



the
energy
to deliver

SASKENERGY INCORPORATED THE BALANCED PERSPECTIVE*

COMPETITIVE RATES

Objectives	Measures	Actual 2003	Target 2003	Target 2004	Target 2005	Target 2006	Target 2007	Target 2008
Provide fair and competitive rates, balancing stability with market responsiveness.	Achieve the lowest weighted average cost of gas among the major Canadian utilities	2 nd lowest	lowest	lowest	lowest	lowest	lowest	lowest
	Maintain highly competitive transportation and storage rates							
	TransGas/Alberta export transportation rate comparison	Lower than Alberta system	Lower than Alberta system	Lower than Alberta system	Lower than Alberta system	Lower than Alberta system	Lower than Alberta system	Lower than Alberta system
	Competitive storage rates - % capacity contracted	100	100	100	100	100	100	100

CUSTOMER SERVICE EXCELLENCE

Objectives	Measures	Actual 2003	Target 2003	Target 2004	Target 2005	Target 2006	Target 2007	Target 2008
Provide strong relationships with customers and enhance customer choice.	Percentage customer satisfaction with service reliability							
	SaskEnergy	90	85	85	85	86	87	87
	TransGas	90	85	85	85	86	87	87
Ensure employees have time, tools and training to deliver customer service excellence.	Percentage of TransGas customer connections in less than 90 days	50	95	95	95	95	95	95
	Percentage of customers using e-business tools							
	SaskEnergy	9	See note 1	20	25	25	30	35
	TransGas	88	90	90	95	95	95	95

INVESTING FOR GROWTH

Objectives	Measures	Actual 2003	Target 2003	Target 2004	Target 2005	Target 2006	Target 2007	Target 2008
Growth: Increase net income by \$11 million by 2008 by investing in opportunities that take advantage of our skills and competencies in the natural gas business.	Investing in Saskatchewan - Growth (\$ millions)							
	Invest in new transportation, storage and delivery infrastructure							
	TransGas Capital Expenditures	24	15	35	27	14	17	9
	SaskEnergy Capital Expenditures	11	11	13	10	10	10	10
Sustainability: Commit capital investment to Saskatchewan to ensure the long-term sustainability and integrity of the core business infrastructure.	Investing in Saskatchewan - Sustaining (\$ millions)							
	Invest in infrastructure to sustain and maintain a safe and reliable distribution/transmission system							
	TransGas Capital Expenditures	17	22	21	20	19	18	19
	SaskEnergy Capital Expenditures	22	19	19	19	22	18	18
	Investing for Saskatchewan (\$ millions)							
	Total Equity Invested (cumulative)							
	Gas Sur	13.6	13.9	13.6	13.6	13.6	13.6	13.6
	Igasamex	10.7	12.9	10.7	10.7	10.7	10.7	10.7
	Heritage Gas	2.0	5.7	5.3	8.5	9.5	9.5	9.5

THE BALANCED PERSPECTIVE

SAFE AND RELIABLE SYSTEM

Objectives	Measures	Actual 2003	Target 2003	Target 2004	Target 2005	Target 2006	Target 2007	Target 2008
SaskEnergy/TransGas will operate a natural gas delivery system that meets customer expectations and achieves industry standards for public safety and reliability.	SaskEnergy - Unplanned outages per 1000 customers	2.2	3.5	3.0	3.0	2.5	2.5	2.0
	TransGas - Unplanned outages per year	3.0	0.0	0.0	0.0	0.0	0.0	0.0
	SaskEnergy - Contacts with pipeline per 1000 kilometres of pipe	2.7	3.0	2.8	2.6	2.5	2.5	2.4
	TransGas - Contacts with pipeline per year	3.0	0.0	0.0	0.0	0.0	0.0	0.0
	Percentage of the time SaskEnergy responds to safety-related incidents within one hour	98	See note 1	98	98	98	98	98

SHAREHOLDER VALUE

Objectives	Measures	Actual 2003	Target 2003	Target 2004	Target 2005	Target 2006	Target 2007	Target 2008
Provide risk adjusted returns to the shareholder and grow enterprise value.	Annual Return to the Shareholder (excluding GCVA effects)²							
	Consolidated Net Earnings from Operations (\$ millions)	68	51	67	62	59	59	60
	TransGas Rate of Return on Equity	14.4%	10.6%	11.0%	11.0%	11.0%	11.0%	11.0%
	SaskEnergy Rate of Return on Equity	9.9%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
	Annual Return to the Shareholder (including GCVA effects)							
	Pay Dividend to Crown Investments Corporation (\$ millions)	27	53	66	49	38	38	39
	Financial Condition (including GCVA effects)							
Consolidated Debt-to-Equity Ratio	72/28	70/30	72/28	69/31	68/32	66/34	64/36	

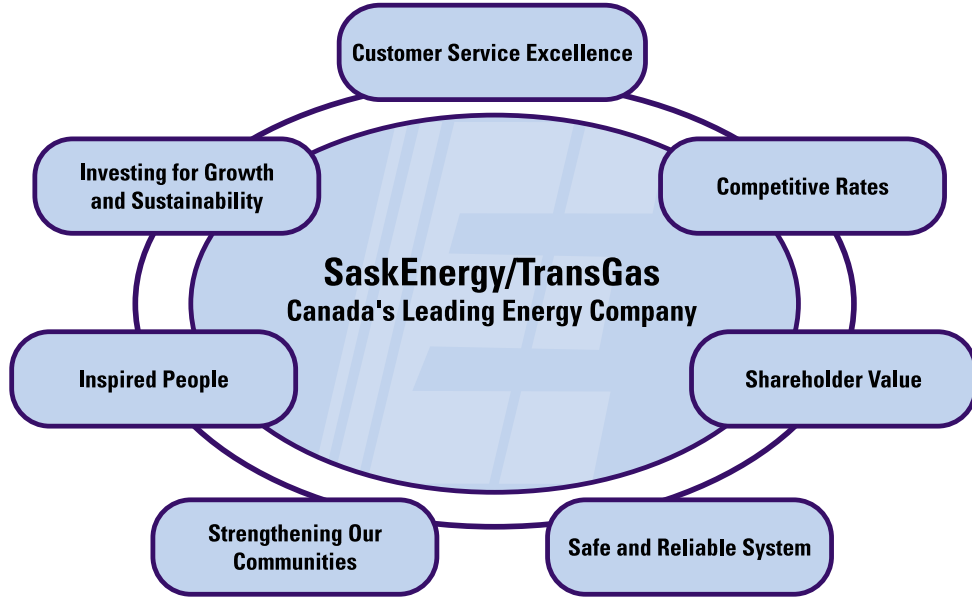
* Objectives for the Strengthening Our Communities strategic mandates are found in the charts on pages 4, 10, 20 and 24 of the Corporate Social Responsibility Report. Objectives for the Inspired People strategic mandates are found on page 10 of the Corporate Social Responsibility Report.

¹ The formal target in this area was established beginning in 2004.

² For additional information on the Gas Cost Variance Analysis (GCVA), refer to the Critical Accounting Policies and Estimates on page 16 of the Management's Discussion and Analysis.

THE ENERGY TO LEAD

As a Crown corporation, we have a vision – and an obligation – to achieve core business excellence for the benefit of the Province and its residents. To fulfill this vision, we focus our business plan on seven strategic mandates which drive every aspect of our business:



These strategic mandates play a crucial role in our business planning, but they play an equally important role in our business *reporting*. Each year, we comprehensively measure, report and set targets for all aspects of our business according to the highest benchmarks possible – those which we set for ourselves in order to become Canada’s leading energy company.

