales was \$6.77 per GJ and the average cost of gas sold was \$6.51 per GJ. In addition, warmer weather in 2010 decreased the amount of natural gas consumed by 5.3 PJ when compared to 2009.

### Gas Marketing Margin

(millions)	2010	2009
Realized gas marketing sales	\$ 356	\$ 439
Realized cost of gas sold	(310)	(419)
Realized margin on gas marketing sales <sup>1</sup>	46	20
Impact of fair value adjustments	32	9
Revaluation of natural gas storage	(21)	-
Margin on gas marketing sales	\$ 57	\$ 29

<sup>1</sup> Refer to non-GAAP measures

A major component of SaskEnergy's gas marketing activity is the sale of natural gas from its storage facility in west central Saskatchewan. In recent years, relatively low-priced natural gas has been injected into this storage facility and subsequently sold to earn a margin. 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 additional margins. In addition, SaskEnergy provides a natural gas supply option to larger end-use customers in Saskatchewan through non-regulated contract sales.

Given the volatility of market prices, gas marketing transactions are subject to natural gas price risk. Similar to the discussion related to the commodity margin, the Corporation may enter into various natural gas contracts in order to manage natural gas price risk for its natural gas marketing activities. These natural gas contracts are derivative instruments and, as such, are recorded at fair value until the date of settlement. Changes in fair value are recorded in either gas marketing sales or gas marketing cost of gas sold, depending on the specific natural gas contract. Once settled, the amount paid or received for the contract is recorded in gas marketing sales or gas marketing cost of gas sold, as appropriate. For 2010, there

was a favourable fair value on derivative instruments of \$32 million, which increased the margin on gas marketing sales. This favourable fair value adjustment was primarily due to natural gas price swaps with an average selling price of \$6.09 per GJ, compared to a market price of \$4.03 per GJ at December 31, 2010.

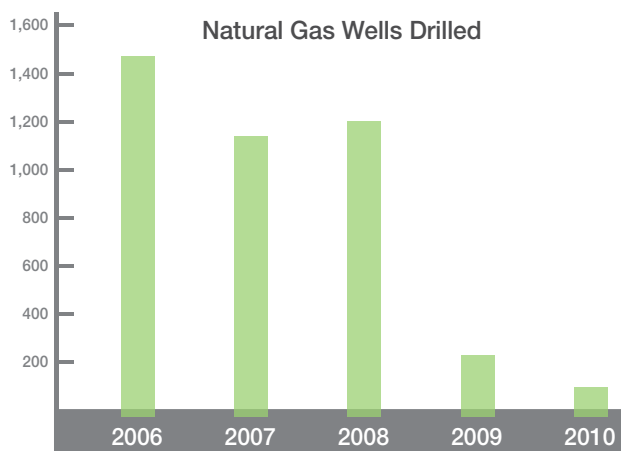
With the decline in forward prices, the net realizable value for gas marketing natural gas in storage has fallen below cost. A downward revaluation of natural gas in storage of \$21 million was recorded for 2010 (2009 - \$nil). If natural gas prices rise in the future, SaskEnergy will record an upward revaluation to recognize the increase in net realizable value, up to a maximum of the original cost. Otherwise, the \$21 million will result in improved margins in the future as contracts are settled by virtue of the lower carrying value of natural gas in storage.

The realized margin on gas marketing sales, which removes the impact of fair value adjustments on derivative instruments and the revaluation of natural gas in storage, was \$46 million. This was \$26 million higher than 2009 as there were higher realized margins on gas marketing transactions somewhat offset by lower sales volumes.

### Transportation and Storage Revenue

Transportation and storage revenue was \$77 million, a decline of \$3 million from 2009, given lower transportation revenues. Deliveries by the transmission system to customers within Saskatchewan, or to points where natural gas is subsequently exported, are based on the volume of receipts onto the system as well as withdrawals from storage. Low natural gas prices have led to a steady decline in natural gas drilling in Western Canadian conventional gas reservoirs, including Saskatchewan, over recent years. The Province's activity has declined from 230 natural gas wells drilled in 2009 to 95 in 2010, a decline of 58.6 per cent. Lower natural gas prices also resulted in

less natural gas being withdrawn from storage. These factors, combined with a decline in production from existing natural gas wells, have resulted in a 14.2 per cent decline in receipt volumes and a 59.5 per cent decline in export volumes. Offsetting these declines was a 15.4 per cent increase in contracted capacity for deliveries within Saskatchewan as there was increased demand from key sectors, such as potash and natural gas-fired electrical generation, as compared to 2009.



Storage revenue is slightly higher than 2009, primarily due to an increase in contracted storage capacity and withdrawal volumes. Given an increased interest in storage service, the Corporation has several storage expansion projects underway, which are expected to increase storage capacity by 9 PJ by 2012.

#### Revenue Collected for and Paid to Municipalities

Under the provisions of *The SaskEnergy Act*, the Corporation, on behalf of certain municipalities, is required to charge and collect a prescribed amount based upon the natural gas sales to, or natural gas transported for, customers within the municipality. The Corporation remits the full amount collected to the respective municipality. The related revenue and expenses were \$19 million in 2010 and \$26 million in 2009.

#### Other Revenue

Other revenue, which includes royalty revenue, natural gas and liquid sales and income from equity investments, decreased by \$1 million compared to the prior year. Royalty revenue, a gross overriding royalty on 450 natural gas-producing properties in Saskatchewan and Alberta, was \$3 million, which was consistent with 2009. Revenue from natural gas processing operations of \$6 million was \$2 million above prior year, primarily due to higher liquid prices and increased volumes given the expansion of the Kisbey Gas Plant during the first quarter of 2010.

The Corporation holds a 30 per cent equity interest in Gas Sur, a natural gas distribution company that serves residential and commercial customers in Chile. For 2010, SaskEnergy's share of Gas Sur's net loss was \$1 million, \$2 million lower than 2009, reflecting the impact of an 8.8 magnitude earthquake that struck Chile in February 2010. Gas Sur experienced damage to parts of its distribution system, resulting in a \$1 million asset write-down. Natural gas service was restored to most of Gas Sur's customers. At year end, SaskEnergy's investment in Gas Sur was \$16 million.

The Corporation also holds a 40.1 per cent equity investment in Igasamex, a natural gas transportation company in Mexico. The Corporation's share of Igasamex's 2010 net income was \$1 million, \$1 million below the prior year. Igasamex declared dividends in 2010, of which SaskEnergy's share was approximately \$105 thousand. At year end, the carrying value of SaskEnergy's investment in Igasamex was \$13 million.

In accordance with the Provincial Government's Saskatchewan First Investment Policy, SaskEnergy continues to work toward a pragmatic exit strategy from its equity investments in both Gas Sur and Igasamex.

## Expenses

Total expenses of \$915 million were also impacted by lower natural gas prices as SaskEnergy experienced an 18.0 per cent decrease from the prior year.

(millions)	2010	2009
Commodity cost of gas sold	\$ 306	\$ 418
Gas marketing cost of gas sold	329	417
Operating and maintenance	156	148
Interest	37	43
Amortization	59	57
Payment to municipalities	19	26
Saskatchewan taxes	9	8
	<b>\$ 915</b>	<b>\$ 1,117</b>

## Other Expenses

Operating and maintenance expense was \$156 million, which was \$8 million higher than the \$148 million reported in 2009. The increased operating and maintenance expenses were mainly attributable to higher labour and contractor costs. In addition, there was an increase in third-party natural gas transportation costs as a result of rate increases. However, a significant focus on productivity gains and cost containment resulted in the identification of approximately \$6 million of efficiency opportunities, which positively impacted operating and maintenance expenses. Through cost-saving initiatives such as the mobile dispatch and online map verification process, the Corporation realized savings in several cost categories, most notably labour, materials and supplies, travel and communications.

Labour costs constitute a significant portion of the Corporation's annual operating and maintenance expenses, as SaskEnergy's employees are committed to providing safe and reliable service across the Province. Salaries and benefits experienced modest

increases during the year, as a result of general economic increases, but overall full-time equivalent (FTE) levels dropped by 2.1 per cent in 2010, while still meeting customer growth needs.

In addition, this year's growth in customer levels, driven by strong economic activity within the Province, placed upward pressure on operating costs, especially given the wet construction season. The incremental workload related to the activation of new customers was performed both by SaskEnergy's employees as well as by contractors, thereby putting pressure on labour and contractor costs. SaskEnergy's *Sask 1<sup>st</sup> Call* service also responded to more than 106,000 requests for line locates by contractors and homeowners prior to starting excavation projects, 2,020 more than last year.

Interest expense of \$37 million was \$6 million below 2009, reflecting lower interest on long-term debt. During the year, the Corporation repaid \$80 million of long-term debt. Interest rates on short-term debt were relatively low during 2010; consequently, the Corporation increased its short-term debt rather than issue additional long-term debt. The yield on debt retirement funds also resulted in higher realized earnings and lower overall interest expense for the year.

Amortization expense of \$59 million was \$2 million above the prior year, driven by a higher capital asset base in 2010. Similarly, Saskatchewan taxes, which include corporate capital taxes paid to the Province and property taxes paid to municipalities, were \$1 million above prior year as there was an increase in corporate capital taxes, given the higher capital tax base.

## LIQUIDITY AND CAPITAL RESOURCES

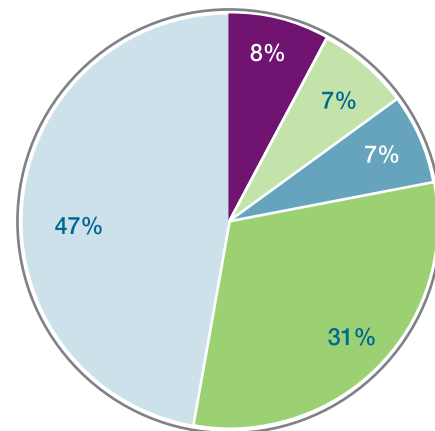
(millions)	2010	2009
Cash provided by operating activities	\$ 105	\$ 75
Cash used in investing activities	(109)	(26)
Cash provided by (used in) financing activities	5	(53)
Increase (decrease) in cash during the period	\$ 1	\$ (4)

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, including a \$35 million uncommitted line of credit with the Toronto-Dominion Bank. Over the longer term, *The SaskEnergy Act* allows the Corporation to borrow up to \$1,700 million.

### Cash Provided by Operating Activities

Cash provided by operating activities was \$105 million, which was \$30 million higher than the same period in 2009, mainly due to higher natural gas sales from gas marketing activities. Natural gas in storage held for resale, before the impacts of the revaluation, increased \$10 million from 2009 as SaskEnergy continued a strategy to purchase lower priced natural gas to increase storage levels. This additional natural gas in storage was purchased for gas marketing activities and will be held for resale in subsequent periods to generate additional margins and cash flow for the Corporation.

### Cash Used in Investing Activities



### Total Investment Activities

- Growth Initiatives
- Vehicles & Buildings
- Information Systems
- Distribution Infrastructure
- Pipeline Infrastructure

During 2010, cash used in investing activities was \$109 million, which was \$83 million more than 2009. In 2009, SaskEnergy generated \$73 million cash on the sale of Heritage Gas Limited. The remaining \$10 million increase was due to higher capital investment in 2010. The Corporation invested \$140 million in capital projects, before customer capital contributions of \$31 million. The majority of the investments were made to maintain the integrity of SaskEnergy's extensive distribution and pipeline infrastructure, ensuring safe and reliable service. During 2010, SaskEnergy connected nearly 5,500 new customers to its distribution system and constructed 385 kilometres of pipeline throughout the Province. Additionally, SaskEnergy invested \$11 million in new business development opportunities within Saskatchewan.

### Cash Provided by Financing Activities

During the year, \$5 million was provided by financing activities, compared to \$53 million used for financing activities in 2009. The Corporation repaid \$80 million in long-term debt that matured during 2010. SaskEnergy

did not issue additional long-term debt, choosing instead to increase short-term debt by \$131 million. The Corporation paid dividends to its parent, CIC, of \$48 million, \$12 million more than the prior year. SaskEnergy's debt ratio was 66 per cent debt at the end of 2010.

### Outlook

In the upcoming year, the Corporation plans to spend \$156 million on capital expenditures, before customer capital contributions. The Corporation will also have \$549 million in financial obligations coming due during 2011 — \$239 million short-term debt, \$135 million accounts payable, \$22 million dividends payable, \$115 million derivative instruments and \$38 million long-term debt interest. The Corporation is well positioned to fund these capital expenditures and financial obligations through its consistent operating cash flows and debt available through the Province. Given the Province's strong credit rating, the Corporation does not anticipate an issue meeting all of its funding requirements.

## SASKENERGY'S STRATEGIC PLAN AND KEY SUCCESS MEASURES

SaskEnergy's 2010 Business Plan was based on the Corporation's established Strategic Plan. The Business Plan contains four key mandates — Our Future, Our Growth, Our Service and Our People — that support the vision, mission and values of the Corporation and play an important role in helping employees determine how their everyday work and effort contribute to the Strategic Plan and overall direction of the Corporation.

SaskEnergy's four strategic mandates play a vital role in the Corporation's business planning and reporting. Each year, SaskEnergy comprehensively sets, measures and reports 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.

The 2010 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 2010 MD&A is based on the key success measures found within the scorecard.

This scorecard is representative of SaskEnergy's four strategic mandates through 41 key success measures, used to monitor and direct organizational performance. The targets for these key success measures were established in the 2010 Business Plan. The Our Future mandate measures are in place to reinforce the Corporation's commitment to achieving sustainable operations within the Province. The Our Growth measures reflect the Corporation's Saskatchewan-based growth initiatives and development of new core and non-core business ventures. The Our Service measures are in place to reflect the Corporation's commitment to providing safe and reliable service and customer service excellence. Finally, the Our People 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 2010 financial results and important operational information about SaskEnergy and its subsidiaries. The future year scorecard targets within the key success measures have been assessed and reflect the 2011 Business Plan.

OUR FUTURE						
Strategic Measure	2009 Actual	2010 Actual	2010 Target	2011 Target	2012 Forecast	2013 Forecast
<b>Financial Health</b>						
Debt/Equity Ratio	64/36	66/34	68/32	65/35	65/35	65/35
Rate of Return on Equity <sup>1,2</sup>						
Distribution	16.9%	12.2%	8.8%	8.5%	8.9%	8.9%
TransGas	12.9%	6.4%	8.7%			
Consolidated	13.5%	11.8%	12.9%	12.5%	13.2%	13.1%
Net Income from Operations (millions) <sup>3</sup>	\$64	\$55	\$58	\$60	\$65	\$65
Capital Investment (net) (millions) <sup>4</sup>	\$99	\$109	\$103			
<b>Competitive Rates</b>						
SaskEnergy Commodity <sup>4</sup>	Fourth Quartile	Third Quartile	Top Quartile			
SaskEnergy Delivery	Lowest in Canada	Lowest in Canada	Lowest in Canada	Competitive with Industry	Competitive with Industry	Competitive with Industry
TransGas Export Rates	Lower than TCPL	Lower than TCPL	Lower than TCPL	Competitive with Industry	Competitive with Industry	Competitive with Industry
<b>Governance<sup>5</sup></b>						
	Comply with CSA Governance Guidelines	Comply with CSA Governance Guidelines	Comply with CSA Governance Guidelines			

<sup>1</sup> The ROE target for the Distribution Utility fluctuates because it is based on the calendar year, and rates are set based on a test year and includes non-regulated activities such as contract industrial and contract storage sales. The TransGas ROE target does not include Coleville Processing Plant results.

<sup>2</sup> For the 2011 Business Plan, the ROE targets for utility operations have been combined into one metric.

<sup>3</sup> Refer to non-GAAP measures.

<sup>4</sup> The measure was discontinued for the 2011 Business Plan.

<sup>5</sup> The measure was discontinued for the 2011 Business Plan, although SaskEnergy will continue to monitor and report compliance with Governance guidelines. SaskEnergy is substantially compliant with the Canadian Securities Administrators Corporate Governance Guidelines "National Policy 58-201" and guidelines for disclosure of Corporate Governance Practices "National Instruments 58-101".

OUR FUTURE						
Strategic Measure	2009 Actual	2010 Actual	2010 Target	2011 Target	2012 Forecast	2013 Forecast
<b>Environmental</b>						
Customer Efficiency Programs - # of Customers Impacted (Direct & Indirect) <sup>1</sup>	4,826 14,983	4,305 6,631	7,500 15,500	6,500	6,500	6,500
Internal Energy Efficiencies (Terajoules/year) <sup>2</sup>	290.0	29.1	33.0	65.5	55.0	37.0
Climate Change & GHG Reductions <sup>3</sup>	25,145 tonnes/yr	9,980 tonnes/yr	5,000 tonnes/yr	78%	89%	97%
<b>Community Investment</b>						
Investment (millions) <sup>4</sup>	\$1.9	\$1.9	\$1.6			
Projects Supported	1,229	1,193	1,300	1,300	1,300	1,300
Communities Impacted	331	345	270	270	270	270
Percentage of Goods/Services Sourced in Saskatchewan <sup>4</sup>	80%	82%	74%			
Total Contracts - Percentage of Aboriginal Labour Content	16%	12%	12%	12%	13%	14%

<sup>1</sup> The measure was revised for the 2011 Business Plan to reflect the total number of customers impacted (direct and indirect) by efficiency programs. The targets have been revised downward to reflect the federal efficiency programs, which were discontinued during 2010.

<sup>2</sup> The measure was revised for the 2011 Business Plan to include vehicle fuel savings as well as line heater and waste heat recovery efficiencies.

<sup>3</sup> The measure was revised for the 2011 Business Plan to reflect the percentage of the Provincial "Go Green" CO<sub>2</sub> reduction target achieved.

<sup>4</sup> The measure was discontinued for the 2011 Business Plan.

### Financial Health

SaskEnergy's financial health is based on the Corporation maintaining an appropriate capital structure while providing reasonable financial returns to the Owner and competitive rates to customers. The Corporation works hard to balance the interests of both the Owner and its customers — focusing on annual profitability and long-term sustainability.

In 2010, capital expenditures, which are net of customer contributions, of \$109 million were \$6 million higher than the 2010 target, due to increased customer connection activity in the Distribution Utility, several large transmission system expansion projects and the Corporation's decision to proceed with the Faro Energy Ventures Ltd. joint storage project. Offsetting the higher capital expenditures were the proceeds from the sale of Heritage Gas Limited at the end of 2009, which caused the year-end debt to equity ratio to be slightly better than the 2010 target.

In 2010, net income from operations was \$55 million, which was \$3 million below the \$58 million target. The Corporation experienced a strong year for its gas marketing activities, with realized margins on gas marketing sales \$13 million higher than planned. Other expenses were \$8 million lower than budget, a result of the Corporation's continued focus on productivity gains and cost containment, lower interest expense on long-term debt, higher earnings on debt retirement funds and lower amortization expense. These positive variances were offset by a decline in revenues, mainly attributable to lower transmission volumes and the temporary shutdown of the Kisbey Gas Plant to accommodate the plant expansion. With consolidated net income lower than anticipated, the rate of return on equity was 11.8 per cent, compared to a target of 12.9 per cent.

### Competitive Rates

This measure reflects SaskEnergy 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.

SaskEnergy's rates are approved by the Provincial Cabinet, which receives recommendations on proposed rate changes from the SRRP, an independent body which reviews all rate changes proposed by the Corporation.

In 2010, SaskEnergy had the third lowest total residential natural gas utility rates (delivery and commodity combined) in Canada, based on the previous 12 months, with an average cost to residential customers of \$929 per year. This figure trailed only those of Hamilton, Ontario (\$844) and Calgary, Alberta (\$928) over that period.