FINANCIAL AND OPERATING HIGHLIGHTS

CONSOLIDATED FINANCIAL INFORMATION		
	2003	2002
	(millions of dollars)	
Delivery Revenue	165	165
Transportation and Storage Revenue	81	68
Other	71	42
Total Revenue	317	275
Operating Expenses	249	243
Net Earnings from Operations	68	32
Loss from Commodity Sales	(27)	(25)
Net Earnings	41	7
Dividend	27	4
Total Assets	1,234	1,211
Property, Plant and Equipment – Net	940	921
Capital Expenditures	78	57
OPERATING STATISTICS		
	2003	2002
Distribution Volumes	(Petajoules)	
Residential	33.3	33.7
Commercial	30.1	30.2
Farm	3.5	3.4
Industrial	69.6	59.5
TOTAL	136.5	126.8
Transmission Volumes	(Petajoules)	
Domestic	208	199
Export	146	144
TOTAL	354	343
Number of Customers		
Distribution	325,504	323,721
Transmission	115	131

TABLE OF CONTENTS

Map – Major Natural Gas Pipelines of Canada and the Northern United States	2
Map – SaskEnergy Incorporated Natural Gas Transmission Pipelines	2
Letter of Transmittal	3
Corporate Profile	4
President’s Message	6
Section 1 – Delivering on Our Investments	11
Showing the Value of Saskatchewan Capital Projects	12
Addressing Customers’ Changing Needs	14
Growing Operations across the Province	15
Expanding Customer Base in a Mature Market	16
Extra-Provincial Investments Are Profitable	18
Delivering Natural Gas to Nova Scotia Customers	20
Section 2 – Delivering Service	23
Delivering Savings	24
Delivering Competitive Rates	25
Delivering Online Solutions	26
Delivering Personalized Customer Service	28
Section 3 – Delivering Reliability	31
Enhancing System Reliability	32
Making a Commitment to Public Safety	34
Special Section – Delivering Safety and Reliability	36
Glossary of Natural Gas Measurements	39
Board of Directors and Executive Committee	40
Five-Year Operating Summary – Distribution	41
Five-Year Operating Summary – Transmission	41

THE ENERGY TO DELIVER

Major Natural Gas Pipelines of Canada and the Northern United States



SaskEnergy Incorporated Natural Gas Transmission Pipelines



LETTER OF TRANSMITTAL

March 31, 2004

The Honourable Dr. Lynda M. Haverstock
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, 2003, 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.



Harry Van Mulligen
Minister Responsible for SaskEnergy

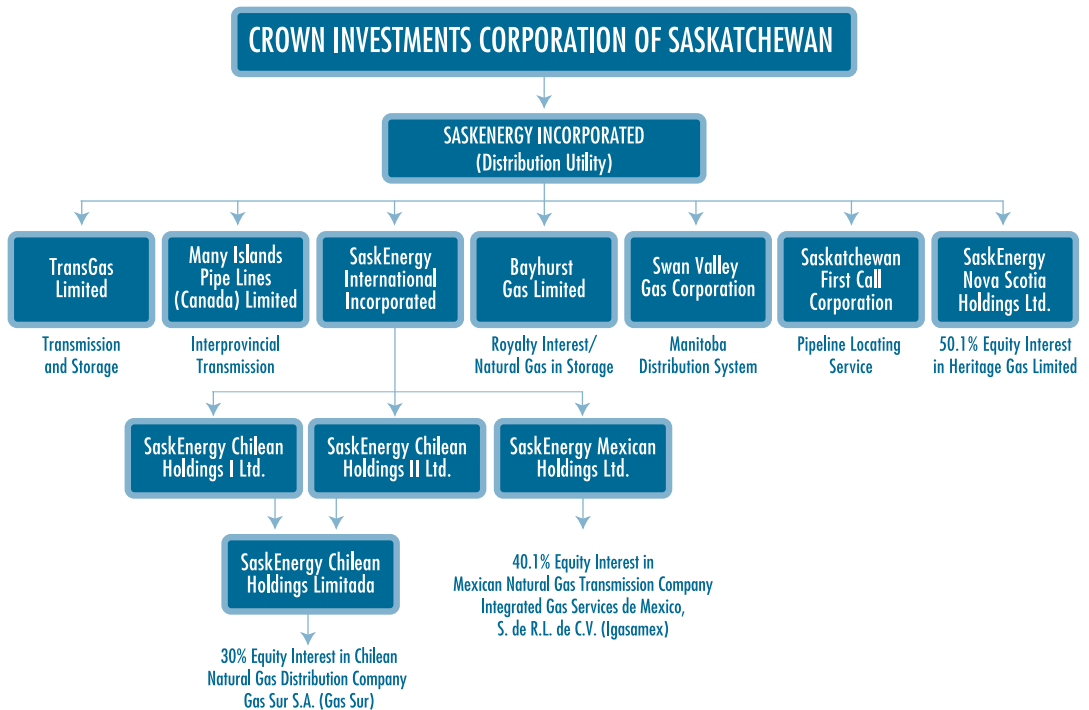
A handwritten signature in black ink, appearing to read 'H. Van Mulligen', written in a cursive style.

Harry Van Mulligen
Minister Responsible for SaskEnergy

CORPORATE PROFILE

SaskEnergy Incorporated (also referred to as 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 operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower and SaskTel) and various commercial investments.

SaskEnergy's corporate structure consists of SaskEnergy (the Crown corporation) plus seven wholly owned subsidiaries as follows:



SaskEnergy's two major business units are the distribution utility (commonly referred to as the Local Distribution Company or LDC) and the transmission utility (TransGas Limited). The LDC has the exclusive legislated franchise to own and operate the natural gas distribution utility within the Province of Saskatchewan. The Provincial Cabinet regulates its rates.

TransGas Limited (TransGas) has the exclusive legislated franchise to own and operate the natural gas transmission business within the Province of

CORPORATE PROFILE

Saskatchewan. It also owns and operates a non-regulated natural gas storage business that is integral to the transmission pipeline system. TransGas' transmission rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rates matters are openly discussed with a representative group of customers.

SaskEnergy International Incorporated (SEII) was created in 1996 to market SaskEnergy's world-class expertise and investigate opportunities to invest in emerging natural gas distribution, transmission and storage systems. SEII's primary focus is Latin America, one of the fastest-growing natural gas markets in the world. SEII holds a 30% equity investment in Gas Sur S.A., a natural gas distribution company in Chile, as well as a 40.1% equity investment in Igasamex USA Ltd., which owns a natural gas transportation company in Mexico.

Many Islands Pipe Lines (Canada) Limited (MIPL) owns 11 transmission pipeline interconnections to Alberta, two into the United States, and one into Manitoba. The National Energy Board regulates MIPL.

Bayhurst Gas Limited (Bayhurst) owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta. Bayhurst also owns, produces and sells natural gas from its properties in the Beacon Hill area of Saskatchewan.

Swan Valley Gas Corporation (SVGC), formed in 2000, owns a natural gas distribution utility in the Swan Valley area in western Manitoba. The Manitoba Public Utilities Board regulates SVGC.

Saskatchewan First Call Corporation (*Sask 1st Call*) was established primarily for safety reasons to maintain a database of oil, gas and other pipeline systems. *Sask 1st Call* provides a service whereby landowners and other stakeholders may contact *Sask 1st Call* to determine the location of pipeline facilities. In 2003, *Sask 1st Call* expanded its capability to provide its services to non-pipeline-related entities.