While SaskEnergy did not meet its 2010 commodity rate target of top quartile, the Corporation decreased its commodity rate by 13 per cent this year. SaskEnergy's rate of \$4.55 per GJ, which came into effect on November 1, represents its lowest commodity rate since the winter of 2000-2001. With the commodity rate comparable to that from ten years ago, SaskEnergy's natural gas price risk management strategy is currently heavily weighted toward rate stability.

SaskEnergy met its 2010 target of having the lowest delivery rates of the major utilities across Canada. Though the company increased its delivery rate in January, by \$2.10 per month (only the third increase in the last 12 years), a typical SaskEnergy residential customer paid \$397 for delivery service in 2010. This rate is \$61 less than that paid by residential customers in Calgary, which had the second lowest delivery charges in the country over that 12-month period.

TransGas, which benchmarks its export rates against those of TransCanada PipeLines (TCPL) (NOVA) in Alberta, was successful this year in meeting its target of having rates lower than average TCPL (NOVA) export rates. At 31¢ per GJ, TransGas' 2010 rates were nearly seven cents lower per GJ than those of TCPL (NOVA) in Alberta (38¢ per GJ).

### Governance

SaskEnergy's commitment to advanced governance practices demonstrates accountability to the Owner and its customers. Effective governance helps ensure that SaskEnergy operates as both a financially viable organization and a responsible Corporation.

SaskEnergy benchmarks its governance practices against the Canadian Securities Administrators Corporate Governance guidelines. This measurement ensures that the Corporation's customers and employees are provided with 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. Details on SaskEnergy's 2010 corporate governance results are available on the SaskEnergy website: [http://www.saskenergy.com/about\\_saskenergy/annual\\_report/documents/2010/Corporate\\_Governance.pdf](http://www.saskenergy.com/about_saskenergy/annual_report/documents/2010/Corporate_Governance.pdf).

### Environmental

SaskEnergy places a strong emphasis on environmental sustainability. The Corporation partners with both the private and public sectors to help introduce and develop energy efficiency programs, opportunities and technologies that will play a role in the reduction of GHG emissions. This measure is used to evaluate the Corporation's environmental impact.

SaskEnergy's commitment to environmental leadership is evident in its many customer-focused energy efficiency programs. Each year, SaskEnergy works closely with the Province and other strategic partners to directly and indirectly assist homeowners with the responsible use of natural gas.

SaskEnergy develops, delivers and funds several energy efficiency programs and rebates that directly benefit customers. The programs that impact customers directly include the \$15 Programmable Thermostat Rebate, the ENERGY STAR® Loan Program, the Commercial Boiler Program, the Commercial HVAC Program, SaskEnergy Home Check-Up and Home Heating Tune-Up, the Energy Efficient Rebate for New Homes Gas Appliances rebate and the Home Energy Efficiency Project. In 2010, the Corporation directly reached 4,305 customers through these programs, below the target of 7,500, and down from the total of 4,826 customers reached in 2009. Feedback from the industry indicates that lower natural gas prices may have discouraged some customers from upgrading their heating equipment, while other customers purchasing a new furnace were often completing other retrofits to their home and used cash or had low-interest financing already in place.

Programs that are delivered by SaskEnergy but funded by other organizations include the Saskatchewan EnerGuide for Houses (SEGH) program and the Energy Efficient Rebate for New Homes. In 2010, SaskEnergy had an indirect impact on 6,631 customers through these programs. Saskatchewan continues to lead the nation in participation rates for the SEGH program, with 12.6 per cent of the housing stock (44,420 homeowners) having an initial pre-retrofit evaluation completed since the program began in 2007. The average for Canada was 7.0 per cent.

In 2010 6,224 homeowners completed an SEGH program pre-retrofit evaluation, a significant decrease from previous years. This decrease was impacted by the 2010 announcement by Natural Resources Canada that they were no longer accepting new participants into the federal program. Even with no changes to Saskatchewan's program, approximately 5,000 fewer Saskatchewan homeowners participated in the EnerGuide program in 2010 after the federal announcement.

Though the Corporation fell short of its 2010 targets, SaskEnergy's efforts to educate and assist Saskatchewan residents in their energy efficiency activities received high scores in the company's annual customer satisfaction survey. Over 83 per cent of the surveyed customers agreed that SaskEnergy is "committed to helping them use energy wisely" and nearly 40 per cent of customers surveyed indicated that they have used at least one SaskEnergy-related energy efficiency program.

In 2010, internal efficiencies reduced corporate project-related energy use by over 29 TJ, slightly below the target of 33 TJ. However, fuel gas consumption at TransGas compression and storage facilities shows a reduction of 153 TJ from 2009 usage, with reduced operational venting and flaring resulting in further reductions of 7 TJ and 14 TJ, respectively. These reductions are predominantly due to reduced demand for compression and can be viewed as an absolute reduction only if operational conditions stay the same. While only the project-related reductions are included in the Corporate Scorecard measure, the overall 2010 reduction of 208 TJ signifies SaskEnergy's ongoing commitment in this area.

SaskEnergy exceeded its 2010 target of reducing 5,000 tonnes of GHG emissions, achieving total reductions of 9,980 tonnes for the year, largely due to methanol pump upgrades in the Unity storage field and the rapid deployment of low-venting level control devices. In addition to these project-related reductions, the temporary reduction of fuel gas consumption at compressor stations across the Province, combined with a reduction in the amount of vented gas, resulted in an additional reduction of 11,033 tonnes. As noted, these figures represent permanent reductions only if operational conditions stay the same in the future. The project- and operations-related factors produced an impressive total reduction in GHG emissions of 21,013 tonnes for 2010.

This progress, together with waste heat-related projects at TransGas compressor stations and other initiatives, has the Corporation on schedule to achieve the Provincial Government's "Go Green" target of a 20 per cent reduction of 2006 emissions levels, well ahead of the deadline date of 2020.

### 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 the members of Saskatchewan communities helps ensure the longevity of successful business operations.

In 2010, SaskEnergy met its financial target by investing \$1.9 million in community and charitable sponsorships across the Province. These sponsorships benefited more than 1,193 projects in 345 different communities. The Corporation strategically prioritizes the types of sponsorships based on the following categories: Learning and Development, Community Engagement, Saskatchewan Pride, and Environmental Stewardship.

An important element of SaskEnergy's contribution to Saskatchewan involves the support of growth in communities within the Province. In 2010, SaskEnergy exceeded its target with 82 per cent of the goods and services required by SaskEnergy being purchased within the Province. Another significant community investment component involves supporting the strong and vibrant Aboriginal labour and business markets. This emerging market serves as an opportunity to create new, sustainable business and jobs for Aboriginal people today and into the future. In 2010, SaskEnergy met its goal, with 12 per cent Aboriginal labour content in contracts awarded.

#### **Our Future Outlook**

In the coming years, SaskEnergy will continue to deliver stable financial returns through prudent financial management, highlighted by a focus on efficiency and productivity gains throughout the Corporation. Divisional efficiency efforts and resource management will counter such cost drivers as continued customer growth, labour costs and non-controllable cost increases from third parties.

SaskEnergy will target an additional \$5 million in productivity gains for 2011, while seeking opportunities to manage FTE positions through retirement, attrition and seasonal resource deployment. Key synergies will be sought through operational and procurement reviews as well as collaborative efforts with others, including initiatives such as joint line locating. Leveraged relationships, such as that with the Mechanical Contractors Association of Saskatchewan on a joint training centre in Saskatoon, will be used as an innovative method to share costs and also support the growth of the private sector in the Province.

SaskEnergy will also continue its leadership role on environmental issues. The Corporation will be prepared to meet or exceed future Provincial Government targets for GHG reduction. In addition, innovative waste energy capture projects are the first steps in a strategy whereby SaskEnergy may be able to generate the net equivalent of its electrical energy use internally by 2015 through efficiency measures utilizing new technology integration. The company's strong reputation as a community steward and Canadian leader in energy efficiency will continue to be supported through programs designed to help consumers and businesses reduce their energy consumption.

OUR GROWTH						
Strategic Measure	2009 Actual	2010 Actual	2010 Target	2011 Target	2012 Forecast	2013 Forecast
<b>Core Growth – Capital Investment in New Infrastructure (millions)<sup>1</sup></b>						
SaskEnergy (net)	25.9	32.1	29.2	53.2	34.4	17.6
TransGas (net)	27.8	24.9	23.6			
<b>Business Development (millions)</b>						
Direct Capital Investment	10.9	11.0	4.9	13.1	13.8	13.7
Total Leveraged Capital <sup>2</sup>	44.5	23.2	35.1	66.1	109.3	63.4
<b>Incremental Net Income From Business Development (millions)</b>						
New Business Development – Saskatchewan Focused <sup>3</sup>	(0.4)	(0.4)	2.5			
External Investments <sup>3,4</sup>	15.4	(0.3)	1.4			

<sup>1</sup> For the 2011 Business Plan, the measure was revised to combine TransGas and SaskEnergy investment in core capital projects, net of customer contributions.

<sup>2</sup> The targets for this measure include private sector participation in storage development projects. For the 2011 Business Plan, this was revised to a Third Party Capital Leveraged measure.

<sup>3</sup> The measure was discontinued for the 2011 Business Plan, and a Return on Investment for Business Development projects measure was created.

<sup>4</sup> Income from External Investments will be subject to timing of planned monetizations of SaskEnergy's external investments and it is expected that this metric will be discontinued after 2010.

### **Core Growth - Capital Investment in New Infrastructure**

The core growth measure tracks the capital expenditures for SaskEnergy customer connections and TransGas capital expenditures related to storage and transmission system growth.

In 2010, SaskEnergy exceeded its direct capital investment target with a total of \$32.1 million expended on system expansions and customer growth. As in 2009, this achievement is attributable to the company's increasing customer base, with 5,470 new customer connections completed this year. TransGas' capital investments in storage and transmission system growth amounted to \$24.9 million in 2010, above the target of \$23.6 million. A significant portion of this investment was related to construction of a 117-kilometre transmission pipeline from Alameda to Whitewood, scheduled to be in service in 2011.

### **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 that SaskEnergy is participating in within Saskatchewan.

In 2010, SaskEnergy exceeded its Direct Capital Investment target, though the 2010 actual figure includes expansion costs related to the Kisbey Gas Plant, funds originally budgeted for 2009.

The year-end leveraged capital figure did not meet the 2010 target, as implementation of the Southeast Straddle Plant project, which would see SaskEnergy

and a private sector firm develop a gas processing facility (straddle plant) to achieve additional value for associated gas/oil development in southeastern Saskatchewan, was deferred from 2010.

### **Incremental Net Income from Business Development**

This measure allows SaskEnergy to monitor the success of business development initiatives, as well as its external investments, relative to net income earned each year. The business development target for net income assumes incremental revenues will be generated from business development activities. Storage expansion, gas marketing efforts and waste heat recovery activities are not included in these measures.

The Corporation did not meet its net income from business development target in 2010, as this figure was negatively affected by the temporary shutdown of the Kisbey Gas Plant, which was needed to safely accommodate the facility's expansion, and lower than expected commodity prices.

The Business Development 2010 activities included completion of the Kisbey Gas Plant expansion, new customer connections and completion of the Kisbey-North gathering system. Other activities of note for 2010 included providing support to waste heat capture projects at existing TransGas compressors and projects to utilize pressure reduction at town border stations to generate electricity.

SaskEnergy did not meet its 2010 External Investments target of \$1.4 million in net income. Gas Sur's 2010 net income was lower than anticipated, due to damages from the February 27<sup>th</sup> earthquake in Chile and resulting tsunami.

### Our Growth Outlook

To facilitate economic growth in Saskatchewan, and to best make use of the Corporation's core competencies in natural gas distribution, transmission and storage, SaskEnergy's business growth strategy is based on a "leveraged energy development" philosophy. As part of this plan, the private sector is expected to contribute \$201 million toward the Corporation's \$336 million projected growth capital program between 2011-2015.

The significant oil-related development of southeastern Saskatchewan will continue to create opportunities for natural gas-related projects. Building on the success of the flare gas plant partnership at Kisbey, Saskatchewan, incremental opportunities with a private sector partner exist in the area of ethane capture and pipelining and possible straddle plant activity. Storage, which has expanded from operational use to include commercial value creation, now presents new opportunities that will be pursued, including future joint ventures. As well, SaskEnergy will continue to use its pipeline and storage expertise to support the potential transportation and sequestration of CO<sub>2</sub> as a business opportunity.

These emerging business growth projects will augment the established commodity-related businesses within SaskEnergy and TransGas. Commodity-related opportunities, both the use of buy/sells and the longer-term cycling of natural gas through the Bayhurst storage facility at Beacon Hill, remain the most financially attractive growth initiatives affecting bottom-line performance.

OUR SERVICE						
Strategic Measure	2009 Actual	2010 Actual	2010 Target	2011 Target	2012 Forecast	2013 Forecast
<b>Reliability Index<sup>1</sup></b>						
SaskEnergy	8.2	8.2	9.0	9.0	9.0	9.0
TransGas	9.7	9.0	9.2	9.5	9.5	9.5
<b>Customer Satisfaction</b>						
SaskEnergy	88%	91%	85%	85%	85%	85%
TransGas	96%	93%	85%	85%	85%	85%
<b>SaskEnergy Response Time Index<sup>1</sup></b>	9.8	9.4	9.0	9.0	9.0	9.0
<b>TransGas Emergency Index<sup>1</sup></b>	9.3	9.3	9.5	9.5	9.5	9.5

<sup>1</sup> For the 2011 Business Plan, a new Safe and Reliable Index measure was created to reflect an index comprised of indicators related to service reliability, safety and response times.

Note: For the 2011 Business Plan, Distribution and TransGas efficiency measures related to Operations, Maintenance & Administration, and competitive rates, have been created.

### Reliability Index

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

### SaskEnergy

In 2010, SaskEnergy achieved a Reliability Index rating of 8.2, falling short of the target of 9.0. The severe weather conditions of 2010 and the high volume of customer activity were mitigating factors in overall performance. Of the 68 incidents that resulted in 372 customer outages this year, 54 of them were caused by third parties, 13 related to SaskEnergy system issues and one incident was caused by internal operator error.

### TransGas

With a year end score of 9.0, TransGas did not meet its 2010 Reliability Index target of 9.2. The score was primarily impacted by the timely completion of maintenance activities and the number of unplanned outages that affected customers. Repairs on compressor units with available backup compression were deferred so that higher priority work could be addressed. TransGas also incurred delays in completing scheduled preventive maintenance due to abnormal weather conditions. In 2010, TransGas experienced four unplanned outages, which affected a total of seven customers for durations ranging from approximately two hours to just under 24 hours. TransGas is working hard to eliminate unplanned outages and avoid any impact to customers.

To help ensure a safe and reliable system, TransGas completed 55 major pipeline integrity projects this year. These projects consisted of numerous surveys, direct examinations of facilities and In-Line Inspections (ILI) of pipelines. Pipeline repairs were conducted at four locations where ILI information was confirmed by direct inspection, thus improving the safe and reliable service levels on these pipelines. Both of these types of inspections help to extend the life of the system, ensuring its reliability and lowering its overall risk.

### Customer Satisfaction

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

### SaskEnergy

In 2010, SaskEnergy exceeded its customer satisfaction target with 91 per cent of residential customers surveyed indicating their satisfaction with the Corporation as a 5, 6 or 7 (out of a total of 7), in a residential survey conducted by an independent Saskatchewan-based market research firm. The survey rates 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, applications, reliability and customer service excellence. In the 2010 survey, conducted in October, TransGas received a composite score of 4.7 out of a possible 5.0 rating. This score represents a 93 per cent level of customer satisfaction, well above the 85 per cent target.

### SaskEnergy Response Time Index

The Response Time Index is based on three key measurables – average response time for all calls, per cent of calls responded to in one hour or less (for communities where SaskEnergy staff is located) and per cent of calls responded to in 1.5 hours or less (for all other locations).

In 2010, the overall index rating was 9.4, which exceeded the target of 9.0. SaskEnergy responded to 97 per cent of urban calls within one hour and 96 per cent of rural calls within 1.5 hours. However, it is important to note that, where customer response exceeds one hour, situations are evaluated and, if necessary, contingent actions are taken to ensure customer safety is not compromised. These positive results can be attributed to effective emergency response, use of technology and appropriate staff deployment.

### TransGas Emergency Index

The TransGas Emergency Index rating is based upon a number of leading and lagging indicators that are averaged to produce a corporate result. The leading indicators include the percentage of completed emergency equipment checks, maintenance, exercises and number of presentations to first responders about high pressure natural gas facilities. The lagging indicators include the number of line hits, environmental spills, and emergencies where the response was not in accordance with corporate procedure.

In 2010, TransGas was slightly below target with an Emergency Index rating of 9.3. Although the rise in provincial construction activity contributed to an abnormally high number of line hits this year (three), none of these incidents resulted in a line break or venting of gas.

### Our Service Outlook

Maintaining the balance between competitive rates and customer satisfaction in a growing economy must necessarily focus the company on an effective and efficient service delivery model, looking carefully at technology and business processes. The focus of achieving \$5 million in productivity gains in 2011 will need to be supported through continued opportunities for partnerships and utilization of private sector expertise and capacity.

Through modifying internal/external resource strategies, technology and external supplier procurement, the Corporation is targeting a balance between growth and efficiencies.

At the same time, the focus on maintaining the safe and reliable operation of the Corporation's 80,000-kilometre pipeline system will remain paramount. A sophisticated system integrity program has been developed and is being managed at stable annual costs of approximately \$28 million, an extremely effective level considering the \$1.6 billion asset base of the company.

Continued elevation of public safety and line locate requests, which have risen by 56 per cent in the period from 2004-2010, also will demand a continued focus on safety education programs as well as timely safety and emergency response.

Customer satisfaction and high levels of safety outcomes will be key metrics for evaluating SaskEnergy's performance relative to the Crown priority of "high quality, accessible and affordable" service. The Corporation believes it is possible to achieve these goals in the context of stable rates for 2011 and a stable employee complement, balanced by greater private sector support.

OUR PEOPLE						
Strategic Measure	2009 Actual	2010 Actual	2010 Target	2011 Target	2012 Forecast	2013 Forecast
<b>Environmental</b>						
Hay Group Survey	Second Quartile	Second Quartile	Top Quartile	At or above Hay Survey Norm	At or above Hay Survey Norm	At or above Hay Survey Norm
<b>Representative Workforce<sup>1</sup></b>						
First Nations/Métis	13.8%	14.3%	15.5%	15.5%	16.0%	16.5%
Women in Supervisory Roles <sup>2</sup>	36.2%	38.8%	36.5%			
Youth	16.9%	16.0%	16.0%	17.0%	17.0%	17.0%
People with Disabilities	3.5%	3.8%	4.5%	4.0%	4.0%	4.0%
Visible Minorities	3.8%	3.5%	4.5%	4.5%	5.0%	5.5%
Diversity Hires <sup>3</sup>	29.3%	36.6%	40.0%			
<b>Physical Safety</b>						
Lost Time Frequency Rate <sup>4,5</sup>	Fourth Quartile	Third Quartile	Top Quartile	Second Quartile	Second Quartile	Second Quartile
Medical Aid Frequency Rate <sup>4,5</sup>	Second Quartile	Top Quartile	Top Quartile			
Preventable Vehicle Collision Frequency Rates <sup>4</sup>	Second Quartile	Second Quartile	Top Quartile	Top Quartile	Top Quartile	Top Quartile

<sup>1</sup> The Saskatchewan Human Rights Commission (SHRC) goals for the respective groups, based on 2009 Saskatchewan workforce data are: Aboriginal – 14.8%; Women – 47.0%; People with Disabilities – 9.7%; Visible Minorities – 3.1%. The SHRC does not categorize youth as a target group for workforce diversity.