SaskEnergy purchased a 50.1% equity interest in Heritage Gas Limited (Heritage Gas) in 2002. In 2003, Heritage Gas accepted the natural gas distribution franchise to deliver natural gas service to six counties in Nova Scotia.

PRESIDENT'S MESSAGE



If past years' annual reports were devoted to advocating our need to grow beyond our core business by investing in and for Saskatchewan, then 2003 should be celebrated as a year in which we have realized significant results for our shareholders, our customers and our employees.

The achievements of the year cut across all our operating units and speak to the tremendous vibrancy of our business:

- A record volume of natural gas was received by the TransGas transmission network, propelled by the connection of the Shackleton reserve area in the southwest corner of the Province, where production is expected to exceed 120 Terajoules per day (TJ/day) by mid-2004. Shackleton is now projected to represent nearly 15% of the total daily natural gas production in Saskatchewan. An all-time production level of 766 TJ/day for Saskatchewan field receipts was achieved on December 23.
- The successful launch and growth of *Sask 1st Call*, which in its initial year handled close to 50,000 facility locate requests on behalf of its 12 member companies and which is now poised to offer these services to other businesses, Crown corporations, utilities and municipalities.
- The arrival of profitability in our first two international investments in Chile and Mexico, with continuing growth in their customer bases and appreciation in enterprise value – value which will exceed \$200 million over the next 15-20 years.
- The launch of Heritage Gas in Nova Scotia. This distribution utility, a joint venture with Scotia Investments and AltaGas Services Inc., will capitalize on one of the last greenfield natural gas distribution opportunities in North America.
- The return of superior financial performance, with a net income of \$68 million before the accounting treatment of our Gas Cost Variance Account, and with projected profits remaining stable at close to \$60 million annually through to 2008. Furthermore, at a time when both the corporate sector and governments in virtually every jurisdiction are challenged by debt conditions, SaskEnergy/TransGas improved its debt/equity ratio from 73/27 to 72/28.

PRESIDENT'S MESSAGE

The past year demonstrated that we have the “energy to deliver” – that our approach to reasoned, pragmatic growth in our areas of core competency is working. We employ some of the most highly skilled and talented natural gas employees anywhere in Canada. At the same time, Management has balanced the constant need to provide safe, reliable and cost-competitive service to our distribution and transmission customers with the necessity of growing beyond our core business.

While Saskatchewan people understandably tend to view Crown corporations from the perspective of customers, they are also shareholders. Shareholders hold companies responsible for increasing the value of the business, and our management knows that this is our fiduciary obligation as well. Even though our mature system gives us limited growth opportunities in our home market, over 95%, or \$750 million, of our capital investments over the last decade have been here in Saskatchewan. We've enjoyed some tremendous successes – our \$17 million investment in the Shackleton infrastructure, for instance, has helped make Saskatchewan one of the limited number of jurisdictions in North America where natural gas supply is actually increasing. Our \$35 million multi-year storage development near Asquith provides the same sort of opportunity to realize financial returns while serving the needs of our customers here in Saskatchewan.

But it would be imprudent and short-sighted to limit our involvement to business opportunities within our borders, particularly given our system's maturity. Just as we have been able to execute financially successful projects in Saskatchewan, so have we in Chile and Mexico, through exciting opportunities with solid partners in new markets where natural gas is gaining an increasing foothold. We plan the same philosophy for success with our new distribution business in Nova Scotia – patient capital, hard work, diligence and the will to succeed.

We are reiterating our view that through these new investments, by 2008 we will be able to bring back to Saskatchewan an additional \$4.5 million in annual profitability. It is my hope that as the discussion over the merits of extra-provincial investment continues, more focus will be given to the actual performance of these investments themselves.

PRESIDENT'S MESSAGE

Our business continues to be challenged by the volatile state of natural gas markets. Even though natural gas remains a competitive fuel source, the move to a new band of pricing in the \$5 to \$7 (Canadian) per Gigajoule (GJ) range has hastened the move to higher-efficiency equipment on the residential level, softened sales of non-traditional natural gas appliances, and in some cases resulted in fuel switching. At a time when we are focusing greater energies on educating consumers about managing their consumption, we are also helping customers understand the lifestyle and environmental benefits natural gas provides.

A parallel challenge to higher natural gas prices is the aging of our distribution and transmission infrastructure in Saskatchewan. Accordingly, we continue to put more effort into ensuring system safety and reliability, with over \$16 million – close to one-quarter of our transmission and distribution capital expenditures – dedicated to system improvements and infrastructure integrity in 2003. We take this issue very seriously and regard ourselves as leaders in North America in developing and sharing best practices in the area of pipeline safety and risk management. When the Provincial Auditor asked us to begin substantively reporting on our integrity practices in 2002, we devoted a special segment of the Annual Report to this issue. We have continued this practice in the 2003 Annual Report with the section beginning on page 36.

I also hope you will take the time to read our fifth annual Corporate Social Responsibility (CSR) Report. As one of more than 90 major Canadian companies now publicly reporting on CSR, SaskEnergy is very proud of its tradition of community involvement, employee volunteerism, environmental sustainability and progressive and inclusive human resources policies. We believe that as a company doing business in the Province, we are committed, through both our words and our deeds, to make Saskatchewan a better place to live, work and raise families. The recent success of the 2003 Grey Cup in Regina, where more than 150 of our employees volunteered their time in various capacities, illustrates the unique culture we are fortunate to enjoy both in SaskEnergy and in Saskatchewan communities as a whole.

PRESIDENT'S MESSAGE

As I enter my 10th year as SaskEnergy's President and Chief Executive Officer, it is appropriate that I should conclude this year's message by recognizing the many individuals who have made the challenge of leading this diverse business a satisfying and successful experience. To our talented Board of Directors, to our senior management team, to the outstanding team of men and women who work so diligently every day at SaskEnergy and TransGas, and most importantly, to the more than 325,000 customers whom we have the privilege to serve, I say a heartfelt word of thanks.

Our business is natural gas, but the success of any good year, like 2003, is all about people and the effort they make every day. Your contributions may be largely unsung, but I assure you, they are never far from my mind. After all, it is you who ultimately gives us "the energy to deliver."

Sincerely,

A handwritten signature in dark blue ink, appearing to read "R.S. Clark". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ronald S. Clark
President and Chief Executive Officer

DELIVERING ON OUR INVESTMENTS

With record drilling of almost 2,300 natural gas wells and the highest-ever production levels, Saskatchewan's natural gas industry had a robust year in 2003. While natural gas supplies grew tighter and prices rose across North America, the developing Shackleton Reserve Area helped Saskatchewan become a relative rarity – one of the few jurisdictions on the continent where proven natural gas reserves are likely to have increased over the last year. And as Saskatchewan's natural gas industry began to deliver as never before, SaskEnergy and TransGas were delivering as well – on capital investment to sustain and grow our business in the Province, and on profitable extra-provincial investments to secure our future for the people of Saskatchewan.



Danny DeBolt, Gas Construction Foreman (left), and Dave Pahl, Superintendent of Pipeline and Storage Engineering (right), oversee pipeline construction in the Shackleton Reserve Area, October 2003.

DELIVERING ON OUR INVESTMENTS



In September 2003, Phase Two of the Shackleton project began with the looping of an existing 21 kilometres of eight-inch pipeline and the construction of an additional 21 kilometres of eight-inch pipeline. This will increase the capacity of TransGas' receipt system and at the same time allow producers to move their natural gas to market from one of the most significant reserve areas to be discovered in Saskatchewan in the last 10 years.