<sup>2</sup> This measure has been discontinued for the 2011 Business Plan, and a measure related to Women in Underrepresented Positions has been created.

<sup>3</sup> This measure has been discontinued for the 2011 Business Plan.

<sup>4</sup> Quartile refers to ranking relative to other Canadian Gas Association and Canadian Energy Pipeline Association companies.

<sup>5</sup> For the 2011 Business Plan, the measure has been combined into a Reportable Injury Rate measure.

### Employee Satisfaction

SaskEnergy recognizes the direct correlation between engaged employees and a successful organization. With this in mind, the Corporation participates in the Hay Group Survey each year. 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 2010, SaskEnergy conducted an interim mini-survey as a pulse check between major surveys. While the results placed the company in the second quartile of companies participating in the Hay Group Survey, a vast majority of employees continue to take great pride in working for SaskEnergy and would recommend SaskEnergy as a place to work to friends and family (79 per cent favourable). In general, the results are similar to those of the 2009 survey, with a slight decline in some important areas, such as "Communication" and "Recognition", which is attributed to the impact of elevated work activity related to growth as well as technological and organizational changes taking place throughout the company. Plans are in place for actions to address employees' feedback and continue to build employee engagement throughout the Corporation.

### Representative Workforce

To help achieve representative workforce targets, SaskEnergy works together with many community-based organizations, including three Saskatchewan Tribal Councils, the Regina Open Door Society, Saskatchewan Independent Living Centre and the Saskatchewan Visible Minority Employees Association. This year, SaskEnergy's partnership with the Saskatchewan Indian Institute of Technologies and the Dumont Technical Institute in the Aboriginal Trades Development Program resulted in seven new employees.

In 2010, SaskEnergy continued its focus on diversity, as reflected by the fact that diversity candidates made up nearly 37 per cent of overall external hires, despite slower activity in the first half of the year. Overall, the company finished slightly below its 2010 Representative Workforce targets, with the exception of the Youth category, where SaskEnergy met its target of 16 per cent. However, the company increased its workforce composition in the Aboriginal and People with Disabilities categories slightly (0.5 per cent and 0.3 per cent, respectively) from 2009.

### Physical Safety

Every day, 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, compared to its industry peers.

In 2010, SaskEnergy's safety performance included an impressive 41 per cent reduction in lost time injuries, a 39 per cent reduction in medical aids and a 34 per cent reduction in preventable vehicle collisions. As a result, the company's Total Recordable Injury Frequency Rate, a measure that involves lost time injuries, medical aids and hours worked, was its lowest in 14 years. Top quartile is set as a target, recognizing that a safety focus is imperative. While SaskEnergy reached top quartile in only one of the three measured safety areas, the company's 2010 safety results were successful.

2010 also marked the eighth consecutive year that SaskEnergy/TransGas conducted a Safety Stand Down Week. This safety initiative is a designated time for Executive members, including the President and CEO, to visit various locations throughout the Corporation and talk about safety issues with all employees.

This year's theme was "Safety Starts With Me", and 32 sessions, facilitated by Executive members, were held at various locations in April.

As well, SaskEnergy was one of the Province's business and community leaders to officially sign Saskatchewan's first Health & Safety Leadership Charter in 2010. The company was also recognized by the Saskatchewan Safety Council for its involvement in developing and implementing a training program on how to combat natural gas-related fires.

### **Our People Outlook**

Building and maintaining a strong employee, management and leadership team, one which is both diverse and equipped to face the demographic challenge of the future, is critical to SaskEnergy's success. The employee team will be expected to manage and embrace change while operating within corporate FTE targets and an environment of efficiency capture within SaskEnergy.

As a recognized "top employer", with a responsive and customer-centric internal culture, SaskEnergy is starting from a strong position. To continue building employee engagement, good management practices, such as an ongoing structured approach to workplace renewal and succession planning, a strong commitment to training, and good accountability and recognition practices will need to be maintained. SaskEnergy recognizes the leadership of the CEP Union and employees in collaboratively working with the company on business issues and the impact of technological change to achieve productive solutions together.

Significant cultural renewal has already occurred within the organization over the past few years, as SaskEnergy has moved to stronger representative positions regarding Aboriginal and youth demographics. Additional management focus will be

necessary to cement further gains in other mandated areas such as visible minorities and people with disabilities. With retirements of a significant portion of the workforce likely over the next five to seven years, transition of knowledge, particularly relative to the Corporation's efforts to ensure safe and reliable service, will be critical. The Competency Assessment Plan program, which will ensure field employees are trained in necessary tasks, will be a core component of these efforts in 2011 and beyond.

Levels of employee engagement are ultimately reflected in customer service satisfaction levels, which remain strong for both SaskEnergy and TransGas. However, the Corporation recognizes that the continued changes to the composition of the SaskEnergy workforce and how it delivers service will continue to make employee engagement a priority. SaskEnergy is committed to moving closer to a fully representative workforce through continued recruitment of Aboriginals, youth, women in supervisory roles, visible minorities and people with disabilities

SaskEnergy is committed to managing demographic and resource optimization change with the resolve of continuing to demonstrate focus on keeping a motivated and productive employee team that delivers high quality service in a safe and reliable manner.

## **STAKEHOLDER ENGAGEMENT**

Strong two-way communications models support the achievement of business and corporate results at SaskEnergy. The Corporation is committed to rigorous and professional communications practices that support the principles of timeliness, openness and transparency with its stakeholder.

Details on SaskEnergy's stakeholder engagement practices, as they pertain to Customer and Public Communications, Shareholder Communications,

Project-based Communications, Regulatory Communications, and Employee Communications, respectively, are available on the SaskEnergy website: [http://www.saskenergy.com/about\\_saskenergyannual\\_report/documents/2010/StakeholderEngagement.pdf](http://www.saskenergy.com/about_saskenergyannual_report/documents/2010/StakeholderEngagement.pdf).

## 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. SaskEnergy's approach to risk management is to take only those risks which it has appropriate resources, expertise and financial capacity to manage. The major risks, their potential impact on business and SaskEnergy's risk management strategies are discussed below.

### Natural Gas Price Risk

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. 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. 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 strategy. Also, SaskEnergy accumulates differences between the cost of gas sold and its rate in a Gas Cost Variance Account, which may be recovered from or refunded to customers in subsequent periods.

SaskEnergy also buys and sells natural gas as part of its gas marketing activities and may be exposed to price movement. Natural gas price risk is subject to the commodity risk management policy, which establishes a control framework to manage these risks.

### Winter Weather

In Saskatchewan, variability in winter weather temperature has a direct impact on the volume of natural gas consumed by distribution customers. Every 10 per cent change in heating degree days affects SaskEnergy's distribution revenue by approximately \$7 million. 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.

### Operational Risk

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 service interruption or financial loss. Operational risks threaten service reliability as well as employee and public safety. 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 customers' demand even in the event of disruption.

### Regulatory Risk

The rates the Corporation may charge its customers are determined by a regulatory process. The recommendations of the regulatory body (SRRP) and the decisions by Provincial Cabinet have a direct effect on the financial results of the Corporation. The impact of a one per cent differential between a delivery rate

increase request and an approved delivery rate is approximately \$2 million. SaskEnergy follows standard regulatory principles in designing rates and operating its system and presents these practices to the regulator in its rate applications.

### **Execution Risk**

A shortage of manpower or expertise adversely affects SaskEnergy's ability to properly assess or implement an effective business development strategy. This could result in growth opportunities that are less profitable than the 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**

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. This could delay and increase costs of construction projects. SaskEnergy works proactively with landowners and other interest groups to identify and develop appropriate responses to concerns regarding its project program.

### **Interest Rate Risk**

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 thousand. 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 and cash flow liquidity shortfalls in any single year.

SaskEnergy may also use financial instruments to hedge short-term debt from changes in interest rates.

### **Declining System Throughput**

Over the past few years, Saskatchewan natural gas production has experienced declines resulting in lower volumes of natural gas being exported from the Province and, thus, lower volumes of throughput on the transmission system. Saskatchewan is on the verge of becoming a net importer of natural gas. As a result, total system throughput will likely experience modest growth consistent with a growing provincial economy, thus reducing the risk of declining system throughput to that of periods of provincial economic contraction.

On the distribution system, conservation initiatives have reduced the average volume of natural gas used per customer. As usage per customer declines, fixed costs of the distribution system are recovered over lower sales volumes. SaskEnergy incorporates an assumption for declining usage per customer in its revenue forecasts and rate-setting process.

### **Credit Risk**

Credit risk relates to the failure of a counterparty to fulfill contractual obligations due to financial distress such as bankruptcy and insolvency. SaskEnergy mitigates credit risk by constantly reviewing the creditworthiness of large customers and counterparties, limiting the maximum amount of credit extended to any party and continually monitoring its customer and counterparty credit. Additionally, credit checks and reviews are performed before any transactions are completed, and parties judged to have inadequate credit are required to post security. The amount of credit extended to individual counterparties is limited so that the annual expected loss should average less than \$3 million and should never exceed \$30 million in a single year.

### Environmental Risk

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. Federal GHG conventions present risk to SaskEnergy because methane, the largest component of natural gas, is considered a GHG. 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. SaskEnergy is working to reduce its GHG emissions to limit its impact on the environment and to manage the financial risks associated with this potential environmental issue.

### Provincial Economy

SaskEnergy has the franchise rights to provide distribution service to customers within Saskatchewan. SaskEnergy currently serves more than 92 per cent of all communities in Saskatchewan. 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. SaskEnergy has cost containment strategies to ensure that rising construction and maintenance costs do not significantly exceed the growth of the system. 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.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation prepares its consolidated financial statements in accordance with GAAP. In the application of the Corporation's accounting policies, which are described in the notes to the consolidated financial statements, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and any future periods affected. The Corporation's critical accounting policies and estimates have been summarized below.

### Net Realizable Value of Natural Gas in Storage

The Corporation's natural gas in storage is valued at the lower of cost and net realizable value. In order to determine the net realizable value, the Corporation uses quoted future market prices based on anticipated delivery dates. When determining delivery dates, the Corporation considers future natural gas contracts, management's intention and the Corporation's ability to withdraw natural gas from storage. At year end, the revaluation of natural gas in storage was \$21 million. A \$0.25 per GJ change in the net realizable value would have increased/decreased the revaluation of natural gas in storage by \$13 million.

### Fair Value of Derivative Instruments

The Corporation uses various natural gas derivative instruments to manage the risk of natural gas price fluctuations. Prior to settlement, SaskEnergy records all natural gas derivative instruments at fair value. At year end, the Corporation had outstanding physical contracts and swaps with the fair values determined using quoted market prices. Given fluctuations in natural gas prices, fair value adjustments vary throughout the length of the contract. In valuing each derivative instrument, assumptions are also made regarding the credit quality of counterparties. At year end, a \$1.00 per GJ change in natural gas prices would have increased/decreased the fair value adjustment by \$29 million.

### Amortization

Intangible assets and 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 intangible assets and property, plant and equipment are amortized on a straight-line basis over the estimated service life of the asset. The estimated service lives are based on depreciation studies with annual reviews for reasonableness. Any resulting changes in the estimated service life of an asset are treated as prospective adjustments to amortization.

### Employee Future Benefits

For the Corporation's pension plans, its obligation is limited to making contributions for employees' current service. However, the Corporation also has an unfunded defined benefit retiring allowance plan, of which the accrued benefit liability must be actuarially determined using the projected benefit method on an annual basis. In doing so, a number of actuarial assumptions are adopted, including wage and salary escalation, age at retirement and discount rates. Market rates are used to measure the accrued benefit obligation. Through an independent actuary, the accrued benefit obligation at December 31, 2010 was \$14 million, which was consistent with the amount determined in 2009.

### Asset Retirement Obligations

In order to determine the Corporation's asset retirement obligations, the future costs of decommissioning certain natural gas facilities must be estimated, as well as the timing of these costs. The timing of future decommissioning is conditional upon the Corporation's intended use for these facilities. At year end, the Corporation's asset retirement obligations were \$8 million.

### Unbilled Revenue

Commodity sales and delivery revenues are recognized when natural gas is delivered to customers. SaskEnergy recognizes an estimate of the volume of natural gas delivered but not billed, as it is impracticable to read all customer meters on December 31 of each year. The volume of unbilled sales is determined by comparing the estimated total volume of natural gas that entered the distribution system to the 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, 2010 the unbilled revenue related to commodity sales and delivery revenue was \$50 million.

## FUTURE ACCOUNTING CHANGES

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 has approved an amendment to the scope of public sector accounting standards. The amendment confirms that Government Business Enterprises, including SaskEnergy, will be required to follow IFRS for periods beginning on or after January 1, 2011. This will allow for a comparison of similar entities in the public and private sector.

In addition, the Canadian Accounting Standards Board (AcSB) announced that it would defer mandatory adoption of IFRS for qualifying entities with rate-regulated activities. This includes many of the Corporation's peers in the natural gas distribution utility and pipeline industries. Under the AcSB's proposal, such entities have the option to defer adoption of IFRS until January 1, 2012 as the use of regulatory accounting is currently being reviewed by the International Accounting Standards Board, and any changes may significantly affect the IFRS financial statements of rate-regulated entities. SaskEnergy does not qualify for this deferral, as it is not considered an independently regulated utility.

As part of the IFRS conversion project, SaskEnergy developed a detailed IFRS implementation plan. An external advisor was engaged to assist with project development and implementation. The advisor supported SaskEnergy in performing a detailed review of major differences between current Canadian GAAP and IFRS. SaskEnergy has determined its accounting policies and the impact IFRS will have on SaskEnergy's

financial position, operational results and financial statement disclosures. In conjunction with evaluating the accounting standards, SaskEnergy's information technology and data systems were reviewed to determine their capability to provide the information required by IFRS. Modifications have been made to certain processes and systems to ensure transactions are recorded in accordance with IFRS. Management and staff from SaskEnergy have participated in IFRS training seminars. Board members have been briefed on IFRS, participated in high-level training and reviewed and approved project plans.

The Corporation has quantified the January 1, 2010 (the Corporation's date of transition to IFRS) opening balances under IFRS. Senior management and the Board of Directors, through the Audit and Finance Committee, have approved SaskEnergy's IFRS accounting policies. However, IFRS are evolving and may be different at the time of transition. SaskEnergy will continue to monitor and evaluate these changes.

On the date of transition to IFRS, the impact on SaskEnergy's equity is anticipated to be as follows:

(millions)	As at January 1, 2010	
<b>Province's equity under Canadian GAAP</b>	<b>\$</b>	<b>475</b>
1. Deemed cost		7
2. Major inspections		(3)
3. Decommissioning liabilities		(7)
4. Customer capital contributions		158
5. Cumulative translation differences		-
<b>Province's equity under IFRS</b>	<b>\$</b>	<b>630</b>

The differences between Canadian GAAP and IFRS that will have an impact on the Corporation's consolidated financial position are anticipated to be as follows:

Accounting Difference	Canadian GAAP	IFRS	Financial Statement Impact on the Date of Transition to IFRS
1. Deemed Cost	The Corporation uses historical cost as the basis of measurement for all items of property, plant and equipment (PPE).	IFRS 1 <i>First-time Adoption of IFRS</i> provides an optional election to use the fair value of an item of PPE as at the date of transition to IFRS as its deemed cost.	The Corporation plans to apply the optional election to certain items of PPE.  This change is expected to increase both PPE and retained earnings by \$7 million.
2. Major Inspections	The Corporation recognizes the cost of the initial major inspection and overhaul in the carrying amount of PPE and amortizes that cost over the life of the related asset. Subsequent inspections and overhauls are expensed as incurred.	Under IAS 16 <i>PPE</i> the cost of all major inspections and overhauls are capitalized and depreciated over the period between inspections and overhauls. The carrying amount of the previous inspection or overhaul, if any, is derecognized.	This change is expected to decrease both PPE and retained earnings by \$3 million.
3. Decommissioning Liabilities	The Corporation recognizes an asset retirement obligation when a legal obligation exists. Any decommissioning costs related to constructive obligations are expensed as incurred.	Under IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> decommissioning liabilities are recognized when, as a result of a past event, there is a legal or constructive obligation. A constructive obligation exists where there is a valid expectation, based on past practice or published policies, that an entity will accept certain responsibilities.  In addition, IFRIC 1 <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i> requires specified changes in a decommissioning, restoration or similar liability to be added or deducted from the cost of the asset to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. IFRS 1 provides an optional election, which exempts an entity from retrospectively applying IFRIC 1.	The Corporation plans to apply the optional election and not retrospectively apply IFRIC 1.  This change is expected to increase PPE by \$1 million, increase asset retirement obligations by \$8 million and decrease retained earnings by \$7 million.

Accounting Difference	Canadian GAAP	IFRS	Financial Statement Impact on the Date of Transition to IFRS
4. Customer Capital Contributions	The Corporation includes customer capital contributions in PPE and amortizes these contributions on a straight-line basis over the estimated useful life of the related asset.	Under IFRIC 18 <i>Transfer of Assets from Customers</i> , customer capital contributions are recognized as revenue, either immediately or over a specified period. If only one service is identified, the entity recognizes the revenue when the service is performed. If an ongoing service is identified, the revenue is recognized over the period specified by the agreement. If the agreement does not specify a period, the revenue is recognized over a period no longer than the useful life of the related asset.	Customer capital contributions relate to the initial connection to the Corporation's distribution and transmission systems and will be recognized as revenue once the related PPE is available for use. This change is expected to increase PPE by \$188 million, decrease accounts payable by \$14 million, increase deferred revenue by \$44 million and increase retained earnings by \$158 million.
5. Cumulative Translation Differences	On translation of a foreign operation certain exchange differences are recognized in accumulated other comprehensive income. On subsequent disposal of the foreign operation, the accumulated translation differences related to the foreign operation are recognized in net income for the period as part of the gain or loss on disposal.	Similar to Canadian GAAP, IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> requires certain exchange differences on translation of a foreign operation to be recognized as a separate component of equity that is recognized in net income as part of the gain or loss on disposal.  IFRS 1 permits an optional election, which exempts an entity from retrospectively applying IAS 21. Any translation difference calculated under Canadian GAAP is reset to zero at the date of transition to IFRS.	The Corporation plans to apply the optional election and not retrospectively apply IAS 21.  This change is expected to eliminate the accumulated other comprehensive loss of \$4 million and decrease retained earnings by \$4 million.

## CONTROLS AND PROCEDURES

The Corporation continued its process of CEO/CFO Certification of Financial Statements, which it began in 2009. This process was designed under the supervision and with the participation of Executive and financial managers to provide reasonable assurance regarding the reliability of financial reporting. This process requires an ongoing assessment of the effectiveness of the Corporation's internal controls over financial reporting,

including the monitoring and reporting of remediation efforts. Based on the results of this assessment, management has provided reasonable assurance in Management's Responsibility for Financial Statements that the Corporation maintained effective internal control over financial reporting as at December 31, 2010.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

### Financial Reporting

The accompanying consolidated financial statements are the responsibility of the management of SaskEnergy Incorporated. They have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments where appropriate. Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the financial statements and all other financial information contained in this annual report.

The Corporation's Board of Directors (the Board) is responsible for ensuring that management fulfills its responsibilities for financial reporting and control. The Board is assisted in exercising its responsibility through its Audit and Finance Committee (the Committee). The Committee is composed of Directors who are not employees of the Corporation. The Committee reviews the annual report and meets regularly with management, internal audit and external auditors to discuss internal controls, accounting, auditing and financial matters. The Committee recommends the appointment of the external auditors. The Committee reports its findings to the Board for its consideration in approving the consolidated financial statements.

### Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining a system of internal controls, policies and procedures designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial statements. The internal control system includes an internal audit function and an established code of conduct.

Through the Corporation's process of CEO/CFO Certification of Financial Statements, management assessed the effectiveness of the Corporation's internal control over financial reporting as at December 31, 2010, 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 control over financial reporting and that there were no material weaknesses in internal controls over financial reporting as at December 31, 2010.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, as appointed by the Lieutenant Governor in Council and approved by CIC. The Auditor's Report expresses their opinions on the fairness of the financial statements prepared by management.

[Original signed by D. Kelln]  
Doug Kelln  
President and Chief Executive Officer

[Original signed by D. Terry]  
Dennis Terry  
Vice President, Finance and Chief Financial Officer

February 24, 2011

## 50 INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the accompanying consolidated financial statements of SaskEnergy Incorporated and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statements of income and retained earnings, comprehensive income and accumulated other comprehensive loss and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respect, the financial position of SaskEnergy Incorporated and its subsidiaries as at December 31, 2010, and their financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Deloitte & Touche LLP]

Chartered Accountants

Regina, Saskatchewan

February 24, 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31

(millions of dollars)	Notes	2010	2009
<b>Assets</b>			
Current assets			
Cash		\$ 1	\$ -
Accounts receivable	4	113	128
Natural gas in storage held for resale	5	247	258
Inventories of supplies	6	8	9
Debt retirement funds	7	-	9
Fair value of derivative instruments	8	79	52
		448	456
Intangible assets	9	18	15
Property, plant and equipment	10	1,057	1,004
Natural gas in storage held for resale and operations	5	33	34
Debt retirement funds	7	59	48
Investments	11	29	30
		\$ 1,644	\$ 1,587
<b>Liabilities and Province's Equity</b>			
Current liabilities			
Bank indebtedness		\$ -	\$ 1
Short-term debt	12	239	108
Accounts payable	13	135	141
Dividends payable		22	21
Current portion of long-term debt	14	-	80
Fair value of derivative instruments	8	63	38
		459	389
Asset retirement obligations	15	8	8
Long-term debt	14	715	715
		1,182	1,112
Province of Saskatchewan's equity			
Retained earnings		394	406
Accumulated other comprehensive loss	16	(4)	(3)
		390	403
Equity advances	17	72	72
		462	475
		\$ 1,644	\$ 1,587

Commitments and contingencies 18

(See accompanying notes)

On behalf of the Board:

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## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Years ended December 31

(millions of dollars)

	Notes	2010	2009
<b>Revenue</b>			
Commodity sales		\$ 276	\$ 451
Gas marketing sales		386	446
Delivery		185	184
Transportation and storage		77	80
Revenue collected for municipalities	19	19	26
Other	20	9	10
		952	1,197
<b>Expenses</b>			
Commodity cost of gas sold		306	418
Gas marketing cost of gas sold		329	417
Operating and maintenance		156	148
Interest	21	37	43
Amortization	22	59	57
Payment to municipalities	19	19	26
Saskatchewan taxes	23	9	8
		915	1,117
<b>Net income from continuing operations</b>		37	80
Gain on sale of investment	24	-	8
Net income from discontinued operations	24	-	5
<b>Net income</b>		37	93
<b>Retained earnings, beginning of year</b>		406	364
Dividends		(49)	(51)
<b>Retained earnings, end of year</b>		\$ 394	\$ 406

(See accompanying notes)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Years ended December 31

(millions of dollars)

	2010	2009
<b>Net income</b>	\$ 37	\$ 93
<b>Other comprehensive loss</b>		
Unrealized loss on translating financial statements of self-sustaining foreign operations	(1)	-
<b>Comprehensive income</b>	\$ 36	\$ 93

## CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE LOSS

Years ended December 31

(millions of dollars)

	2010	2009
<b>Accumulated other comprehensive loss, beginning of year</b>	\$ (3)	\$ (3)
Other comprehensive loss	(1)	-
<b>Accumulated other comprehensive loss, end of year</b>	\$ (4)	\$ (3)

(See accompanying notes)

## 54 CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31

(millions of dollars)

	Notes	2010	2009
<b>Operating Activities</b>			
Net Income		\$ 37	\$ 93
Add (deduct) items not requiring an outlay of cash			
Amortization	22	59	57
Revaluation of natural gas in storage held for resale	5	21	-
Change in fair value of derivative instruments	8	(2)	(31)
Debt retirement funds earnings	7	(4)	(3)
Change in fair value of debt retirement funds	7	(1)	1
Equity earnings	20	-	(3)
Gain on sale of investment	24	-	(8)
		110	106
Net change in non-cash working capital related to operations	25	(6)	(25)
Decrease in natural gas in storage - non-current		1	1
Cash provided by operating activities from continuing operations		105	82
Cash used in discontinued operations	24	-	(7)
Cash provided by operating activities		105	75
<b>Investing Activities</b>			
Additions to property, plant and equipment		(132)	(128)
Capital contributions and deposits received		31	31
Additions to intangible assets		(8)	(2)
Proceeds on sale of investment	24	-	73
Cash used in investing activities		(109)	(26)
<b>Financing Activities</b>			
(Decrease) increase in bank indebtedness		(1)	1
Increase (decrease) in short-term debt		131	(55)
Proceeds from long-term debt		-	83
Repayments of long-term debt		(80)	(39)
Debt retirement funds installments	7	(7)	(7)
Debt retirement funds redemptions	7	10	-
Dividends paid		(48)	(36)
Cash provided by (used in) financing activities		5	(53)
Increase (decrease) in cash during the year		1	(4)
Cash position, beginning of year		-	4
Cash position, end of year		\$ 1	\$ -

(See accompanying notes)

## 1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*. The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC. As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

## 2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of SaskEnergy and its direct and indirect wholly owned subsidiaries: Bayhurst Gas Limited, Bayhurst Energy Services Corporation, BG Storage Inc., Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., Swan Valley Gas Corporation and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership and 50 per cent proportionate shares of the Kisbey Gas Gathering and Processing Facility and the Totnes Natural Gas Storage Facility, each an unincorporated joint venture.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The impact of rate regulation on the application of GAAP is described in note 28. The following accounting policies are considered to be significant:

### a. Use of estimates

In the application of the Corporation's accounting policies, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. Significant areas requiring the use of estimates and assumptions include revenue recognition related to unbilled revenue, net realizable value of natural gas in storage held for resale, fair value of financial and derivative instruments, service lives and amortization rates of property, plant and equipment and intangible assets, employee future benefits and underlying actuarial assumptions and future costs of decommissioning liabilities. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

### b. Natural gas in storage

Natural gas in storage is valued at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Net realizable value is determined using near month and forward natural gas market prices based on anticipated delivery dates.

### c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are valued at the lower of weighted average cost and net realizable value. Replacement value is used as management's best estimate of net realizable value.

**56 2. Summary of Significant Accounting Policies (continued)****d. Financial instruments**

SaskEnergy classifies its financial instruments into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale and other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired, at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount of the financial instrument.

The Corporation utilizes a variety of derivative instruments to manage its exposure to interest rate, foreign exchange rate and natural gas price risk. Derivatives are initially recognized at fair value at the date the derivative contract is entered.

Interest rate swaps and foreign currency forward contracts may be designated as cash flow hedges. For interest rate swaps used to hedge long-term debt, the effective portion of changes in the fair value is recognized in other comprehensive income, while any gains and losses related to the ineffective portion are recognized immediately in interest expense. Amounts previously recognized in other comprehensive income are reclassified to net income as interest expense when the hedged debt is settled. For foreign currency forward contracts used to hedge capital expenditures denominated in a foreign currency, gains or losses are recognized in other comprehensive income and reclassified to net income as amortization expense over the life of the related asset.

Derivative instruments not designated as a hedge are classified as held-for-trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 8c.

Derivatives may be embedded in other instruments. The Corporation utilizes natural gas sales contracts with embedded derivatives for non-regulated contract sales to large end-use customers. Embedded derivatives are recorded at fair value on the statement of financial position with subsequent changes recognized in net income.

In measuring fair value, the Corporation classifies its financial and derivative instruments according to the following fair value hierarchy, based on the amount of observable inputs:

- i. Level 1 - Quoted prices are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. The Corporation does not use Level 1 inputs for any of its recurring fair value measurements.

**2. Summary of Significant Accounting Policies (continued)**

- ii. Level 2 - Pricing inputs are other than quoted prices in active markets included within Level 1. Prices in Level 2 are either directly or indirectly observable as at the reported date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace. The Corporation uses Level 2 inputs for all its recurring fair value measurements, including debt retirement funds and derivative instruments.
- iii. Level 3 - Valuations in this level are those with inputs which are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value. The Corporation does not use Level 3 inputs for any of its recurring fair value measurements.

For derivative instruments, the fair value is discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the instrument. The fair value also reflects the credit risk of the instrument and includes adjustments to account for the credit risk of the Corporation and counterparty when appropriate.

## e. Intangible assets

Intangible assets are computer software and are stated at cost that includes all direct costs related to the development of the assets and interest costs related to financing development of the assets. Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are 8.3 to 20.0 per cent.

## f. Property, plant and equipment

Property, plant and equipment is stated at cost that includes all direct costs related to the development of the assets and interest costs related to financing construction of the assets. The costs of renewals and betterments that extend the service life of an asset are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by removing the cost of the asset and the related accumulated amortization. The difference between the proceeds and the carrying amount of the asset is included in net income. Other asset retirements are accounted for by removing the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates (per cent) are as follows:

Distribution	2.1 to 4.0
Transmission and storage	2.5 to 2.6
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	2.5 to 16.4
Computer hardware	20.0 to 33.3

Customer capital contributions are paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established policies. These contributions from customers are netted against property, plant and equipment and are amortized on a straight-line basis over the estimated service life of the related asset.

**58 2. Summary of Significant Accounting Policies (continued)**

## g. Investments

The Corporation accounts for its investments in Gas Sur S.A. and IGASAMEX USA Ltd. using the equity method.

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss.

## h. Asset retirement obligations

Where a legal obligation exists, the Corporation recognizes the fair value of its asset retirement obligations relating to the future decommissioning of certain natural gas facilities as a liability in the period in which the obligation is incurred, provided a reasonable estimate of fair value can be determined. The liability is increased annually for the passage of time through accretion expense. The asset retirement cost is added to the carrying amount of the related asset and amortized over the estimated service life of the related asset.

## i. Revenue recognition

## i. Delivery and commodity

Revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered but not billed is included in revenue.

## ii. Gas marketing

Revenue is recognized when natural gas is delivered to customers. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale and assuming the risks and rewards of ownership.

## iii. Transportation and storage

Revenue is recognized when transportation, storage and related services are provided to customers. An estimate of transportation, storage and related services rendered but not billed is included in revenue.

## iv. Other

Royalty revenue is recognized when natural gas from wells subject to royalty agreements is delivered to customers. Natural gas and liquid sales are recognized when natural gas and natural gas liquids are delivered to customers.

## j. Cost of gas sold

Cost of gas sold includes the cost of purchasing natural gas in the open market, financial and derivative instrument settlements, fair value adjustments on financial and derivative instruments, transportation, direct operating costs related to supply acquisition and natural gas inventory carrying costs. Cost of gas sold also includes the revaluation and subsequent reversal of natural gas in storage held for resale, if any.

## 2. Summary of Significant Accounting Policies (continued)

### k. Employee future benefits

#### i. Pension plans

Eligible employees of the Corporation are members of either a defined contribution pension plan or a defined benefit pension plan. Under both multiemployer plans, the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are recognized in net income.

#### ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates. Any actuarial gains or losses are recognized in net income.

### l. Future accounting policy changes

The Canadian Institute of Chartered Accountants has confirmed that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to Canadian GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation will publish its first consolidated financial statements prepared in accordance with IFRS for the quarter ending March 31, 2011, along with comparative figures. The Corporation will also provide an opening balance sheet as at January 1, 2010, the date of transition to IFRS.

## 3. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe, reliable service to Saskatchewan residents, businesses and industries.

SaskEnergy finances its capital requirements through internally generated funds and injections of capital from the Province of Saskatchewan's General Revenue Fund, typically in the form of debt. Under *The SaskEnergy Act*, the Corporation may borrow up to \$1,700 million of debt upon approval of the Lieutenant Governor in Council (2009 - \$1,300 million). At year end, SaskEnergy had \$954 million of debt outstanding (2009 - \$904 million) and authority to borrow an additional \$161 million of temporary loans (2009 - \$292 million), including a \$35 million uncommitted line of credit with Toronto-Dominion Bank (2009 - \$35 million).

The Corporation borrows all of its capital, with the exception of occasional overnight loans from the Toronto-Dominion Bank, from the Province of Saskatchewan (the Province). SaskEnergy's borrowing requirements constitute a minor portion of the Province's total borrowings. Given the Province's strong credit rating, the Corporation was able to acquire all of its funding requirements during the year.

The Corporation monitors capital on the basis of the debt ratio. The long-term per cent debt ratio target is 65 per cent, which is consistent with the prior year and comparable to publicly traded natural gas pipeline and distribution utilities. The purpose of this strategy is to ensure that SaskEnergy's debt is self supporting and does not adversely affect the Province's access to capital markets. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year.

### 3. Capital Disclosure (continued)

The per cent debt ratio is calculated as net debt divided by end of year capitalization as follows:

	2010	2009
	(millions)	
Long-term debt	\$ 715	\$ 795
Short-term debt	239	108
Bank indebtedness	-	1
Debt retirement funds	(59)	(57)
Cash	(1)	-
Total net debt	894	847
Equity advances	72	72
Retained earnings	394	406
Total capital	\$ 1,360	\$ 1,325
	65.7%	63.9%

SaskEnergy complied with all externally imposed requirements on its capital for the year.

### 4. Accounts Receivable

	2010	2009
	(millions)	
Unbilled revenue	\$ 58	\$ 71
Trade accounts	50	47
Other receivables	6	11
	114	129
Allowance for doubtful accounts	(1)	(1)
	\$ 113	\$ 128

### 5. Natural Gas in Storage

The cost of natural gas in storage recognized as cost of gas sold during the year was \$519 million (2009 - \$695 million).

With the decline in natural gas market prices, the net realizable value of gas marketing natural gas in storage has fallen below cost. A \$21 million revaluation of natural gas in storage to net realizable value was recorded during the year (2009 - \$nil). If natural gas prices rise in the future, there will be a reversal of the revaluation. The revaluation of natural gas in storage is included in cost of gas sold. There was no reversal of any prior year revaluation during the year.

### 6. Inventories of Supplies

During the year, \$29 million of inventories of supplies (2009 - \$25 million) were recognized as operating and maintenance expense. There was no revaluation of inventories of supplies and no reversal of any prior revaluation during the year.

### 7. Debt Retirement Funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required, on an annual basis, to invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as debt retirement funds and are administered by Saskatchewan's Ministry of Finance. Debt retirement funds are held-for-trading assets and are recorded at fair value on the consolidated statement of financial position. The investment is returned to the Corporation upon maturity of the related debt.

## 7. Debt Retirement Funds (continued)

The investments held in debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 6.4 per cent for the year (2009 - 5.4 per cent).

The change in the carrying amount of debt retirement funds during the year was as follows:

	2010	2009
	(millions)	
Debt retirement funds, beginning of year	\$ 57	\$ 48
Installments	7	7
Redemptions	(10)	-
Earnings	4	3
Change in fair value	1	(1)
Debt retirement funds, end of year	\$ 59	\$ 57

As at December 31, 2010 amounts required to be invested in debt retirement funds in each of the next five years were as follows:

	2011	2012	2013	2014	2015
	(millions)				
Installments	\$ 7	\$ 7	\$ 7	\$ 6	\$ 6

## 8. Financial Instruments and Risk Management

### a. Financial instruments

Classification	2010		2009		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
	(millions)				
<b>Financial assets</b>					
Cash	HFT	\$ 1	\$ 1	\$ -	-
Accounts receivable	LAR	113	113	128	128
Debt retirement funds	HFT	59	59	57	57
<b>Financial liabilities</b>					
Bank indebtedness	HFT	-	-	1	1
Short-term debt	OL	239	239	108	108
Accounts payable	OL	135	135	141	141
Dividends payable	OL	22	22	21	21
Long-term debt	OL	715	839	795	889

Classification details:

HFT - held-for-trading

HTM - held-to-maturity

LAR - loans and receivables

AFS - available-for-sale

OL - other liabilities

**62 8. Financial Instruments and Risk Management (continued)**

The fair value of the above instruments is based on the following:

- i. Debt retirement funds - The market value of the investments held in debt retirement funds as determined by Saskatchewan's Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.
  - ii. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.
  - iii. Other financial instruments - The fair value of other financial instruments, including cash, accounts receivable, bank indebtedness, short-term debt, accounts payable and dividends payable, approximate their carrying amounts due to the short-term nature of these instruments.
- b. Natural gas derivative instruments

All natural gas derivative instruments are recorded on the consolidated statement of financial position at fair value. The fair value of natural gas derivative instruments, with the exception of natural gas price options, is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes. The fair value of natural gas price options is determined using the Garman-Kohlhagen model, which requires the use of various assumptions, including quoted market prices, interest rates and volatility estimates for forward natural gas prices that are based on external market sources.

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on contract price. For other derivative instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price.

As at December 31, 2010 natural gas derivative instruments had the following fair values, notional values and maturities:

	2011	2012	2013	2014	2015	Total
	(millions)					
<b>Physical natural gas contracts</b>						
Fair value	\$ -	\$ 1	\$ 1	\$ 2	\$ -	\$ 4
Notional value	(111)	11	3	13	3	(81)
<b>Natural gas price swaps</b>						
Fair value	(4)	5	10	1	-	12
Notional value	(4)	5	11	1	-	13
<b>Total</b>						
Fair value	\$ (4)	\$ 6	\$ 11	\$ 3	\$ -	\$ 16
Notional value	\$ (115)	\$ 16	\$ 14	\$ 14	\$ 3	\$ (68)

*Fair value - increase (decrease)*

*Notional value - estimated net cash inflow (outflow)*

**8. Financial Instruments and Risk Management (continued)**

The fair value of the Corporation's derivative instruments is presented on the consolidated statement of financial position as follows:

	<u>2010</u>	<u>2009</u>
	(millions)	
Fair value of derivative instrument assets	\$ 79	\$ 52
Fair value of derivative instrument liabilities	(63)	(38)
	<u>\$ 16</u>	<u>\$ 14</u>

## c. Fair value of financial and derivative instruments

As at December 31, 2010 the Corporation's fair value hierarchy for financial and derivative instruments, which was consistent with the prior year's classification, was as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(millions)			
Debt retirement funds	\$ -	\$ 59	\$ -	\$ 59
Fair value of derivative instrument assets	-	79	-	79
Fair value of derivative instrument liabilities	-	(63)	-	(63)

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category. The increase (decrease) in net income of these unrealized gains and losses was as follows:

	<u>2010</u>	<u>2009</u>
	(millions)	
<b>Derivative instruments</b>		
Gas marketing sales	\$ 30	\$ 7
Commodity cost of gas sold	(30)	21
Gas marketing cost of gas sold	2	3
	<u>2</u>	<u>31</u>
<b>Financial instruments</b>		
Gas marketing cost of gas sold	-	(1)
Interest expense	1	(1)
	<u>\$ 3</u>	<u>\$ 29</u>

## d. Risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate risk and foreign currency risk), liquidity risk and credit risk. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation seeks to manage the financial impact of natural gas price risk, interest rate risk and foreign currency risk by using derivative instruments to manage its exposure. The Corporate Derivatives Policy and other risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use derivative instruments to manage its risks. The objectives, policies and processes for managing risk were consistent with the prior year.