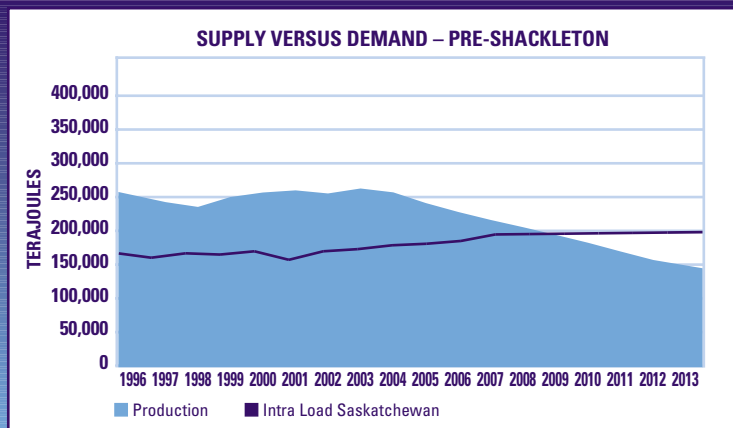
Showing the Value of Saskatchewan Capital Projects

As production declines from many traditional natural gas deposits in the Western Canadian Sedimentary Basin, one word has captured the imagination of the western-Canadian natural gas industry – Shackleton.

At the end of 2002, 60 Terajoules/day (TJ/day) were flowing from the Shackleton area near Swift Current, and by early 2003, TransGas' initial pipeline capacity was fully contracted by customers. With production exceeding even the most optimistic of industry expectations, TransGas invested an additional \$6 million in two capital projects designed to expand pipeline service from the Shackleton area, bringing the cumulative investment to \$17 million.

Together, these projects will add a total of 98 TJ/day of capacity to TransGas' system. At that level of activity, production from Shackleton could easily exceed 120 TJ/day by mid-2004, representing nearly 15% of Saskatchewan's total daily natural gas production.

Increased production from Shackleton, combined with expanded capacity, led to a significant increase in system throughput and revenue in 2003. To share the benefit with its customers, TransGas responded by temporarily reducing its transportation and storage service rates by four per cent for the last five months of the year. By late December, continuing strong throughput on its system allowed TransGas to implement a rate reduction for its customers of two per cent below May 2003 levels for all of 2004.



DELIVERING ON OUR INVESTMENTS

Saskatchewan natural gas production levels increased by close to 10% over 2002 levels, and an all-time record of 766 TJ/day was set on December 23 for Saskatchewan field receipts on the TransGas system. With this increased production, Saskatchewan remains a net exporter of natural gas. The Province previously was expected to be a net importer of gas by 2007, but with the new Shackleton reserves, that date is now projected to be past 2010. In the current marketplace, every year that Saskatchewan remains a net exporter delivers a benefit in lower gas costs for Saskatchewan consumers.

Supported by activity in the Shackleton area, TransGas transmission revenues were \$110.5 million in 2003, up 6.0% from 2002.

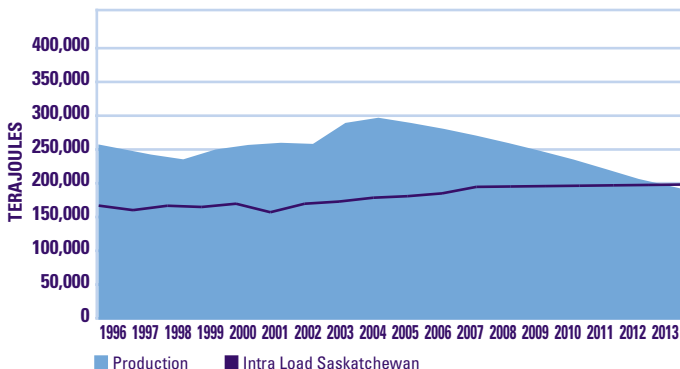
Because TransGas' \$17 million investment in its Shackleton infrastructure has benefits for natural gas producers, the Corporation, and ultimately, end-use customers, it is a clear demonstration of how valuable SaskEnergy and TransGas capital investment – totalling \$750 million over the past decade – has been for Saskatchewan.

The successful development of the Shackleton area had the spinoff of increased spending in the Province by various exploration and production companies. Exploration now underway in other areas such as Kamsack and Preeceville could lead to more natural gas reserve discoveries and development over the longer term.



Saskatchewan contractors have benefited from TransGas' Shackleton investment. In 2003, Carson Welding and Maintenance (pictured here), a Saskatchewan-based company, installed 52 kilometres of four, six and eight-inch pipe in the Shackleton area.

SUPPLY VERSUS DEMAND – POST-SHACKLETON



By mid-2004, the Shackleton Reserve Area could be responsible for close to 15% of Saskatchewan's total daily natural gas production. Continuing development of the region's reserves and addition of pipeline infrastructure will significantly delay the projected time at which Saskatchewan will become a net importer of natural gas.

DELIVERING ON OUR INVESTMENTS

Addressing Customers' Changing Needs

As we expand our transportation system to handle new volumes, our storage business is also growing. Storage caverns allow highly variable heating loads to be met more economically when usage exceeds pipeline system capacity. For example, when a new Saskatchewan peak day consumption record of 1.01 Petajoules (PJ) was established on January 22, the coldest day of 2003, our storage facilities helped deliver gas safely and reliably to Saskatchewan homes and businesses as they have since the late 1950s. But today's usage is also driven by industrial customers, who rely on moving large volumes of gas in and out of storage on an ongoing basis.

In particular, demand has increased over the past few years in the Saskatoon area for two main reasons: the enhancement of natural gas-fuelled electrical generation at SaskPower's Queen Elizabeth Power Station and the construction of a cogeneration facility at the Potash Corporation of Saskatchewan's mine near Cory.

In response to these current needs, and in anticipation of customers' future storage requirements, in August 2003 TransGas announced a three-year project to develop a \$35 million natural gas storage facility near Asquith, just west of Saskatoon. The four-cavern facility, created by drilling into and dissolving salt deposits approximately 3,500 feet beneath the earth's surface, will give TransGas 27 operational storage caverns. It will add roughly 3.0 PJ of capacity to the system when completed in the spring of 2006.



Drilling at the Asquith site began in August, and the first two caverns will be operational in 2005. Each cavern takes approximately 14 months to develop, and will be roughly the size of a 12-storey building. The entire project will be completed by 2006.

DELIVERING ON OUR INVESTMENTS

The Asquith caverns will increase our delivery capabilities into the Saskatoon area, and together with our existing storage facilities, will store natural gas for residential, commercial and industrial use during peak winter months.

An expanded storage system also widens our service offerings. It makes producers and marketers more competitive by providing them with the ability to buy, sell and store gas at the most opportune times. Because Saskatchewan is located between major gas-producing areas to the west and large energy-consuming centres in eastern Canada and the United States, investing in our storage infrastructure also enhances our competitiveness and financial position. The demand for TransGas storage service is so great that both existing storage capacity and future capacity at the Asquith facility have been fully contracted by our customers.

Growing Operations across the Province

The Shackleton and Asquith projects were highlights of SaskEnergy and TransGas' \$72.3 million 2003 capital program. Of that amount, \$34.5 million was targeted toward growing our operations and serving more customers across the Province.

Higher transport volumes on the TransGas network during the early part of 2003 underscored the importance of investing in the transmission infrastructure. On 26 out of 29 days in February, deliveries approached design capacity by either equalling or exceeding 1.2 PJ/day – a significant accomplishment. This extraordinary period of deliveries was driven not only by Saskatchewan heating demand during the coldest part of winter, but also by growing industrial loads.



TransGas currently operates storage caverns at Landis, Melville, Moosomin, Prud'homme and Regina (pictured here), as well as storage fields at Unity and Bayhurst. These facilities give TransGas 30 PJ of storage capacity, an amount that will increase by approximately 10% when all four Asquith caverns are operational in early 2006.

2003 CAPITAL EXPENDITURES (TRANSGAS)

COMPONENT	(\$ MILLIONS)
System Improvements/Pipeline Integrity	9.1
Transmission Expansion	12.4
Information Systems	3.9
Measurement/SCADA Support	2.8
Storage Development	11.6
Other Plant	0.9
TOTAL	40.7

DELIVERING ON OUR INVESTMENTS

Increased natural gas production in the Province over the course of 2003 also influenced TransGas' decision to expand its transmission network. Saskatchewan gas receipts transported by TransGas in 2003 totalled 255 PJ, which represents an annual increase in production of 10% compared to 2002. To accommodate this increased production in the Province and allow producers to get their natural gas to market, in 2003 TransGas constructed 140 kilometres of new pipelines and tied in producers at 12 new production receipt points. While four of these receipt points were in the Shackleton area, eight were at other locations across the Province. By adding these receipt points and expanding three others, TransGas increased its receipt capacity by 84,000 Gigajoules per day (GJ/day) – the equivalent of more than 11% of the existing level of Saskatchewan production.

Expanding Customer Base in a Mature Market

SaskEnergy's distribution business continued to expand its customer base in 2003. Using the community-based model that has added more than 100 communities and over 30,000 customers to the network during the past decade, the Corporation worked with local citizens to distribute natural gas to previously unserved areas of the Province. In total, the distribution utility invested \$10.5 million – over one-third of its capital budget – to connect 487 new rural customers, and a net total of 1,783 customers to its network.



DELIVERING ON OUR INVESTMENTS

2003 CAPITAL EXPENDITURES (SASKENERGY)

COMPONENT	(\$ MILLIONS)
Customer Connections	10.5
Information Systems	7.4
System Improvements	7.0
Measurement/Tools/Natural Gas Vehicles	2.5
Other Plant	4.2
TOTAL	31.6

SaskEnergy currently serves 53 of Saskatchewan's 75 First Nations, which represent the most rapidly growing segment of the Corporation's rural distribution customer base. In 2003 SaskEnergy again expanded service in First Nations communities, and 145 new First Nations residential customers across the Province began realizing the economic and environmental benefits of natural gas.

In a mature market where housing improvements and more efficient natural gas equipment have led to an 8.8% decline in average household consumption over the past decade, SaskEnergy is pursuing non-traditional distribution loads. In 2003, two new oilfield connections and 19 new industrial agricultural customers provided a load growth equivalent to 1,554 homes.

In 2003, the Thunderchild First Nation near Turtleford was our fastest-growing First Nations customer. Approximately 10 new homes on the First Nation received natural gas service, as did a new youth facility and the recently opened Piyesiw Awasis School (pictured here). The proposed construction of a new subdivision in the next few years means that even more of the First Nation's residents will discover the safety, reliability and convenience of natural gas. Says Albert Angus, Band Councillor: "We're looking forward to the future and growing our community and we recognize the value of natural gas in this growth."

DELIVERING ON OUR INVESTMENTS



As part of her Co-op Engineering work term at SaskEnergy in 2003, Laura Scott (pictured here with the Moose Jaw Civic Centre's natural gas-fired desiccant dehumidifier) prepared a report on the operational and economic advantages of desiccant dehumidifiers in Saskatchewan. Based on the successful operation of the Civic Centre's dehumidifier, this technology will now be able to assist other year-round ice rinks in Saskatchewan. With increasing pressure to have cooler and dryer environments in health care facilities, this technology may also benefit hospitals in the Province.

Another non-traditional distribution load is the natural gas direct-fired desiccant dehumidifier at the Moose Jaw Civic Centre. In late spring and early fall each year, high humidity levels inside the Civic Centre were causing poor ice conditions, poor visibility, and building material degradation to the point that the arena was in danger of soon becoming obsolete. In response to this problem, the City of Moose Jaw committed approximately \$2 million over 2002 and 2003 to renovate the Civic Centre. These renovations included installing the first natural gas direct-fired desiccant dehumidifier in Saskatchewan – a trial project to which SaskEnergy contributed \$15,000 of the \$60,000 total cost.

The desiccant dehumidifier will provide substantial benefits to the Civic Centre. Over the long term, it will help extend the facility's lifespan by another 20 years. And in 2003 – the dehumidifier's first full year of operation – the improved air quality benefited all users, from recreational skaters to hockey players and spectators. These types of innovative investments contribute to the cost-effectiveness and competitiveness of our customers' operations.

Extra-Provincial Investments Are Profitable

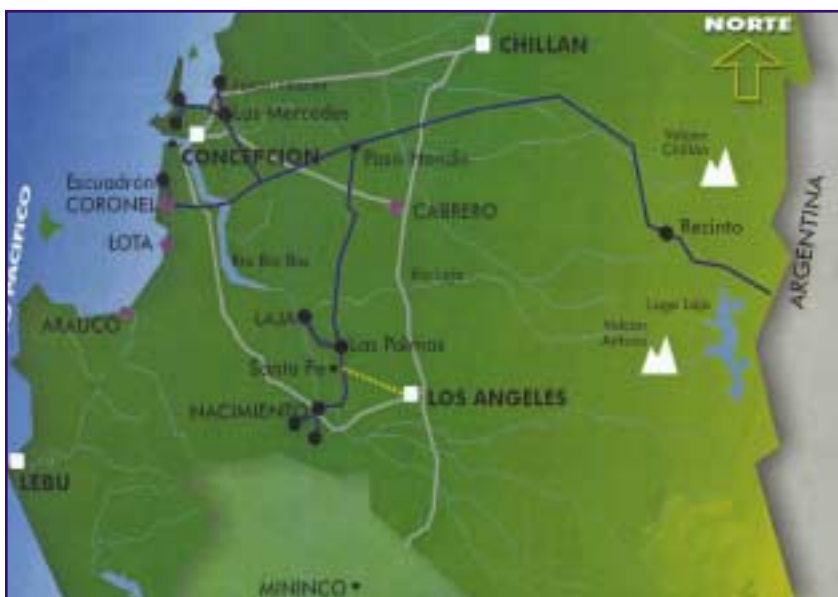
Growing our business outside Saskatchewan's relatively mature natural gas marketplace is imperative to ensure SaskEnergy's future strength and stability and to protect and create jobs within the Province.

To capitalize on natural gas-related business opportunities abroad, SaskEnergy International Incorporated (SEII) was formed in 1996 as a wholly owned subsidiary. Since 1999, SEII has invested in two Latin American companies, and in 2003 these investments reached profitability.

DELIVERING ON OUR INVESTMENTS

SEI has a 30% equity interest in Gas Sur S.A. (Gas Sur), a Chilean natural gas distribution company which reported a net income of \$0.4 million for 2003. By year's end, Gas Sur had approximately 24,000 distribution customers and had distributed almost 19 million cubic metres of natural gas.

More importantly, Gas Sur is poised for significant growth going into 2004. Over the course of 2003, the company added approximately 3,500 customers to its network, and late in the year began construction of a pipeline into Los Angeles, a Chilean city with a population of 165,000.



Gas Sur's distribution network is expanding through the eighth region of Chile. In early 2004, service will be extended to the city of Los Angeles, as indicated by the yellow dotted line.

DELIVERING ON OUR INVESTMENTS

This gives the company access to another large potential customer base as it promotes natural gas as a safe, convenient and cost-effective alternative to propane, the traditional fuel of choice in the Chilean marketplace. Given these factors, Gas Sur is expected to have an annual profit of approximately \$1.3 million in 2004.