**64 8. Financial Instruments and Risk Management (continued)****i. Natural gas price risk**

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments SaskEnergy may use for price risk management include natural gas price swaps, options, swaptions and futures contracts.

Based on the Corporation's year-end closing positions, an increase of \$1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by \$29 million (2009 - \$1 million). Conversely, a decrease of \$1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by \$29 million (2009 - \$1 million).

**ii. Interest rate risk**

For the purpose of managing interest rate risk, the Corporation may use forward rate agreements, options and interest rate swaps to achieve an annual average interest rate target. The Corporation did not enter into or settle any such instruments during the year or the comparative year.

The Corporation's significant interest-bearing financial instruments are short and long-term debts, which are fixed rate instruments. Consequently, the Corporation is subject to interest rate risk when issuing debt or refinancing maturities. At year end, the Corporation had \$239 million of short-term debt that may be refinanced in 2011 and no long-term debt maturing in 2011 (2009 - \$188 million). Based on these amounts, a one per cent change in interest rates would increase or decrease the annual interest expense by approximately \$2 million (2009 - \$2 million).

**iii. Foreign currency risk**

The Corporation faces exposure to foreign currency risk primarily through the purchase of goods and services. For the purpose of managing the foreign currency risk on significant expenditures denominated in foreign currency, the Corporation may use currency forwards and currency options. During the year, the impact of these instruments on net income was \$nil (2009 - \$nil).

**8. Financial Instruments and Risk Management (continued)**

## iv. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at December 31, 2010:

	Carrying Amount	Contractual Maturities				Total
		Less Than 1 year	1 - 2 years	3 - 5 years	More Than 5 years	
						(millions)
Short-term debt	\$ 239	\$ 239	\$ -	\$ -	\$ -	\$ 239
Accounts payable	135	135	-	-	-	135
Dividends payable	22	22	-	-	-	22
Derivative instruments	63	115	-	-	-	115
Long-term debt	715	38	88	250	821	1,197
	\$ 1,174	\$ 549	\$ 88	\$ 250	\$ 821	\$ 1,708

At year end, SaskEnergy's borrowing capacity, together with relatively stable operating cash flows, provide sufficient liquidity to fund contractual obligations.

## v. Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial or derivative instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk through cash, accounts receivable, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial and derivative instruments. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At year end, the maximum credit exposure to a single counterparty was \$21 million (2009 - \$14 million).

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2010	2009
		(millions)
Cash	\$ 1	\$ -
Accounts receivable	113	128
Debt retirement funds	59	57
Fair value of derivative instrument assets	79	52
	\$ 252	\$ 237

**66 8. Financial Instruments and Risk Management (continued)**

The following reflects an aging summary of the Corporation's accounts receivable:

	<b>2010</b>	<b>2009</b>
	(millions)	
Current	<b>\$ 107</b>	\$ 124
30 - 59 days	<b>5</b>	3
60 - 89 days	<b>1</b>	1
Greater than 90 days	<b>1</b>	1
	<b>114</b>	129
Allowance for doubtful accounts	<b>(1)</b>	(1)
	<b>\$ 113</b>	\$ 128

Provisions for credit losses are maintained and regularly reviewed by the Corporation. Credit losses are estimated based on an aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. The change in the allowance for doubtful accounts in respect of accounts receivable during the year was as follows:

	<b>2010</b>	<b>2009</b>
	(millions)	
Allowance for doubtful accounts, beginning of year	<b>\$ 1</b>	\$ 1
Provision	<b>-</b>	2
Recoveries	<b>2</b>	2
Write-offs	<b>(2)</b>	(4)
Allowance for doubtful accounts, end of year	<b>\$ 1</b>	\$ 1

**9. Intangible Assets**

	<b>2010</b>			<b>2009</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	(millions)					
Computer software	<b>\$ 51</b>	<b>\$ 41</b>	<b>\$ 10</b>	\$ 49	\$ 36	\$ 13
Work in progress	<b>8</b>	<b>-</b>	<b>8</b>	2	-	2
	<b>\$ 59</b>	<b>\$ 41</b>	<b>\$ 18</b>	\$ 51	\$ 36	\$ 15

During the year, the Corporation acquired \$1 million (2009 - \$1 million) and developed \$7 million (2009 - \$1 million) of intangible assets.

## 10. Property, Plant and Equipment

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	(millions)					
Distribution	\$ 797	\$ 285	\$ 512	\$ 755	\$ 263	\$ 492
Transmission and storage	794	284	510	752	263	489
Gathering, treatment and compression	212	90	122	186	84	102
Vehicles, equipment and other	106	50	56	104	49	55
Computer hardware	29	19	10	26	16	10
Construction in progress	60	-	60	50	-	50
	<b>\$ 1,998</b>	<b>\$ 728</b>	<b>1,270</b>	<b>\$ 1,873</b>	<b>\$ 675</b>	<b>1,198</b>
Unamortized customer capital contributions			213			194
			<b>\$ 1,057</b>			<b>\$ 1,004</b>

The change in customer capital contributions during the year was as follows:

	2010		2009	
	(millions)			
Unamortized customer capital contributions, beginning of year	\$ 194		\$ 181	
Contributions received	25		17	
Amortization of contributions	(6)		(4)	
Unamortized customer capital contributions, end of year	<b>\$ 213</b>		<b>\$ 194</b>	

## 11. Investments

	2010		2009	
	Amount	Ownership	Amount	Ownership
	(millions)	(per cent)	(millions)	(per cent)
<b>Gas Sur S.A.</b>				
Initial investment	\$ 14	30.0	\$ 14	30.0
Accumulated share of net income	3		4	
Accumulated foreign currency translation adjustment	(1)		(1)	
	<b>16</b>		<b>17</b>	
<b>IGASAMEX USA Ltd.</b>				
Initial investment	11	40.1	11	40.1
Accumulated share of net income	6		5	
Accumulated foreign currency translation adjustment	(4)		(3)	
	<b>13</b>		<b>13</b>	
	<b>\$ 29</b>		<b>\$ 30</b>	

**11. Investments (continued)**

## a. Gas Sur S.A.

The Corporation's 30.0 per cent share of Gas Sur S.A.'s 2010 net loss was \$1 million (2009 - \$1 million net income), which was included in other revenue. The Corporation's foreign currency translation adjustment for the year resulted in a \$nil change in the balance of the investment in Gas Sur S.A. (2009 - \$2 million increase). At the time of purchase, the initial cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately \$5 million.

## b. IGASAMEX USA Ltd.

The Corporation's 40.1 per cent share of IGASAMEX USA Ltd.'s 2010 net income was \$1 million (2009 - \$2 million), which was included in other revenue. The Corporation's foreign currency translation adjustment for the year resulted in a \$1 million decrease in the balance of the investment in IGASAMEX USA Ltd. (2009 - \$2 million decrease). At the time of purchase, the initial cost of the investment exceeded the Corporation's underlying share of the net book value of IGASAMEX USA Ltd. by approximately \$5 million.

**12. Short-Term Debt**

During the year, SaskEnergy borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 1.1 per cent (2009 - 0.5 per cent).

At year end, short-term debt of \$239 million (2009 - \$108 million) was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 1.1 per cent (2009 - 0.3 per cent).

**13. Accounts Payable**

	<b>2010</b>	<b>2009</b>
	(millions)	
Supplier payables	<b>\$ 63</b>	\$ 60
Interest payable	<b>7</b>	8
Customer deposits	<b>27</b>	21
Other payables	<b>38</b>	52
	<b>\$ 135</b>	\$ 141

**14. Long-Term Debt**

	2010		2009	
	Principal Outstanding	Average Fixed Interest Rate	Principal Outstanding	Average Fixed Interest Rate
	(millions)	(per cent)	(millions)	(per cent)
<b>General Revenue Fund</b>				
1 - 5 years	\$ 200	4.3	\$ 230	5.0
6 - 10 years	226	4.8	242	4.5
11 - 15 years	75	8.8	34	6.7
16 - 20 years	50	5.7	125	7.5
21 - 25 years	60	6.4	60	6.4
26 - 30 years	100	5.1	25	5.0
31 plus years	-		75	5.2
	<b>711</b>		791	
Unamortized premium/discount and issue costs	(1)		(1)	
Less: Current portion of long-term debt	-		(80)	
	<b>710</b>		710	
<b>Other long-term debt</b>				
31 plus years	5	13.5	5	13.5
	<b>\$ 715</b>		<b>\$ 715</b>	

The effective interest rate on long-term debt was 5.3 per cent for the year (2009 - 5.4 per cent).

Maturity dates are equivalent to interest rate repricing dates.

As at December 31, 2010 principal repayments due in each of the next five years were as follows:

	2011	2012	2013	2014	2015
	(millions)				
Principal repayments	\$ -	\$ 50	\$ 50	\$ 50	\$ 50

**15. Asset Retirement Obligations**

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of these obligations are conditional upon the Corporation's intended use for these facilities. For the purpose of estimating the fair value of these obligations at year end, a settlement period ranging from 2011 to 2022 has been assumed.

The estimated future cash flows required to settle these obligations were \$10 million (2009 - \$10 million), which were discounted to \$8 million (2009 - \$8 million) applying credit adjusted risk free rates ranging from 3.2 to 6.4 per cent (2009 - 3.2 to 6.4 per cent). There was no significant change in asset retirement obligations during the year.

**16. Accumulated Other Comprehensive Loss**

	2010	2009
	(millions)	
Accumulated foreign currency translation adjustment on translating financial statements of self-sustaining foreign operations	\$ (4)	\$ (3)

**17. Equity Advances**

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

**18. Commitments and Contingencies**

## a. Guarantees

SaskEnergy has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to \$5 million (United States dollars).

## b. Letters of credit

i. The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a \$4 million (United States dollars) letter of credit in favour of Scotiabank Inverlat S.A. (Scotiabank), a Mexican bank. The letter of credit is used as collateral for the Corporation's share of a line of credit issued to IGASAMEX USA Ltd. Scotiabank may draw upon this letter of credit if IGASAMEX USA Ltd. defaults under the terms of its loan agreement with Scotiabank.

ii. The Corporation has posted a \$10 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchases and sales conducted by SaskEnergy on the NGX Natural Gas Exchange in Alberta. NGX may draw upon the letter of credit if SaskEnergy fails to make timely payment for, or delivery of, natural gas as per the related contract.

iii. The Corporation has posted a \$6 million letter of credit with the City of Medicine Hat as security for natural gas purchases. The City of Medicine Hat may draw upon the letter of credit if SaskEnergy fails to make timely payment for natural gas as per the related natural gas purchase contract.

## c. Commitments

At year end, the Corporation has committed to spend \$156 million (2009 - \$134 million) on capital projects.

## d. Contingencies

In April 2010, the Corporation was charged under Saskatchewan's Occupational Health and Safety Act and Regulations in relation to a natural gas explosion that occurred April 18, 2008 in Nipawin, Saskatchewan. On February 9, 2011, the Saskatchewan Ministry of Justice and Attorney General stayed the charges against SaskEnergy. The Corporation has also been named a defendant in a number of civil actions related to this incident. The Corporation has denied liability on all claims. The civil actions remain at an early stage, but the Corporation does not expect the outcome of these civil actions to result in any material financial impact.

**18. Commitments and Contingencies (continued)**

## e. Leases

As at December 31, 2010 future minimum lease payments under operating leases were as follows:

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Thereafter</b>
	(millions)					
Minimum lease payments	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ 1

**19. Revenue Collected For and Payments to Municipalities**

## a. Natural gas distribution

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either three per cent or five per cent of natural gas sales to customers within the respective municipality. Municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are then remitted to the respective municipalities and reported as payments to municipalities in the consolidated statement of income. Revenue collected for and payments to municipalities was \$17 million (2009 - \$24 million).

## b. Natural gas transmission

In accordance with the provisions of *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. TransGas, in turn, pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities in the consolidated statement of income. Revenue collected for and payments to municipalities was \$2 million (2009 - \$2 million).

**20. Other Revenue**

	<b>2010</b>	<b>2009</b>
	(millions)	
Royalty revenue	\$ 3	\$ 3
Natural gas and liquid sales	6	4
Share of net income of equity accounted for investments	-	3
	<b>\$ 9</b>	<b>\$ 10</b>

**21. Interest**

	<b>2010</b>	<b>2009</b>
	(millions)	
Interest expense on long-term debt	\$ 42	\$ 45
Interest expense on short-term debt	1	1
Debt retirement funds earnings	(4)	(3)
Change in fair value of debt retirement funds	(1)	1
Interest capitalized	(1)	(1)
	<b>\$ 37</b>	<b>\$ 43</b>

Interest paid during the year was \$45 million (2009 - \$46 million).

**22. Amortization**

	<b>2010</b>	<b>2009</b>
	(millions)	
Intangible assets	\$ 5	\$ 5
Property, plant and equipment	59	56
Customer capital contributions	(5)	(4)
	<b>\$ 59</b>	<b>\$ 57</b>

The estimated service lives are based on depreciation studies with annual reviews for reasonableness. During the year, a depreciation review was conducted on compression assets. As a result of this review, the estimated service lives of existing compression assets were adjusted from 3.5 per cent to a range of 2.5 to 100 per cent. The impact of this change was applied on a prospective basis commencing January 1, 2010 and resulted in an insignificant decrease in amortization expense for the year. New compression assets acquired during 2010 were amortized at a rate of 2.5 per cent, the rate that will be used for future additions.

The composite rate of amortization (excluding amortization of customer capital contributions) was 3.2 per cent (2009 - 3.4 per cent).

**23. Saskatchewan Taxes**

	<b>2010</b>	<b>2009</b>
	(millions)	
Corporate capital tax	\$ 8	\$ 7
Property taxes and other	1	1
	<b>\$ 9</b>	<b>\$ 8</b>

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

**24. Net Income from Discontinued Operations**

The Corporation, through its former subsidiary SaskEnergy Nova Scotia Holdings Ltd. (Nova Scotia Holdings), sold its 50.1 per cent interest in Heritage Gas Limited (Heritage Gas) during the fourth quarter of 2009. With the sale of Heritage Gas and the subsequent wind-up of Nova Scotia Holdings' operations in 2009, the Corporation removed the results of Nova Scotia Holdings and Heritage Gas from its ongoing financial position, operations and cash flows for the year ended December 31, 2009.

**25. Net Change in Non-cash Working Capital**

	<b>2010</b>	<b>2009</b>
	(millions)	
Accounts receivable	\$ 15	\$ 32
Natural gas in storage held for resale	(10)	(59)
Inventories of supplies	1	7
Accounts payable	(12)	(5)
	<b>\$ (6)</b>	<b>\$ (25)</b>

**26. Related Party Transactions**

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control as well as non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year and balances at year end were as follows:

	<b>2010</b>	<b>2009</b>
	(millions)	
Operating revenue	<b>\$ 50</b>	\$ 43
Operating expenses	<b>70</b>	77
Unamortized customer capital contributions	<b>31</b>	32
Accounts receivable	<b>9</b>	3
Accounts payable	<b>24</b>	24

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded in the cost of those purchases.

**27. Employee Future Benefits**

## a. Pension plans

Employees of the Corporation are members of either a defined contribution (the Public Employees Pension Plan) or a defined benefit pension plan (the Power Corporation Superannuation Plan). The Corporation's obligations are limited to making contributions for employees' current service. Saskatchewan Power Corporation, a related Crown corporation, is responsible for any unfunded liabilities in the Power Corporation Superannuation Plan.

During the year, the Corporation contributed \$5 million (2009 - \$5 million) on behalf of employees for current service.

## b. Retiring allowance plan

The amounts related to the unfunded defined benefit retiring allowance plan for Executive, management employees and members of the Communications, Energy & Paperworkers Union (CEP) Local 649 were as follows:

	<b>2010</b>	<b>2009</b>
	(millions)	
Accrued benefit liability	<b>\$ 14</b>	\$ 14
Benefits paid during the year	<b>1</b>	1
Net expense	<b>1</b>	2

**27. Employee Future Benefits (continued)**

The Corporation measures its accrued benefit liability as at December 31 of each year with an actuarial valuation. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 were:

	<b>2010</b>	<b>2009</b>
Discount rate	<b>4.2 per cent</b>	5.2 per cent
Long-term rate of compensation increases	<b>3.0 per cent</b>	3.0 per cent
Average remaining employee service life	<b>7.3 years</b>	7.9 years

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

**28. Rate Regulation**

Rate regulation did not cause the Corporation to account for transactions or events differently than it would have in the absence of rate regulation. The impact of rate regulation on the Corporation was as follows:

## a. SaskEnergy

By virtue of legislation, SaskEnergy has the authority to sell and the exclusive authority to distribute natural gas within Saskatchewan. In accordance with an Order in Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity revenue and the cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the balances reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet. The amounts accumulated in the GCVA are not reflected in these financial statements. The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Office of the Provincial Auditor of Saskatchewan.

In accordance with the foregoing rate-setting process, revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies described in note 2i. SaskEnergy's delivery revenue was \$181 million (2009 - \$181 million) and commodity revenue was \$273 million (2009 - \$411 million). The related cost of gas sold is accounted for in accordance with the policy described in note 2j.

## 28. Rate Regulation (continued)

### b. TransGas

By virtue of legislation, TransGas has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2i. TransGas transportation revenue was \$61 million (2009 - \$64 million).

### c. Many Islands Pipe Lines (Canada) Limited (MIPL)

The business activities of MIPL are regulated by the National Energy Board. Revenue recognition policies for MIPL transportation revenue are as described in note 2i. MIPL transportation revenue was \$1 million (2009 - \$1 million).

### d. Swan Valley Gas Corporation (SVGC)

The business activities of SVGC are regulated by the Manitoba Public Utilities Board. Revenue recognition policies for SVGC are as described in note 2i. SVGC's delivery revenue was \$1 million (2009 - \$1 million) and commodity revenue was \$1 million (2009 - \$1 million).

## 29. Joint Venture

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50 per cent proportionate shares of the Kisbey Gas Gathering and Processing Facility and the Totnes Natural Gas Storage Facility, each an unincorporated joint venture:

### a. Consolidated statement of financial position

	2010	2009
	(millions)	
Current assets	\$ 1	\$ -
Property, plant and equipment	27	16
Current liabilities	(2)	(3)
Investment in joint venture	\$ 26	\$ 13

### b. Consolidated statement of income

	2010	2009
	(millions)	
Revenue	\$ 3	\$ 1
Expenses	(3)	(1)
Income from joint venture	\$ -	\$ -

### c. Consolidated statement of cash flows

	2010	2009
	(millions)	
Cash (used in) provided by operating activities	\$ (2)	\$ 3
Cash used in investing activities	(11)	(10)
Decrease in cash	\$ (13)	\$ (7)

## 30. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

## BOARD OF DIRECTORS



**Robert (Rob) Pletch, Q.C.**

MacPherson Leslie & Tyerman LLP  
(Board Chair, SaskEnergy)  
Regina, Saskatchewan

Mr. Pletch is Chairman and a Senior Partner of MacPherson Leslie & Tyerman LLP. He has acted for major clients regarding mergers, acquisitions, financings and development strategies. He holds both a Bachelor of Arts and Law Degree and has served the Saskatchewan business community in the areas of commercial and corporate law for more than 30 years. Mr. Pletch has served as Chair of the SaskEnergy Board of Directors since 2008 and is a member of the Audit and Finance Committee and the Human Resources/Compensation Committee.



**Nadine Krenosky**

Greystone Managed Investments Inc.  
(Vice Chair, SaskEnergy)  
Regina, Saskatchewan

Ms. Krenosky is Chief Compliance Officer at Greystone Managed Investments Inc. and holds a Bachelor of Administration Degree and CFA Charter. After articling with Ernst & Young, Ms. Krenosky received her Chartered Accountant designation in 1999 and continued in public practice until 2002. Ms. Krenosky is Vice Chair and has served on the SaskEnergy Board of Directors since 2004. She is also Chair of the Audit and Finance Committee and a member of the Human Resources/Compensation Committee.



**James Baker**

J. P. Baker Management Inc.  
Regina, Saskatchewan

Mr. Baker is President of J. P. Baker Management Inc. and has extensive experience in the oil and gas industry. His experience includes operating a consulting business specializing in the business development of oil- and gas-related initiatives in Saskatchewan and Alberta. Mr. Baker has served on the SaskEnergy Board since 2008. He is Chair of the Business Development Committee and a member of the Safety, Health and Environment Committee.



**David Bishop**

McKercher LLP  
Regina, Saskatchewan

Mr. Bishop is a partner at McKercher LLP where he practices commercial and residential real estate law, business law, criminal defence, criminal prosecution (as an agent of the Attorney General for Canada), and elder law. He holds a Bachelor of Arts Degree and a Bachelor of Law Degree and is actively involved in the legal community. Mr. Bishop has served on the SaskEnergy Board of Directors since 2008. He is Chair of the Safety, Health and Environment Committee and a member of the Human Resources/Compensation Committee.



**Curt Chickoski**

Martens Ranch Ltd./MCM Ranching Ltd.  
Swift Current, Saskatchewan

Mr. Chickoski owns and manages two successful cattle and horse operations. He also serves on the Canadian Agri-Stability Appeals Committee, the Swift Current Creek Watershed Board, and as local supervisor for the Saskatchewan Cattle Feeders Association. Mr. Chickoski joined the SaskEnergy Board of Directors in February 2010 and is a member of the Business Development Committee.



**Grant Gayton**

Regina, Saskatchewan

Mr. Gayton has held numerous leadership positions in the private sector. He retired from the position of President of PrintWest Communications Ltd. in 2010. As a technology entrepreneur, he founded and developed a software company, Management Systems Limited (MSL), which later became part of ISM Canada Ltd. Mr. Gayton has experience on various Boards and served as Chair of Information Services Corporation Board of Directors from 2008 to 2010. He was appointed to the SaskEnergy Board of Directors in February 2010 and is a member of the Audit and Finance Committee and the Business Development Committee.



**Ralph Hesje, P. Eng.**

Petrowest Energy Services Trust  
Calgary, Alberta

Mr. Hesje has worked in the energy industry since 1974, including several years of international service. He earned his degree in Mechanical Engineering. Mr. Hesje's term on the SaskEnergy Board of Directors expired in February 2010, at which time he was President of Petrowest Energy Services Trust.



**Sharon Hodgson**

Rural Municipality of Big River  
Big River, Saskatchewan

Ms. Hodgson serves as Councillor for the Rural Municipality of Big River. Prior to that, she owned a forestry industry/road building business for 30 years, followed by a successful elk farm business, which was developed into one of the first registered trophy ranches in Saskatchewan. Ms. Hodgson has been a member of the SaskEnergy Board of Directors since February 2010. She serves on the Governance Committee and the Safety, Health and Environment Committee.



**Neal Krawchuk**

Mega Group Inc.  
Saskatoon, Saskatchewan

Mr. Krawchuk is Vice President of Credit and Administration of Mega Group Inc., a privately held management and marketing company servicing the home furnishing industry throughout Canada and the United States. In addition, Mr. Krawchuk formerly served on the Board of Investment Saskatchewan and has gained extensive experience in commercial finance, sales and customer service. Mr. Krawchuk was appointed to the SaskEnergy Board of Directors in 2009 and is a member of the Audit and Finance Committee and the Safety, Health and Environment Committee.



**Alfred Labas**

Private Farming Operation  
Yorkton, Saskatchewan

Mr. Labas owns and operates a long-standing family grain farm in Lestock, Saskatchewan. His professional experience includes service with Federated Co-operatives Limited, the Department of Indian and Northern Affairs, and a private accounting practice specializing in farm accounting and taxation. He also held leadership positions in various departments of the Provincial Government and is active in the community. He was appointed to the SaskEnergy Board of Directors in February 2010 and is a member of the Audit and Finance Committee.



**Mitch McLeod**

Peak Energy Services  
Calgary, Alberta

Mr. McLeod is a Senior Account Manager and Senior Advisor (Aboriginal Relations) with Peak Energy Services, a drilling services company based in Calgary, Alberta, where he is responsible for providing strategic leadership and specialized services to a variety of large oil and gas corporate clients. Mr. McLeod has a Bachelor of Public Administration degree, a Chartered Director designation and more than 20 years of experience in the oil and gas industry. He was appointed to the SaskEnergy Board of Directors in 2009 and is a member of the Business Development Committee and the Governance Committee.



**James Rybchuk, Q.C.**

McDougall Gauley LLP  
Regina, Saskatchewan

Mr. Rybchuk has worked for McDougall Gauley LLP since 1994 and holds a Bachelor of Law degree. His legal focus includes business law and litigation. Mr. Rybchuk also acts for and advises provincial, national and international businesses and governments on their governance, organizational and related business affairs and dealings, including the day-to-day management and operations of their interests. Mr. Rybchuk has served on the SaskEnergy Board of Directors since 2008. He is Chair of the Governance Committee and a member of the Human Resources/Compensation Committee.

**Victor Thomas**

CYRE Group Canada  
Regina, Saskatchewan

Mr. Thomas is President of CYRE Group Canada, a turnaround firm with international headquarters in Sydney, Australia. He has worked with companies around the world in the areas of governance, strategy and business development. In addition to a Master's Degree in Business Administration from the University of Regina and a Chartered Director designation from The Directors College program of McMaster University, he has completed certificate programs from York University, Université St. Anne and the University of Ulsan. Mr. Thomas has served on the SaskEnergy Board of Directors since 2008. He is Chair of the Human Resources/Compensation Committee and a member of the Governance Committee.

**Neil Henneberg**

Crown Investments Corporation of  
Saskatchewan  
(Board Secretary)  
Regina, Saskatchewan

Mr. Henneberg has worked in the Saskatchewan Crown sector for more than 20 years, including 12 years with SaskEnergy. He has a Business Administration degree and has worked at CIC, in the Strategy and Governance Division, since 2000. Mr. Henneberg has been the Board Secretary since 2006.

## EXECUTIVE COMMITTEE



Back row: Dennis Terry, Mark Guillet, Ron Podbielski, Daryl Posehn, Dean Reeve  
 Front row: Robert Haynes, Colleen Huber, Doug Kelln, Debbie McKague, Phil Sandham

**Doug Kelln**, President  
 and Chief Executive Officer

Mr. Kelln brought a wide range of company knowledge when he was appointed President & CEO of SaskEnergy in 2004. Since starting with SaskPower's natural gas division in 1982, he has had increasing levels of responsibility in the areas of engineering, construction, planning, customer services, distribution operations, marketing and business development within SaskEnergy and TransGas. Mr. Kelln has a Bachelor of Civil Engineering degree.

**Mark Guillet**, Vice President,  
 General Counsel and  
 Corporate Secretary

Mr. Guillet is the Vice President, General Counsel and Corporate Secretary for the Corporation and is responsible for the Legal and Land Departments. He is also the Chief Privacy Officer. Mr. Guillet is a graduate of the University of Saskatchewan, a member of the Law Society of Saskatchewan, and has experience in corporate, commercial, governance and privacy legal issues.

**Robert Haynes**, Vice President,  
 Human Resources

Mr. Haynes joined SaskEnergy in 1988 when he was appointed to the position of General Counsel and Corporate Secretary. In 1995, he moved to his current position as Vice President of Human Resources. In this role, Mr. Haynes is responsible for all aspects of the Corporation's human resources policies and practices, and overseeing the Corporation's Safety, Health & Environment area. Mr. Haynes has a Bachelor of Administration Degree, Public Policy and a Bachelor of Laws degree.

**Colleen Huber**, Vice President,  
Corporate Support

As Vice President of Corporate Support, Ms. Huber is responsible for corporate technology, corporate procurement and inventory, buildings and security, and vehicles and equipment. Ms. Huber also supports Aboriginal Relations initiatives. She joined the Executive in 2000 after successfully progressing through various management positions within TransGas and SaskEnergy. She is a graduate of the University of Regina.

**Debbie McKague**,  
Vice President, TransGas and  
Bayhurst Gas Business Services

Ms. McKague is responsible for TransGas Customer Services, Pipeline Control and Planning and TransGas Policies, Rates and Regulations. In 2010, she also assumed Executive responsibility for Bayhurst Gas Limited, a role that was previously shared across several members of the Executive team. Over the years, she has had experience in various positions including Accounting, Billing Services, Rates, Gas Supply and, most recently, TransGas Customer Services.

**Ron Podbielski**, Executive  
Director, Corporate Affairs

Mr. Podbielski joined SaskEnergy as Executive Director, Corporate Affairs in 1997 and has been

employed in intermediate and senior communications capacities within government since 1986. Mr. Podbielski is a graduate of the University of Regina's Journalism Program.

**Daryl Posehn**, Senior Vice  
President, Gas Supply  
and Business Development

Mr. Posehn began his career in 1976 as a design engineer with SaskPower. Since then, he has worked as Vice President and Senior Vice President of TransGas in a number of operations, planning and customer service areas. He is currently responsible for the Corporation's Gas Supply portfolio and Business Development initiatives. Mr. Posehn has a Bachelor of Science degree in Civil Engineering.

**Dean Reeve**,  
Executive Vice President,  
SaskEnergy

Mr. Reeve has worked in a number of financial, business development and customer service functions within SaskEnergy and TransGas and is currently the Executive Vice President responsible for SaskEnergy's Distribution Utility. In this role, he leads the customer service functions, engineering, construction, business and marketing initiatives of SaskEnergy. Mr. Reeve has a Bachelor of Administration degree and a Chartered Accountant designation.

**Phil Sandham**, Vice President,  
TransGas Operations  
and Engineering

Mr. Sandham brings leadership and experience from his previous senior positions in Transmission Operations, Engineering and Technology, and Customer Services, to his current role as Vice President of TransGas Operations and Engineering. He is responsible for ensuring the safe and reliable operation of the transmission system and overseeing the environmental initiatives for the Corporation. Mr. Sandham has a Bachelor of Science in Civil Engineering.

**Dennis Terry**, Vice President,  
Finance and Chief Financial  
Officer

Mr. Terry joined SaskEnergy in 2009. Prior to joining SaskEnergy, he was Chief Financial Officer for Yara Belle Plaine Inc. and gained experience in gas price management strategy development and oversight related to significant natural gas commodity purchases and hedging activities. Mr. Terry's areas of responsibility include strategic planning, financial planning and reporting, billing services, budget leadership and treasury. Mr. Terry has a Bachelor of Administration degree and a Chartered Accountant designation.

## CORPORATE GOVERNANCE DISCLOSURE

SaskEnergy's commitment to advanced governance practices demonstrates accountability to the Owner and its customers. Effective governance helps ensure that SaskEnergy operates as both a financially viable organization and a responsible Corporation.

SaskEnergy benchmarks its governance practices against the Canadian Securities Administrators Corporate Governance guidelines. This measurement ensures that the Corporation's customers and employees are provided with 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 and that the Corporation's governance practices are transparent to all.

Details on SaskEnergy's 2010 corporate governance results are available on the SaskEnergy website: [http://www.saskenergy.com/about\\_saskenergy/annual\\_report/documents/2010/Corporate\\_Governance.pdf](http://www.saskenergy.com/about_saskenergy/annual_report/documents/2010/Corporate_Governance.pdf).

## OUR FUTURE

### FINANCIAL HEALTH:

Debt/Equity Ratio	This measure is calculated by dividing total debt (short- and long-term) by the sum of total debt plus total equity.
Rate of Return on Equity	The rate of return on equity is measured by dividing the net income from operations by the closing equity.
Net Income from Operations	Net income from operations refers to the consolidated net income before market value adjustments.
Capital Investment (net)	This measure reports the consolidated capital expenditures, net of customer capital contributions.

### COMPETITIVE RATES:

SaskEnergy Commodity	This measure reports the ranking of SaskEnergy's cost of natural gas reflected through its commodity rate relative to the rates charged by other major Canadian utilities. The cost comparison is based on a benchmark level of consumption upon which the published rates of other service providers are applied to determine SaskEnergy's relative ranking. The calculations also factor in all temporary and one-time refunds, rebates, rate riders or surcharges approved by the utility's regulator. Federal, provincial and municipal taxes are excluded from the comparison, as are any Government rebates that are not directly approved by the utility's regulator.
SaskEnergy Delivery	This measure reports the ranking of SaskEnergy's natural gas distribution delivery service rates relative to the rates charged by other major Canadian utilities. The cost comparison is based on a benchmark level of consumption upon which the published rates of other service providers are applied to determine SaskEnergy's relative ranking. The calculations also factor in all temporary and one-time refunds, rebates, rate riders or surcharges approved by the utility's regulator. Federal, provincial and municipal taxes are excluded from the comparison, as are any Government rebates that are not directly approved by the utility's regulator.
TransGas Export Rates	As a benchmark measurement on competitive natural gas transportation rates, the TransGas Export Rate is compared to that offered by TransCanada Pipeline's Nova Gas Limited subsidiary (NOVA) – a company that provides services in Alberta similar to those provided by TransGas. The measure compares the cost of moving natural gas from any receipt point in Saskatchewan to the export market with the cost of moving natural gas from the average receipt point in Alberta to the export market.

### GOVERNANCE:

Governance	The governance measure reports the degree of compliance that SaskEnergy maintains with respect to the Canadian Securities Administrators corporate governance guidelines, as well as with other objective trends and best practices identified by auditors and the Conference Board of Canada. The determination involves assessing the degree of SaskEnergy's compliance against the total number of these measures.
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### ENVIRONMENTAL:

Customer Efficiency Programs - Number of Customers Impacted (Direct and Indirect)	This is the number of customers directly and indirectly benefiting from customer energy efficiency programs.
Internal Energy Efficiencies	This consists of energy efficiency improvements or reductions in fuel usage at the corporate level including reductions in compressor fuel, line heater fuel, building heating, lighting, air conditioning, vehicle fuel usage and reduction in electricity used in compressors, rectifiers and other compressor station functions. The Corporation will improve its level of energy efficiency on an ongoing basis and measure the improvements in Terajoules of energy saved.

ENVIRONMENTAL:

Climate Change and Greenhouse Gas Reductions This initiative consists of greenhouse gas (GHG) emission reductions governed by the targets that have been proposed by the Federal and Provincial Governments. The focus will be on fuel gas and energy efficiency improvements as well as the capture of vented gas and reduction of vented emissions throughout the Corporation's business activities. SaskEnergy and TransGas will strive to reduce their carbon dioxide emissions from fuel combustion and reduce methane emissions from pipeline and compressor station venting to achieve a reduction goal of 20 per cent of 2006 corporate GHG emissions by the end of 2020. Tracking of accomplishments will be in absolute terms (tonnes of CO<sub>2</sub>e).

COMMUNITY INVESTMENT:

Investment Three specific measures allow SaskEnergy to create a broad social footprint on the Province: its financial investments or donations, the number and diversity of projects it supports and the number of communities it impacts by supporting these initiatives. SaskEnergy aims to have a broad-ranging impact on the Province. SaskEnergy's financial investment is separated into three budgetary categories: the SaskEnergy Community Fund, which allows the Corporation to help community-based projects with support of up to \$2,500, a general sponsorship fund and an Aboriginal sponsorship fund. Criteria are based upon four specific categories: Education and Leadership, Community Initiatives, Saskatchewan Pride and Environmental Stewardship. This measure tracks the financial investment SaskEnergy has made through the categories listed above. The investment total reflects cash donations and sponsorships only and does not include in-kind contributions.

Projects Supported This measure tracks the number of projects, events and programs that have been undertaken by the Corporation.

Communities Impacted SaskEnergy's community investment activities are also measured by the number of urban and rural locations supported each year. As Saskatchewan's natural gas provider, serving more than 92 per cent of the population, the Corporation strongly believes that its sponsorships and community investments should be directly targeted to the places where its stakeholders live.

Percentage of Goods and Services Sourced In Saskatchewan SaskEnergy tracks the percentage of goods and services it sources from Saskatchewan suppliers out of the total goods and services acquired. SaskEnergy's goal has been to source goods and services from within Saskatchewan wherever possible, with the expectation that certain necessary goods and services are not available within the Province. This measure is not based on total corporate expenditures, but rather focuses on purchases that are completed by the Purchasing Department.

Total Contracts - Percentage of Aboriginal Labour Content This measure tracks the percentage of Aboriginal labour content in the Corporation's labour service contracts and supplier alliance agreements managed by the Purchasing Department.

OUR GROWTH

Core Growth Capital Investment in New Infrastructure - SaskEnergy (net) This metric tracks capital expenditures for customer connections by SaskEnergy, net of customer capital contributions.

Core Growth Capital Investment in New Infrastructure - TransGas (net) This metric tracks capital expenditures by TransGas related to storage and transmission system growth, net of customer capital contributions.

## BUSINESS DEVELOPMENT:

Direct Capital Investment	This measure records the direct capital required by SaskEnergy to initiate new non-core Business Development activities within Saskatchewan.
Total Leveraged Capital	This measure records the total estimated capital related to the entire project scope of the Business Development activities that SaskEnergy is participating in within Saskatchewan.

## INCREMENTAL NET INCOME FROM BUSINESS DEVELOPMENT:

New Business Development - Saskatchewan Focused	This measure tracks the annual net income generated from new, Saskatchewan-based Business Development initiatives.
External Investments	This metric tracks net income generated from the existing external investments SaskEnergy has established through SaskEnergy International.

## OUR SERVICE

### RELIABILITY AND SERVICE:

Reliability Index – SaskEnergy	The reliability measure for SaskEnergy is based upon a number of leading and lagging indicators that are averaged to produce a composite result. The calculation methodology provides a 60 per cent weighting for lag indicators and a 40 per cent weighting for lead indicators. The lag indicators focus on system outages and provide reliability ratings based on the causes for the outage (for example, system failure, SaskEnergy operator error or caused by third party) as well as the impacts of the outage in terms of number of customers impacted, duration of the outage and the costs to restore service. The lead indicators provide ratings based upon the percentage of planned maintenance completed and the percentage of training and job observations completed.
Reliability Index – TransGas	The reliability measure for TransGas is based upon a number of leading and lagging indicators that are averaged to produce a composite result. The calculation methodology provides marginally higher weighting for lead indicators than lag indicators. The lead indicators provide ratings based upon the percentage of planned maintenance completed, the percentage reliability of critical compressor units and the percentage of public awareness contacts completed. The lag indicators focus on unplanned outages that affect customers, transmission line hits and the percentage of service availability for receipt, intra delivery and storage services.
Customer Satisfaction – SaskEnergy	The SaskEnergy customer satisfaction measure expresses, in percentage terms, the proportion of customers surveyed that rated their overall satisfaction with SaskEnergy's service as "good", "very good" or "excellent". Positive responses such as these indicate that customers view SaskEnergy service positively and provide strong indication that the customer service tools, policies and staff are effectively meeting the needs of customers. The data for this measure is obtained from customer surveys conducted by independent market research firms.
Customer Satisfaction – TransGas	This number is derived from an annual Internet-based survey conducted with all TransGas customers. Customer satisfaction is measured on a scale of 0 to 5, with 5 being the highest level of satisfaction. The survey contains 15 questions, which in turn are subdivided to gain detailed feedback on various aspects of the service being evaluated. Questions regarding staff utilize four factors to gauge customer satisfaction: Empowerment, Responsiveness, Knowledge and Friendliness. An average is taken of these four measures and reported as a percentage.
SaskEnergy Response Time Index	This measure incorporates three measurables with equal weightings — provincial average response times for all emergency calls, percentage of calls responded to in one hour or less (for communities with SaskEnergy staff) and percentage of calls responded to in 1.5 hours or less (for all other locations). The one hour and 1.5 hour response times align with our expectations for the maximum amount of time it would take for a technician to respond to the site of an emergency call. The use of provincial average response times for all calls supports our continued focus on minimizing our response time and aligns with natural gas industry best practices.