SEII's other Latin American investment has reached profitability even faster. In two transactions, one in March 2002 and one in June 2003, SEII acquired a 40.1% equity interest in Integrated Gas Services de Mexico, S. de R.L. de C.V. (Igasamex), a Mexican natural gas transportation company. At the end of 2003, Igasamex was flowing gas to 68 industrial customers on 18 laterals, and recorded a net income of \$1 million.

The rapid success of Igasamex is not surprising given that the company provides service to a wide range of textile, automotive, food processing, and pulp and paper companies in Mexico's dynamic industrial sector. With the construction of three laterals in late 2003, 17 customers were added to the system. Igasamex expects to be serving approximately 100 customers by 2005, and the company's profit projection is \$1.1 million for 2004.

Delivering Natural Gas to Nova Scotia Customers

As SEII's investments came of age, SaskEnergy embarked on its most ambitious extra-provincial investment yet – one that will apply the Corporation's 50 years of providing natural gas service in Saskatchewan to the greenfield market of Nova Scotia.



Many of Igasamex's customers have names familiar to Saskatchewan residents, such as Lee Jeans and Colgate/Palmolive. In 2003, the Toyota factory near Tijuana (pictured here) became one of Igasamex's new customers.

DELIVERING ON OUR INVESTMENTS

In June 2003, Heritage Gas Limited (Heritage Gas) – a company in which SaskEnergy holds a 50.1% interest and Scotia Investments and AltaGas Services together own a 49.9% interest – accepted a 25-year franchise to distribute natural gas to six Nova Scotia counties.

On December 20, Heritage Gas commissioned the first section of its natural gas distribution system in Dartmouth's Burnside Industrial Park. For the first time ever, Nova Scotia residents began using natural gas when it began flowing to the Crichton Park residential area of Dartmouth in early 2004. This success was in part a testament to the talent and versatility of the SaskEnergy employees from several business units whose expertise guided the Heritage Gas project in its early stages.

Heritage Gas plans to invest up to \$120 million in its infrastructure over the first seven years, dependent on customer interest. SaskEnergy's share of capital investment in 2003 was \$4 million. With the necessary level of customer commitments, Heritage Gas could serve approximately 20,000 residential customers and 6,500 businesses by 2010, and produce approximately \$7 million in annual regulated earnings.

These diversified extra-provincial investments complement our core transmission, distribution and storage business in Saskatchewan, which will always be our primary focus. By opening the door to new opportunities, through extra-provincial investment the Corporation's world-class natural gas expertise can fulfill its ultimate mandate – bringing back revenue and business opportunities for the benefit of the people of Saskatchewan.



In 2003, Heritage Gas connected the existing natural gas distribution infrastructures in Burnside Industrial Park and Crichton Park by boring underneath Highway 111 in Dartmouth.



Until 2003, Nova Scotia was one of the last remaining jurisdictions in North America without natural gas distribution service. Over the next two decades, Heritage Gas will deliver natural gas to customers in six counties including Cumberland, Colchester, Pictou, Halifax, East Hants and the Goldboro area of Guysborough County.

DELIVERING SERVICE

2003 was a record year for natural gas drilling and field receipts in Saskatchewan in part because across North America it was also a record year for something else – the average annual open market price of natural gas. While a boon for the industry, high prices pose a significant challenge for many of our customers. Despite the fact SaskEnergy purchases natural gas in the western Canadian marketplace, sells it without mark-up to its customers, and offers competitive rates, we ultimately cannot entirely shield customers from the market price of gas. We can, however, deliver a variety of conservation and account management services to help consumers manage their energy usage and costs.



Since the ENERGY STAR® Loan Event was launched in September 2003, SaskEnergy Network and Industry Dialogue Table member Jerry Declare of Pioneer Co-op Swift Current (pictured here with Margot Almas, SaskEnergy's Manager of Marketing & Sales) has used this effective incentive to help customers save on their heating costs with high-efficiency furnaces and boilers.

DELIVERING SERVICE



2003 marked the fifth anniversary of the SaskEnergy Network, an alliance of more than 130 private-sector Saskatchewan retailers and contractors who effectively deliver a variety of natural gas services to our customers. This relationship builds on SaskEnergy's and Saskatchewan's natural gas business strengths to improve service delivery in the Province. At the same time, it provides smaller Saskatchewan-based businesses with another tool to help them remain competitive and meet customers' needs.

Delivering Savings

Conserving energy today benefits the environment tomorrow and extends the useful life of our non-renewable resources. At the same time, it can deliver significant savings for consumers, so in 2003 SaskEnergy continued to offer a comprehensive package of energy conservation services to its customers.

In 2001, the Corporation introduced the Prime Rate Loan Program in co-operation with the SaskEnergy Network, a group of more than 130 private-sector retailers and contractors in the Province who offer a variety of natural gas products and services. The Prime Rate Loan Program provided homeowners with an incentive interest rate on loans to purchase high-efficiency natural gas appliances from members of the SaskEnergy Network. Through this conservation initiative, which received the support of Natural Resources Canada beginning in late 2002, more than 7,000 Saskatchewan homeowners used \$25.5 million in prime rate loans to purchase new natural gas appliances, realizing about \$4 million in energy and interest savings. SaskEnergy is the only natural gas utility in Canada to have offered this type of service to its customers.

When the program concluded in June 2003, due to customer demand, SaskEnergy, the SaskEnergy Network and Natural Resources Canada implemented a follow-up initiative. In September the Corporation launched the ENERGY STAR[®] Loan Event, which provides prime rate loans for purchases of high-efficiency natural gas furnaces and boilers before March 31, 2004. Under this program, the average homeowner could save up to \$570 in annual energy costs and up to \$300 in borrowing costs. The ENERGY STAR[®] Loan Event is a cost-effective way for Saskatchewan residents to conserve energy by upgrading their home heating equipment.

Approximately 2,000 SaskEnergy customers are expected to participate in the ENERGY STAR[®] Loan Event during its first six months. This means that by early 2004, over 9,000 Saskatchewan homeowners will have used prime rate loans to purchase energy-efficient natural gas heating equipment from Network Members.

DELIVERING SERVICE

In 2003, SaskEnergy continued to support EnerGuide for Houses, a home energy audit service originally begun in 2002 in co-operation with SaskPower, Natural Resources Canada and Sun Ridge Group. Through this service, a certified professional analyzes a home's energy efficiency and provides the homeowner with detailed recommendations on improving energy efficiency. SaskEnergy offers customers the convenience of online bookings and easy monthly payments on their SaskEnergy bills.

Each year, thousands of customers save money through other SaskEnergy safety and energy conservation services. Since we first offered them in 2000, for example, our two Natural Choice Services – the SaskEnergy Home Check-Up and the SaskEnergy Network Home Heating Tune-Up – have allowed over 10,000 customers to keep their home heating systems in proper running order. And in 2003 our most popular conservation service offering – the free, do-it-yourself **energycheck** online home energy audit at www.saskenergy.com – helped approximately 2,800 customers understand their home energy use and find energy-saving solutions to save money in the long term.

Delivering Competitive Rates

Saving money is important for SaskEnergy customers in light of natural gas market conditions. The SaskEnergy natural gas-buying program is designed for both competitiveness and rate stability, and has delivered the lowest residential rates in Canada for four of the past seven years. In February and March 2003, a prolonged cold weather pattern affected the most heavily populated areas of North America, causing extreme price volatility and higher prices for all of the continent's natural gas consumers. Most utilities responded by immediately adjusting their rates early in the year, but SaskEnergy strove to protect customers for as long as possible.