TransGas Emergency Index	This measure is based upon a number of leading indicators (preparedness) and lagging indicators (response) that are averaged to produce a corporate result. The lead indicators are based upon the percentage completion of emergency equipment checks and maintenance, the percentage completion of emergency exercises, the number of presentations completed for first responders and contractors and the number of landowner contacts. The lag indicators focus on line hits, the number of spills and the number of emergencies where the response was not in accordance with corporate procedure.
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**OUR PEOPLE**

EMPLOYEE SATISFACTION:

Employee Satisfaction	The employee satisfaction measure is a composite measure, which is designed to assess employees' overall satisfaction with working at the Corporation. The measure incorporates employees' opinions on a number of areas including satisfaction with compensation and benefits, job opportunities, work/life balance and developmental opportunities within the Corporation. The intent behind the measure is to assess the extent to which employees will be prepared to exercise discretionary effort while employed at the Corporation. The data for this measure will be obtained through both internal and external employee surveys.
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REPRESENTATIVE WORKFORCE:

Representative Workforce	The representative workforce measures provide quantitative data for the employment of the four equity groups recognized by the Saskatchewan Human Rights Commission as being either underemployed or minimally employed within the Province. These four groups include Aboriginal, women, people with disabilities and visible minorities. SaskEnergy also tracks the percentage of "youth" in the workforce, which is defined as employees that are 30 years of age or less.
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The measure is calculated by comparing the number of employees from these groups relative to the number of total employees that comprise the workforce.

Diversity Hires	This measure records the percentage of new hires that are from the four equity groups discussed above.
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PHYSICAL SAFETY:

Lost Time Frequency Rate	The lost time frequency rate measures the frequency in which lost time injuries have occurred. A standard duration is used to normalize the results so that company comparisons can be made despite differing workforce sizes. A lost time injury is an injury requiring medical attention and working time is lost following the day of the injury. The formula to calculate the measure is as follows:
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$$\text{Lost Time Frequency Rate} = \text{number of lost time injuries} \times 200,000^1 \div \text{total hours worked}$$

Medical Aid Frequency Rate	This measure records the frequency of injuries that require medical attention and normalizes the results so that company comparisons can be made despite differing workforce sizes. A medical aid injury is an injury that requires medical attention, but no working time is lost other than that lost on the day of the injury. The formula to calculate the measure is as follows:
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$$\text{Medical Aid Frequency Rate} = \text{number of medical aids} \times 200,000 \div \text{total hours worked}$$

Preventable Vehicle Collision Frequency Rate	The preventable vehicle collision frequency rate expresses the frequency of preventable collisions and normalizes the result to enable equitable comparisons with other companies of different size and scale of operations. The formula to calculate the measure is as follows:
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$$\text{Preventable Vehicle Collision Frequency Rate} = \text{number of preventable collisions} \times 1,000,000^2 \div \text{total kilometres driven}$$

<sup>1</sup> The 200,000 is the standard duration calculated as 100 workers working 40 hours per week for 50 weeks of the year.

<sup>2</sup> The 1,000,000 is the given standard used by the Canadian Gas Association and Canadian Energy Pipeline Association to facilitate company comparisons.

## GLOSSARY OF NATURAL GAS MEASUREMENTS

**Joule (J)** – a base metric measure of energy. One J is the equivalent of the energy required to raise the temperature of one gram of water by approximately one quarter of one degree Celsius.

**Gigajoule (GJ)** – a measure used to express the energy value of natural gas or energy consumed. One GJ is equivalent to one billion J. A typical home in Saskatchewan uses about 110 GJ of natural gas per year.

**Terajoule (TJ)** – a unit of energy equivalent to 1,000 GJ.

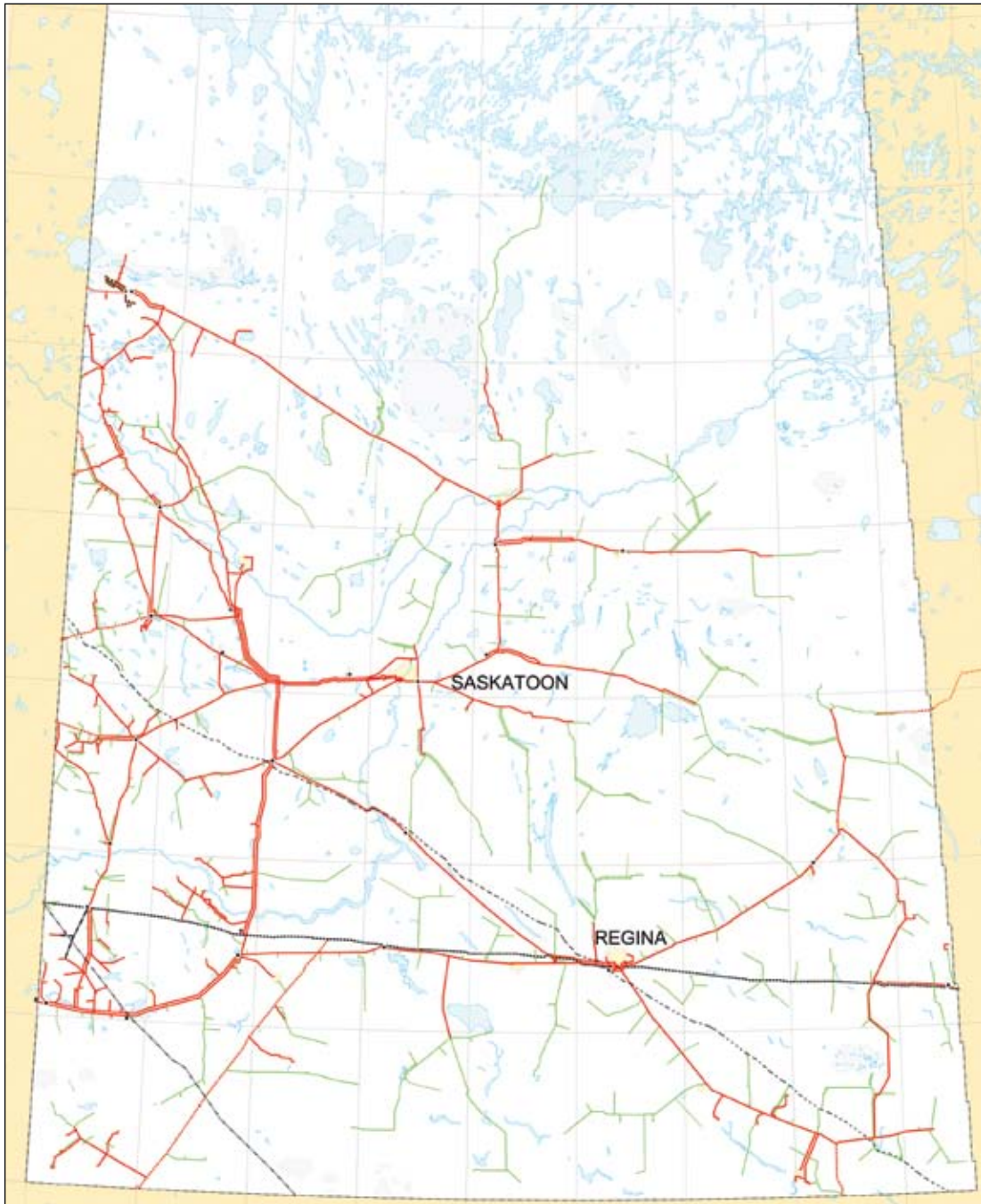
**Petajoule (PJ)** – a unit of energy equivalent to 1,000,000 GJ.

**Cubic metre (m<sup>3</sup>)** – a unit of volume measurement commonly used to express the amount of natural gas sold to consumers. The typical home in Saskatchewan uses about 3,000 m<sup>3</sup> of natural gas per year.

### Natural Gas Volume Equivalents at Normal Atmospheric Pressure

- One GJ is the volume of natural gas required to fill an 11-foot by 11-foot by 8-foot room (approximately 1,000 cubic feet).
- One TJ of natural gas would fill a typical professional hockey arena (approximately 1,000,000 cubic feet).
- One PJ is enough natural gas to fill 17 sports stadiums the size of the Rogers Centre in Toronto (approximately 1,000,000,000 cubic feet).

**SASKENERGY INCORPORATED NATURAL GAS TRANSMISSION PIPELINES**





1000-1777 Victoria Avenue  
Regina, Saskatchewan S4P 4K5  
[saskenergy.com](http://saskenergy.com)



**SaskEnergy** CORPORATE GOVERNANCE DISCLOSURE

### Board Stewardship/Mandate

The SaskEnergy Board of Directors (the Board) is responsible for the stewardship of the Corporation, and oversees and closely monitors the Corporation's adherence to provisions of *The SaskEnergy Act* and Regulations. The Board has adopted written Terms of Reference which state that the Board sets the strategic direction, ensures the integrity and adequacy of the Corporation's systems and management practices, and periodically examines the objectives and mandates of its structure. The Board promotes a culture of integrity, ensures that the principal corporate risks are managed, and evaluates the performance of, and monitors, financial results.

### Board Composition

SaskEnergy's Board is representative of the Saskatchewan community and industry. The Lieutenant Governor in Council, pursuant to *The SaskEnergy Act*, appoints up to 12 members, and designates a Chair and a Vice Chair. Members possess a variety of significant attributes, including industry expertise, strategic leadership, entrepreneurial and communication skills, integrity, flexibility, initiative and sound judgment. There are currently 12 people appointed to SaskEnergy's Board of Directors. These same 12 people are also appointed as members for the Boards of Directors for each of SaskEnergy's 11 subsidiary companies. The Board Chair is Mr. Robert Pletch, Q.C. and the Vice Chair is Ms. Nadine Krenosky.

### Independence

The matter of "independence from management" is based upon the definition set by Canadian Securities Administrators (CSA) and utilized by publicly traded companies in the industry. None of the Directors have been employed with the Corporation. In this reporting period, none of the Directors have *direct* material contracts or relationships with the Corporation, or have received remuneration from the Corporation in excess of the fees and compensation as Directors and Committee members or as Directors of subsidiaries of the Corporation.

However, three Directors are partners in law firms that have performed legal services for the Corporation in 2010, and are thereby deemed to have a material indirect relationship with the Corporation under the above standard. The majority of Directors are independent, however, the Corporation is not in strict compliance with the CSA independence standard. The Corporation's Owner, the Crown Investments Corporation of Saskatchewan (CIC) has managed this independence issue through the development of a Protocol Regarding Lawyers Serving on Subsidiary Crown Corporation Boards of Directors. This Protocol adopts the principle that Directors must be free from any material relationship that may interfere with the Director's ability to exercise independent judgment in the best interests of the Corporation or to influence the choice of law firms. Given the smaller local market in Saskatchewan for legal services, the Protocol restricts Directors from any direct material relationship, but allows a limited *indirect* relationship subject to the qualifications of the Protocol such as pre-approval of legal services by an independent Board Committee, declarations of conflict, no direct benefit to the Director, and restriction of information to that Director. The Board has appointed a special ad hoc Committee of independent non-lawyer Board members to review and approve the Corporation's external legal service providers in accordance with this Protocol on an as-required basis. In 2010, this ad hoc Committee met twice for this purpose. The Board Chair, Robert Pletch, Governance Committee Chair, James Rybchuk, and Safety, Health and Environment Chair, David Bishop are lawyers who are subject to this Protocol and throughout this disclosure are indicated by an asterisk to reflect that they are not independent, due to the deemed material indirect relationship. All other Directors, including the Vice Chair of the Board are independent of management. At each Board and Committee meeting, all Directors meet in-camera without the presence of management.

### Committee Mandates and Membership

The Board fulfills its oversight responsibilities for the operation of SaskEnergy by utilizing its five Board

Committees. The Terms of Reference or mandates of the Committees are reviewed annually, and updated where required. The Terms of Reference for each Committee establish the constitution, operations and areas of responsibility over which that Committee makes recommendations to the Board. Full details of the Terms of Reference for each Committee can be found on SaskEnergy's corporate website at [www.saskenergy.com/about\\_saskenergy/governance.asp](http://www.saskenergy.com/about_saskenergy/governance.asp). Committees have also adopted work calendars to schedule and fulfill specific tasks and assigned responsibilities. Each Committee has the authority to engage and compensate outside advisors that it deems necessary to assist with its mandate.

#### **Audit and Finance Committee**

Chair: Nadine Krenosky  
Members: Grant Gayton, Neal Krawchuk, Alfred Labas, Robert Pletch\*

The Audit and Finance Committee oversees the financial performance and ensures the integrity, effectiveness and accuracy of the Corporation's financial reporting, control systems, risk management and audit functions. The Committee ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall Strategic Plan, annual Business Plan and public policy objectives. The Committee meets regularly outside the presence of management with the appointed external auditor, the Provincial Auditor and Internal Auditors.

Except as qualified previously, all members of the Audit and Finance Committee are independent of management. All Committee members are financially literate, as that term is commonly defined with respect to the composition of audit committees within the CSA Multilateral Instrument 52-110, and their education and experience in understanding financial matters is addressed in their biographies on the governance portion of the SaskEnergy Corporate website.

Important issues dealt with this year include the consideration of the impacts of policy choices and elections as a result of the implementation of

International Financial Reporting Standards (IFRS) in 2011, the development of a Commodity Price Risk Management Strategy to cover all natural gas transactions and the evaluation and selection of a new Customer Information System program solution. The Committee also dealt with both rate applications, as well as risk reviews and assessments regarding controls and inventory valuation in a time of significant market and gas price volatility.

\*Non-independent Board Member

#### **Business Development Committee**

Chair: Jim Baker  
Members: Curt Chickoski, Grant Gayton, Mitch McLeod

The Business Development Committee provides guidance that enables SaskEnergy to grow in a more strategic direction in alignment with SaskEnergy's natural gas storage expertise, adding value to the industry, and innovation in energy efficiency in support of the environment, through technology and processes. The Committee is comprised of members who assist the Board in oversight of new strategic and tactical investments and business opportunities.

This year, notable work of the Committee included focus on support for expansion of TransGas storage capacity within Saskatchewan through the optimization of existing natural gas storage fields, and conversion of new fields through a new, restructured subsidiary corporation, BG Storage Inc., wholly owned by Bayhurst Gas Limited. The Committee oversaw the completion of natural flare gas capture opportunities, and projects exploring the viability of waste heat capture electrical conversion and methane gas capture.

#### **Governance Committee**

Chair: James Rybchuk\*  
Members: Sharon Hodgson, Mitch McLeod, Victor Thomas

The Governance Committee is responsible for matters relating to SaskEnergy's corporate governance regime. It has input into the selection criteria for candidates for

Board members, Chairs, and creates profiles of the desired skills, experience and competencies required of Directors. An ad hoc Board Committee is created when necessary to identify and recommend to the Board candidates for the position of President and CEO, while the Governance Committee oversees that the incumbent fulfills the role set out in the CEO Mandate. This Committee monitors compliance with the Code of Business Conduct and Ethics, and any waivers therefrom. The Committee is charged with planning orientation and education programs to keep Directors informed and current with business and ethical requirements.

Key work of the Committee in 2010 included coordinating the Board Member peer evaluation process, and orientation and business/industry training of four new Directors, replacing two Directors stepping down, re-organizing Committee membership, as well as conducting further analysis and refining the delineation and delegation of decision-making and expenditure authority levels between the Board and management, and restructuring the Safety, Health & Environment Committee mandate to include Safety and Corporate Social Responsibility.

\*Non-independent Board Member

#### **Human Resources/Compensation Committee**

Chair: Victor Thomas

Members: David Bishop\*, Nadine Krenosky, Robert Pletch\*

The Human Resources/Compensation Committee is responsible for, and assists the Board in, overseeing the management of SaskEnergy's human resource strategic planning, programs and practices for the development and implementation of fair compensation, performance management and succession planning. The Committee also sets the CEO's performance goals and objectives and conducts a detailed semi-annual assessment of the CEO's performance against them through the Committee Chair. The findings of this evaluation and any changes to the CEO's compensation as a result of the review are

recommended to the Board. Further, the Committee makes recommendations to the Board regarding the approval of employee and Executive compensation, including measures and targets, receiving direction on its mandate through communication with the shareholder, CIC.

A key initiative of the Committee in 2010 was the review and recommendation for Board approval, of a company-wide, market-based Job Evaluation process involving negotiation and approval of the union, CEP, Local 649. This Job Evaluation process was last undertaken in 2000.

\*Non-independent Board Member

#### **Safety, Health and Environment Committee**

Chair: David Bishop\*

Members: Jim Baker, Sharon Hodgson, Neal Krawchuk

The Safety, Health and Environment Committee has a mandate to proactively address safety, health and environmental issues ensuring that adequate and effective controls are in place to monitor compliance with regulatory and statutory requirements.

Important issues dealt with this year include the external, independent Health & Safety Audit which demonstrated a favourable benchmark of SaskEnergy's safety management system against industry norms, and support for a public commitment to Saskatchewan's first *Health & Safety Leadership Charter*, together with a significant number of Saskatchewan organizations and stakeholders. The Committee also investigated the merits of restructuring its Terms of Reference to include a focus on Corporate Social Responsibility. Both the Governance and Safety, Health & Environment Committees recommended these changes to the Board of Directors.

\*Non-independent Board Member

#### **Roles and Responsibilities**

The roles and responsibilities of the Chair, Committee Chairs, individual Directors and the President and CEO are set out in written Position Descriptions and posted

on SaskEnergy's website. The role of the Chair is to provide leadership in Board organization, processes, effectiveness and renewal, balancing the roles of the Board and management in the course of the Board discharging its fiduciary and legal responsibilities.

Individual Directors have a Position Description that sets out the roles and responsibilities of Directors, including legal requirements, accountability, stewardship, knowledge and education, conflicts, confidentiality, as well as expectations for attendance and review of materials in preparation for meetings.

The CEO's Mandate sets out the principal duties and responsibilities for the President and CEO to meet. These form the goals and objectives of the President and CEO and are incorporated into annual performance objectives against which the Human Resources/Compensation Committee measures the CEO's performance. In 2010, the CEO Mandate was reviewed and updated by the Governance Committee and the Board.

To further assist in the delineation of roles and responsibilities assigned to management, the Board regularly reviews the authority it delegates to management through a series of execution and expenditure authorization policies, considering updates as organizational and business circumstances change. Additional limits are placed upon both management and the Board through legislation requiring Orders in Council, compliance with investment requirements or changes to legislative mandate through *The SaskEnergy Act*. The Board has also approved a Bright Line Mandate which is a decision-making matrix that sets out the ultimate decision-making body on key matters and is validated by the Board annually.