Home Improvement Expert Shell Busey, who helps SaskEnergy tell customers about the importance of annual furnace maintenance, says: "Your furnace is like a car. Regular maintenance keeps it running at peak efficiency, which saves you energy and money." The SaskEnergy Home Check-Up and the SaskEnergy Network Home Heating Tune-Up are great ways to follow his advice.

DELIVERING SERVICE

Because SaskEnergy's existing rate of \$5.44/GJ was not recovering the actual cost of purchasing gas, the Corporation applied for a rate increase in April. An interim increase was granted on May 1 and finalized on August 1 at the rate of \$6.97/GJ. With the continuation of extraordinary volatility in the market, the central goal of SaskEnergy's buying program remains to deliver continued rate stability. Accordingly, the Corporation expects this rate to be effective until at least November 2004.

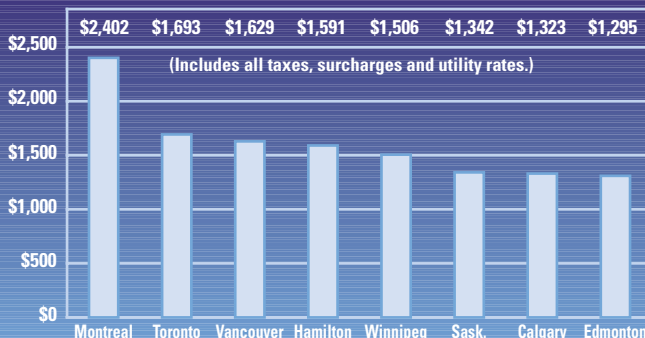
Delivering Online Solutions

Just as SaskEnergy's stable rate philosophy allows customers to better manage their bills, our online services allow them to better manage their accounts and energy information.

My Account Online debuted for customers at www.saskenergy.com in August. This convenient and secure application allows SaskEnergy customers to view account information such as their payment history, copies of their actual bills and a two-year billing comparison. Customers may even set up several accounts to monitor bills for multiple residences or businesses.

My Account Online also provides a convenient way for customers to join SaskEnergy's Equalized Payment Plan (EPP) and submit natural gas meter reads. In total, during its first four months of operation My Account Online provided 4,266 Saskatchewan natural gas consumers with an account

WESTERN-CANADIAN RESIDENTIAL BILL COMPARISON – 2003
 BASED ON TYPICAL CONSUMPTION OF 3,550 CUBIC METRES PER YEAR



Compared to natural gas consumers in other provinces, Saskatchewan residents had among the lowest average annual bills in Canada in 2003.

DELIVERING SERVICE

information service that is easy to use but detailed enough to accommodate individual preferences. The number of online EPP sign-ups increased from 350 in 2002 to 755 in 2003, meaning that more than 130,000 SaskEnergy customers now use equalized payment services to bring predictability to their monthly natural gas bills. Customers also submitted 11,594 online meter reads, a nearly 70% increase over 2002.

As SaskEnergy added features to its selection of online solutions in 2003, more customers began to use www.saskenergy.com to share and obtain information. Since its inception in June, the ExpressAddress moving notification service allowed 614 customers to easily transfer utility service when they changed residences. To meet the needs of both teachers and students, in September SaskEnergy also expanded its website to include “The Learning Centre,” a valuable classroom resource about natural gas.

Others found www.saskenergy.com to be a convenient way of booking services. Using the site, 8,181 customers sought information about Network Members and the services they provide, and 180 of them signed up online for a Natural Choice Service. An additional 447 customers used the website to request an EnerGuide for Houses evaluation.

Distribution customers were not the only ones to benefit from the Corporation’s web-based applications – TransGas’ customers found enhancements to the full complement of e-business solutions at www.transgas.com.



As SaskEnergy Co-op student Sarina Halverson discovered, moving to Saskatchewan or changing residences within the Province became easier in August with the launch of the “one-stop” ExpressAddress online service at www.expressaddress.com. ExpressAddress – a collaboration between SaskEnergy, SaskPower, SaskTel, Saskatchewan Government Insurance and the cities of Regina and Saskatoon – is a major customer service enhancement that allows Saskatchewan residents to connect, transfer or disconnect residential services for telephone, electricity, natural gas and water. Site visitors can also update their address for driver’s licences, vehicle registrations, and various city services. Saskatchewan is the first province in Canada to offer this type of multiple organization online address change service.

DELIVERING SERVICE

In May 2003, TransGas fully implemented the gas title transfer function of the web-based nominations system, and as a result, customers have more flexible and immediate ways of conducting natural gas transactions than ever before. At the same time, this single application has significantly improved efficiency and eliminated the potential for data entry errors.



For example, over the course of 2003, the TransGas web nominations application handled 62,708 transactions that were entered by customers and submitted directly to our business systems via the Internet. Before the new system, these transactions would have been faxed to TransGas and manually entered into our business systems by staff. Eliminating this manual data entry activity has created an opportunity for TransGas Customer Service Administrators to focus on more value-added tasks and data analysis to better serve TransGas customers.

TransGas has implemented many new electronic services to help customers make quicker and more informed business decisions. One example is the electronic natural gas web nomination service, shown here as viewed by customers at www.transgas.com.

Overall, www.transgas.com had 81,929 visits in 2003. This amount of website traffic, combined with the enhancements to the web-based nomination system, translated into a 25% increase in customer use of TransGas e-business applications compared to 2002.

Delivering Personalized Customer Service

Outstanding service is about more than doing business faster – it's also about actively involving customers in decision-making and meeting their individual needs.

DELIVERING SERVICE

That's what the TransGas Customer Dialogue Process is all about. Consisting of 16 representatives from customer groups and employees from TransGas business units, the Customer Dialogue Group holds face-to-face discussions several times each year in order to discuss future TransGas service offerings, policies, capital expenditures and rate design.

In addition to conducting its regular Customer Dialogue Group meetings in 2003, TransGas held two one-day customer workshops attended by 200 current and potential customers representing 75 companies. The first workshop – held in March and entitled “Instant Service” – gave an overview of the company, its business processes and e-business tools. “Instant Service” presentations took place in both Regina and Calgary to accommodate Saskatchewan as well as out-of-province customers.

Together with representatives from a number of Saskatchewan Government departments and some TransGas customers, in November 2003 TransGas hosted a second workshop entitled “The Saskatchewan Natural Gas Advantage.” Held in Calgary, this workshop encouraged out-of-province companies to invest in Saskatchewan's growing natural gas industry. Participants received information about every phase of natural gas development in Saskatchewan – reserve location, land acquisition, royalty regimes, receipt tie-ins, transportation and marketing.

Our personalized approach to dealing with customers is delivering results. In May 2003, independent benchmarking by Houston-based Mastio and Company named TransGas the top pipeline company in western Canada for overall customer service. This shows how strong our relationship is with our customers, and reflects how we do business – by constantly working to anticipate and address individual customer needs to deliver the best possible service every day.

DELIVERING RELIABILITY

During Saskatchewan winters, heating your home is not a luxury – it's a necessity. SaskEnergy and TransGas' service must be 100% dependable, so our first priority is doing whatever is required to operate the safest and most reliable system possible for our customers. That's why in 2003 we again took a variety of proactive measures to ensure the integrity and reliability of our natural gas infrastructure.



Donna Herchuk, Dispatcher for Gas Control, is one operator of the new Telvent SCADA (Supervisory Control and Data Acquisition) system that fully integrates gas control and information management systems within the Corporation.