### Strategic Planning and Reporting

One of the Board's principal duties is to provide leadership in setting the long-range strategic direction and to approve SaskEnergy's overall Strategic Plan. This comprehensive strategic planning process results in the review and approval by the Board of the Corporation's Strategic Plan, annual operating and capital budgets and Business Plan.

The Board of Directors participates with management to identify and set long-term goals for SaskEnergy through the strategic planning and business planning process. The corporate Strategic Plan involves a five-year rolling projection, updated annually. The Board oversees this process, providing input, guidance, validation, and critical evaluation of the Strategic Plan and its initiatives. The Board continues to provide oversight, and support in the implementation of the plans and initiatives and to measure their success. Each year, the Board and senior management meet jointly to identify strategic risks, and review strategies and measurable targets to gauge performance in managing those risks.

### Public Policy Role

SaskEnergy is a statutory Crown corporation governed by *The SaskEnergy Act* and Regulations. By legislation, CIC is the holding corporation for all of Saskatchewan's commercial Crown corporations. CIC has the authority to establish direction for SaskEnergy related to matters set out in legislation.

As a provincial Crown corporation, SaskEnergy serves a public policy role. Its mission is to develop and deliver safe, reliable natural gas solutions that benefit its customers and Saskatchewan through its team of dedicated employees and business partners. SaskEnergy and its subsidiaries fulfill this mission through the operation of systems for natural gas distribution, transmission, storage, line locating and other related activities to promote conservation and the safe use of natural gas, while contributing to and promoting the economy of the Province. CIC annually approves SaskEnergy's Business Plan, and sets any other strategic priorities which the Corporation's performance will be measured against by the Owner. SaskEnergy, together with other Saskatchewan Crown corporations, collaborated to further CIC's stated priorities to enhance efficiency gains through joint initiatives, and to promote an open business environment.

### Approach to Governance

Although SaskEnergy is not legally obligated to comply with the CSA governance guidelines, as it does not have share capital and is not a reporting issuer, it tries to follow those that are applicable and has benchmarked its governance practices against the CSA National Policy and Instrument Guidelines, guidelines of the Canadian Institute of Chartered Accountants, observations of the Federal Auditors, Treasury Board and Conference Board of Canada, to address key performance indicators in the measurement of governance. The practices of SaskEnergy are substantially consistent with the foregoing standards as published.

### Integrity and Ethics

SaskEnergy promotes a strong culture of ethical business conduct at all levels of the Corporation. The Board has approved and adopted a written Code of Business Conduct and Ethics (the Code) which is applicable to employees, officers and Directors of SaskEnergy. The Code, which is designed to promote integrity and deter wrongdoing, is based on values of fairness and honesty, equal treatment and accountability. The Code provides guidelines on handling information and protection or use of corporate assets, confidentiality, conduct with suppliers and customers, business history, international business, conflicts of interest, compliance with laws and policies and reporting.

To further promote public confidence in the integrity of SaskEnergy and its employees, a Whistleblower Policy was adopted which sets out a formal process for the reporting, investigation and appropriate follow-up for actual or potential wrongdoing. In addition, SaskEnergy's Owner requires public disclosure to the police of all losses over a threshold of \$200, and public disclosure to the Board, CIC Board, and Minister of all losses over \$500, pursuant to the Reporting of Losses Policy and processes.

Compliance with the Code is verified through mandatory training of all employees, and acknowledgement by an online tool. The Code and the Whistleblower

and Reporting of Losses Policies are posted on the SaskEnergy intranet site for employees, and the Code and Whistleblower Policies are on SaskEnergy's website for public access. A process is also posted on the website for members of the public to contact the Chair of the Governance Committee of the Board in confidence, to report any potential violation of the Code or Whistleblower Policy.

Management monitors and reports on any issues arising under the Code annually, the Whistleblower Policy semi-annually, and the Reporting of Losses Policy quarterly, to the Governance and Human Resources/Compensation Committees who are charged with oversight of compliance with these two policies.

In addition to the Code, SaskEnergy's Directors are required to abide by CIC's Directors' Code of Conduct. The Governance Committee, appointed as Ethics Advisor for this purpose, is required to administer, monitor and enforce the Directors' Code of Conduct, which includes reporting annually to the Board concerning compliance. It is also standard procedure to commence all Board and Committee meetings with an agenda item providing Directors with an opportunity to declare any conflicts of interest or any changes to outside employment or directorships they hold, which may create a potential or perceived conflict of interest. Upon appointment, Directors declare directorships on and material interests in other business and any material contract entered into with SaskEnergy or its subsidiaries to the Governance Committee who works proactively to address any potential conflicts of interest. Agenda items are monitored by management, and those containing any item which a Director has disclosed a material interest in are not distributed. Likewise, any Director subject to CIC's Protocol Regarding Lawyers Serving on Subsidiary Crown Corporation Boards of Directors will recuse themselves from consideration of any item creating a potential conflict of interest. In 2010, there were no waivers granted by the Board to any Directors or Officers authorizing non-compliance with these policies.

### **Risk Identification and Management**

SaskEnergy has a risk management process which is designed to identify potential events that may impact SaskEnergy and oversee the management of risk within accepted tolerance levels. Senior management holds primary responsibility for identifying inherent risks, and designing and implementing initiatives to mitigate them. The Board expects management to manage these risks through the use of appropriate controls and delegations of authority.

Each year, the Board and senior management independently follow a process led by Internal Audit with the assistance of a consultant to identify and prioritize significant risks, both residual and inherent. A report is prepared by the Director of Audit Services that summarizes the independent risk assessment findings of both the Board and management. This report is brought forward to be discussed at a Board meeting where senior management and the Board review the variations and risk mitigation plans to deal with or manage the residual risks.

The Business Plan addresses and implements solutions for key risks. The Board will monitor the risk management programs and oversee implementation of appropriate systems to manage those risks either directly, or through the Audit and Finance Committee. The Audit and Finance Committee regularly reviews the reports and will discuss significant risk areas with the internal and external auditors.

### **Integrity of Internal Controls and Management Systems**

The Board and Audit and Finance Committee receive reports from, and work closely with, the internal and external auditors to promote financial transparency and ensure the integrity, effectiveness and adequacy of SaskEnergy's internal controls and management information systems.

As part of the commitment to accountability, the Audit and Finance Committee reviews the financial performance of the Corporation quarterly. Natural gas

purchase transactions and credit risk are reported by management and actively monitored by the Audit and Finance Committee. The consolidation of policies controlling natural gas marketing transactions was completed in 2010 with the adoption and implementation of the Commodity Risk Management Policy.

In 2010, SaskEnergy continued the initiative regarding internal controls certification by the CEO and CFO, under the directive of CIC. This initiative is designed to provide reasonable assurance regarding the effectiveness of SaskEnergy's internal controls over financial reporting.

During 2010, SaskEnergy continued its IFRS conversion project requiring the Board of Directors to assess the impact on current accounting standards. The implementation of IFRS involved significant review at nearly every meeting by the Audit and Finance Committee and decisions by the Board approving all policy choices under IFRS standards throughout 2009 and 2010. In January 2010, SaskEnergy began parallel IFRS reporting to prepare for the January 1, 2011 implementation date. The parallel IFRS reporting process was utilized throughout 2010 to record transitional adjustments based on differences between IFRS and Canadian GAAP. SaskEnergy's external auditors have performed audit procedures on the IFRS conversion, including examination of policy choices and transitional adjustments as at January 1, 2010. The external auditors have also performed review procedures for the 2010 interim financial statements. The external auditors have not provided a formal opinion but will do so as part of the December 31, 2011 year-end audit. SaskEnergy has also collaborated informally with CIC and other Crowns corporations to develop a consistent approach in the application of accounting principles.

The Board oversees the annual external audit plan of the appointed external auditor for the audit of the Corporation's annual financial statements, and the annual Internal Audit plan carried out by SaskEnergy's Internal Audit group. To preserve the independence of the role of the external auditors, the Audit and Finance

Committee must pre-approve all non-audit services undertaken by the external auditor in accordance with the Non-Audit Services Policy.

### **Succession Development**

A succession plan for key management positions and leadership development initiatives is reviewed annually by the Human Resources/Compensation Committee to ensure continuity and depth throughout the Corporation over the long term. The review identifies employees who are in a position to replace incumbents and plans are identified for those who require further training or development for leadership positions. The adequacy of the succession planning strategy as outlined by Executive officers is also reviewed quarterly. The Board supports SaskEnergy's commitment to the training and development of all employees.

### **Communications (with the Shareholder and Stakeholders)**

SaskEnergy is committed to the principles of transparency, openness and timeliness in communication with its Owner, employees, stakeholders and the public. SaskEnergy regularly surveys employees and external stakeholders for feedback on its corporate activities and more information on these communications can be found in the MD&A section. The Corporation complies with the communication requirements set by the shareholder and by statute, 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 communication liaison among the Corporation, CIC, Cabinet, the Provincial Legislature and the public.

SaskEnergy strives to strike a balance between transparency and maintaining customer confidentiality in matters of communication and disclosure, as an entity subject to the *Freedom of Information and Protection of Privacy Act*. The Corporation is subject to annual disclosure requirements of the Legislative Committee regarding Crown Payee Disclosure on all payments

over \$50,000 to employees and suppliers, and for all grants, donations, and sponsorships over \$5,000. All major public disclosures of corporate performance of the Corporation are subject to prior approval of the Board. Senior Executive members of SaskEnergy also appear before Legislative Committees to answer questions relating to the business of the Corporation in preceding years.

To facilitate feedback to and from the statutory Owner, the Board Chair is in communication with CIC, and also participates in a CIC Chairs forum where communication and feedback is provided on its expectations of all Saskatchewan Crown corporations. SaskEnergy's President and CEO regularly provides briefing materials to the Minister Responsible for Crown Investments Corporation and the Minister Responsible for SaskEnergy.

### **CEO Assessment and Executive Compensation**

The President's performance is assessed semi-annually against objectives approved by the Human Resources/ Compensation Committee which are related to the CEO Position Description and aligned with shareholder public policy objectives and the corporate Strategic Plan.

The governance standard established by the CSA for Executive compensation disclosure is to report by summary compensation table, complete with detailed formulas. The mandate for Executive compensation for Saskatchewan Crown corporations however, is established and monitored by the Owner, CIC and as such, senior management compensation aligns with the guidelines established by CIC. Given these controls on Executive compensation, both the Board and senior management seek to provide information to the Owner, and any management compensation adjustments must fit within the parameters established by the Owner. The philosophy of providing market-based compensation is applicable throughout the Corporation, from senior management downwards: to set performance objectives and expectations at individual, departmental and corporate levels, and

to work towards and measure the achievement of these performance objectives. A key principle in SaskEnergy's compensation strategy is to provide fair and equitable pay representative of the individual performance of management employees.

Direct reports of the CEO, including all Executive members, are required by legislation to file and report the details of their compensation and benefits and any changes to the Clerk of the Saskatchewan Legislature within 14 days. In addition, the Crown and Central Agencies Committee of the Legislative Assembly of Saskatchewan has, by policy, required Crown corporations, including SaskEnergy, to file an annual payee list which includes the total compensation of Executive members. The report is available on CIC's website at [www.cicorp.sk.ca](http://www.cicorp.sk.ca) in the Publications section, under Reports. The Human Resources/Compensation Committee and the Board annually review the details of these compensation payment reports.

### **Board Renewal and Appointment**

Appointment of Directors is ultimately made by the Government by Order in Council, upon recommendation of CIC and the Board of Directors. The Board, through the Governance Committee, undertakes an analysis of the skills and experience necessary for the composite blend, and full functioning of the Board and its Committees, and makes nomination recommendations, through the Board to the Minister Responsible for Crown Investments Corporation. The Governance Committee is charged with leading the process to identify, recruit and recommend qualified candidates for appointment to the Board, and assessing the skills and competencies for the Board and its Committees to support the strategic direction and operational needs of the Corporation. The Committee performs a skills gap analysis intended to assist in achieving a balance of the skills of Board members through the recruitment/appointment of new members. The Governance Committee may meet with potential candidates to assess the overall fit with the blend of skills and experience of the current

Board, time availability or any potential conflicts that could limit their full participation. The Governance Committee also makes annual recommendations to the Board regarding the appropriate structure, size and composition of the Board and its Committees, as well as the required qualifications.

### **Board Orientation and Education**

With the appointment of four new Directors in 2010, the Governance Committee under its Board of Directors Training Policy approved a comprehensive orientation curriculum and training sessions to ensure that new and continuing Directors develop a strong understanding of SaskEnergy's business and current challenges as well as the roles of the Board and Committees and the individual contributions Directors are expected to make. Board members also participate in continuing education on industry issues, financial reporting, business operations, procedural issues and ethical obligations to enhance their skills, abilities and knowledge currency. Given the number of new Directors joining the Board in 2010, focus on corporate financial business drivers regarding rates and revenues led the training. Management also delivered sessions to the Directors to explain technical aspects of the business, including having third-party industry expert presentations. CIC also facilitates additional Director training as part of its Subsidiary Crown Directors Training Program, in collaboration with the Conference Board of Canada and the Directors College, DeGroot School of Business at McMaster University, allowing Directors the external development opportunity to challenge for certification through this program, where authorized by the Board or the Corporation. Board members also interact with management and employees attending such functions as long service awards, or touring corporate offices or business units at Board meetings.

### **Board and Director Performance Assessment**

The Governance Committee is responsible for implementing performance reviews for the Board, Committees, Chairs and individual Directors. It surveys the Directors to obtain feedback on the effectiveness

and contribution of the Board, Committees, Chairs and individual Directors on a rotational, bi-annual basis. These results are summarized and reported to the Board as well as to the CIC Board. The Governance Committee may utilize the assistance of an external consultant to conduct this task. The Committee also conducts ongoing assessments of individual Directors, their training and skill sets. For 2010, the process consists of a Directors' survey on the performance and effectiveness of the Board of Directors and the Board Chair.

### Director Remuneration

Compensation received by Directors is fixed by CIC under *The Crown Corporations Act, 1993*. The Governance Committee has authority to recommend to the Board (and the Board to CIC) adjustments to such compensation. The Audit and Finance Committee receives quarterly reports respecting the remuneration of Directors and reports any anomalies to the Board. Directors are paid an annual retainer for their services on SaskEnergy's Board, as well as a set per diem fee for travel time and attendance at Committee and Board meetings as follows:

- Chair of the Board: annual retainer of \$15,000 and \$900 Chair meeting fee;
- Other Directors: annual retainer of \$10,000 and \$700 meeting fee;
- Chairs of Committees: \$800 Chair meeting fee;
- Vice Chair of the Board: receives Chair meeting fee when acting in that capacity, just as the Committee Chairs receive their respective Chair meeting fee while acting in that capacity, but not as a regular Committee member; and
- Directors also receive reimbursement for their reasonable out-of-pocket expenses including travel, meals and accommodations while performing their duties.

Most Board members sit on two Committees. There were nine Board meetings and 28 Committee meetings in 2010. The total remuneration paid to Directors (annual retainers, pro-rated for the portion of the year each Director was a member of or chaired a Committee, plus per diems) was \$337,172, compared to \$263,021 in 2009. The total business travel and meeting expenses paid to members of the Board were \$35,503 compared to \$28,480 in 2009.

**Membership and Attendance at meetings of the Board and Board Committees  
from January 1, 2010, to December 31, 2010**

Member	Board	Audit	Bus. Dev.	Gov.	HR/Comp	SHE	Legal Serv.	Total	%
Pletch	9/9	10/10			4/4			23/23	100
Baker	9/9	2/2	5/5			4/4	2/2	22/22	100
Bishop	9/9			2/2	3/4	4/4		18/19	95
Chickoski <sup>1</sup>	8/8		4/5				2/2	14/15	93
Gayton <sup>1</sup>	8/8	8/8	5/5					21/21	100
Hesje <sup>2</sup>	1/1							1/1	100
Hodgson <sup>1</sup>	8/8			3/3		4/4		15/15	100
Krawchuk	8/9	7/10				4/4		19/23	83
Krenosky	9/9	10/10		2/2	4/4			25/25	100
Labas <sup>1</sup>	8/8	8/8					2/2	18/18	100
McLeod	9/9		4/5	4/5				17/19	89
Rybchuk	8/9	2/2		5/5	4/4			19/20	95
Thomas	9/9			3/3	4/4		2/2	18/18	100

## Footnotes:

<sup>1</sup> Appointed February 4, 2010; meeting attendance based on total number of meetings to attend after that date

<sup>2</sup> Completed Directorship on the Board on February 4, 2010

PROGRESS  
COMFORT  
THERMOSTAT  
QUALITY  
INSPIRE  
SUPPLY  
CARING  
CONVENIENCE  
SATISFACTION  
DYNAMIC  
CONTENT  
STRENGTH  
BENEFIT  
VOLUNTEER  
DEVELOP HOME  
RELAXATION  
ACCOUNTABLE  
PROVIDE  
INDUSTRIAL  
WELL-BEING  
INSPIRE  
ENERGETIC  
COMMUNITY  
RESIDENTIAL  
HOME  
SAFE  
SPIRIT  
ENVIRONMENTAL  
SUPPORT  
FRIENDLY  
RESTFUL  
CHAMPION  
REASSURE  
RESPECT  
EFFICIENT  
TEMPERATURE  
HEAT  
SERVICE  
WARMTH  
EXPAND  
COMMERCIAL  
ACTIVE  
GREEN  
RELIABLE  
DEVELOPMENT

**SaskEnergy** STAKEHOLDER ENGAGEMENT

## Communications Models Employed at SaskEnergy

Strong two-way communications models support the achievement of business and corporate results. The Corporation is committed to rigorous and professional communications practices that support the principles of timeliness, openness and transparency with its stakeholders.

### Customer and Public Communications

Continued business growth at SaskEnergy has entailed continued contact with the Corporation's base of more than 350,000 customers. To this end, an estimated more than 1 million direct interactions occur annually between the company and customers. In addition to standard customer billing and meter reading inquiries, growth has occurred relative to the *Sask 1<sup>st</sup> Call* service, which provides initial customer contact for 30 companies with underground facilities, including SaskEnergy and TransGas. 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 effectively works with the plumbing, heating and mechanical contracting industry, which is highlighted by the Industry Dialogue process and the creation of the SaskEnergy Network, through which 137 private sector plumbing and heating contractors can use the SaskEnergy brand to deliver downstream services to natural gas customers.

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 Corporation will also be analyzing the usage of social media tools in its utility business context in 2011.

The SaskEnergy website also provides access to corporate information, such as financial quarterly 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.

The high level of efficacy and support for SaskEnergy's and TransGas' customer communications approach is reflected through ongoing high levels of customer satisfaction in its independent surveys.

### Shareholder Communications

As a Crown corporation, SaskEnergy complies with the communications requirements set by the shareholder and by statute, 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 among the Corporation, Crown Investments Corporation (CIC), 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, CIC.
- 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 dialogue, 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, First Nations representatives and other stakeholders. 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 projects 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 a commodity reduction application in the fall of 2010. After review, the SaskEnergy application was recommended to, and approved by Cabinet. SaskEnergy now has its lowest commodity rate since 2001, and continued to have the lowest residential delivery rate in Canada in 2010.

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. TransGas rates did not change in 2010.

## Employee Communications

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

A 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. In addition, SaskEnergy also employs a corporate Intranet site (Innergy). This communication medium allows employees to access information related to the Corporation, stay informed on upcoming events and initiatives and link to internal departmental sites for specific departmental-related 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 for Executive response. Posted responses are available 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.