DELIVERING RELIABILITY



The new Telvent system continuously monitors over 100 remote terminal units (RTUs) located at major metering stations, major block valves, city gate stations and compressor stations such as the one near Unity (pictured here). It also communicates regularly with 270 field flow computers located at various metering facilities, and 50 RTUs located at smaller town border stations.

Enhancing System Reliability

Consisting of close to 80,000 kilometres of pipeline and hundreds of related facilities including compressor stations, town border stations, storage caverns and metering points, the SaskEnergy/TransGas network is one of the longest consolidated pipeline systems in the world. Monitoring, controlling and maintaining such a large system is an ongoing process crucial to safety and reliability. As part of this process, in 2003 the Corporation invested \$3.6 million to upgrade its Supervisory Control and Data Acquisition (SCADA) computer system which will help protect its pipeline and facility infrastructure.

Employees from areas including Gas Control, Transmission and Distribution Operations and Gas Measurement rely on SCADA to remotely monitor pipelines and other facilities across the Province. At the same time, from a central location employees can instantly control the system's operation by starting or stopping compressor stations, adjusting gas pressure or volumes, or even injecting into or producing from natural gas storage facilities.

In 2003 the Corporation modernized SCADA by implementing a new, fully integrated data acquisition, control and information management system – one of the most advanced of its kind in the world. Supplied by Telvent Canada Ltd., this secure system will enable employees from several corporate departments to obtain and use real-time information about facility operations. TransGas Customer Service, for example, can now provide transmission and storage customers with the most timely and accurate flow information possible.

The Telvent system also integrates various existing “islands” of automation equipment such as flow computers and remote terminal units at facilities across Saskatchewan into a comprehensive information network. This expanded capability reduces the number of site visits field staff are required to make. Most importantly, it gives employees an intimate knowledge of – and the ability to remotely control from a distance – the minute-by-minute operations of the Corporation's natural gas transmission, storage and distribution network.

DELIVERING RELIABILITY

Should a mechanical failure affect one of the many monitored sites, be it anywhere in the Province – as far northwest as Pierceland or as far southeast as North Portal, for example – the Telvent system would provide immediate alarm and operational data to Gas Control. The Dispatcher on duty would then take appropriate action by calling SaskEnergy or TransGas field personnel to the location and if necessary, activating emergency response procedures to ensure public and employee safety. In some cases, the Dispatcher might even address the situation remotely by starting or stopping a compressor or increasing or decreasing storage production to redirect gas flow in the area.

Monitoring and maintaining our natural gas network have always been two of our strengths, and the upgraded SCADA system makes these processes more efficient to help us deliver the safest and most reliable service possible to our customers. The Telvent system will enable the Corporation to provide better information services for customers, monitor more facilities and engage more staff in the support and operations of the pipeline network than ever before.

Also during 2003, SaskEnergy and TransGas prepared for a major computer system upgrade and implementation that will be our most extensive, integrated business application yet. Supplied by J.D. Edwards, the OneWorld application integrates multiple systems into one, creating standard business processes for several different corporate departments – Accounting, Finance, Purchasing, Materials Management, Human Resources, Payroll, and Station and Equipment Maintenance. By more efficiently managing these key functions within the Corporation, OneWorld and the more than 650 employee users will streamline many of SaskEnergy and TransGas' internal processes to create both immediate and long-term efficiencies and savings.



Throughout 2003, a core group of employees from business groups across the Corporation managed the implementation of OneWorld. From left to right: Rhonda Korpan (Project Manager); Darren Janke (Team Lead, Supply Chain Management); Dave McWatt (Team Lead, Station Equipment Maintenance); Shannon Fraser-Hansen (Team Lead, Human Resources/Payroll/Time Capture); Brent Schick (Team Lead, Technology); Crystal Pugsley (Project Consultant); Twyla Pateman (Team Lead, Process System Integrity); Gord Gault (Team Lead, Finance). Missing: Tracy Singer (Team Lead, Change Management).

DELIVERING RELIABILITY

This long-term investment will also help the Corporation more efficiently maintain the integrity of its natural gas infrastructure. Once its state-of-the-art operations and maintenance functions are fully implemented in May 2004, OneWorld will improve how SaskEnergy and TransGas track the purchasing, inventory and installation of parts and equipment. For example, when a part is required, employees from different departments will now be able to track all stages of its progress – from initial order right through to final installation. An efficient system is a dependable system, and by maintaining data on one corporate system and streamlining the processes our staff use to plan, perform and track maintenance activities, OneWorld will help SaskEnergy and TransGas deliver even more safe and reliable service to their customers.



Making a Commitment to Public Safety

On January 2, 2003, the Corporation helped streamline another aspect of pipeline safety and reliability in Saskatchewan. That day, its wholly owned subsidiary Saskatchewan First Call Corporation (*Sask 1st Call*) began offering an enhanced free “call before you dig” service for contractors, businesses or residents planning to excavate anywhere in the Province.

Sask 1st Call is a communication service between excavators and subscribing companies who own buried facilities in the Province. To use the service, an excavator calls the *Sask 1st Call* toll-free number and speaks directly with a *Sask 1st Call* Customer Service Representative (CSR). The CSR then enters the location of the proposed project into a screening database which determines the subscribing companies that have underground facilities at the site. Affected companies are automatically notified by the system that a line locate is required. Each company is responsible for marking its underground lines, following its usual practices.

DELIVERING RELIABILITY

Sask 1st Call is a testament to the Corporation and its partners' commitment to system integrity and public safety. With limited operational staff and human resources, private-sector pipeline companies from the oil and natural gas industry worked with SaskEnergy and TransGas to develop *Sask 1st Call* using successful models from other provinces.

The Corporation responded by using both its staffing infrastructure and its experience in processing line locates to develop and operate *Sask 1st Call*. In return, member companies cover ongoing costs to make the system a revenue-neutral, cost-effective way to protect SaskEnergy, TransGas and 10 other companies' underground infrastructures while enhancing safe construction practices. In 2004, the Corporation will work to extend *Sask 1st Call's* service beyond the pipeline community to other companies which own underground facilities.



Immediately following its January 2003 inception, Sask 1st Call began safeguarding Saskatchewan contractors and residents as well as protecting the Province's oil and gas infrastructure. By the end of the year, Sask 1st Call CSRs had processed 48,125 line locate requests and issued 48,767 notifications to its 12 members.

DELIVERING RELIABILITY



Conducting In-Line-Inspections (ILI) is just one part of the Corporation's hands-on approach to preserving the integrity of its pipeline infrastructure. Here, TransGas engineers and operators prepare to run an ILI tool through the 14-inch line between Biggar and Saskatoon.

Special Section – Delivering Safety and Reliability

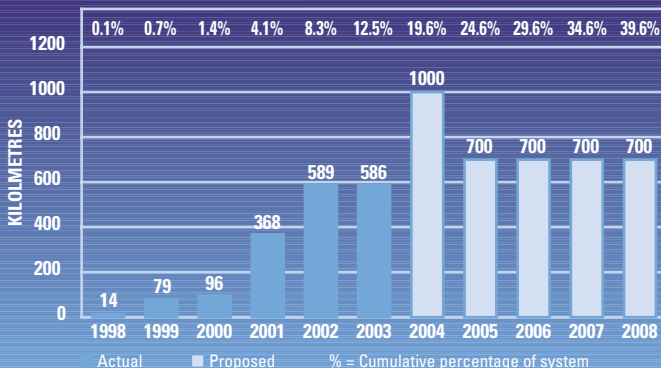
Historically, SaskEnergy and TransGas have an enviable service record, and with good reason. The Corporation's ongoing investment in system integrity is evidence of its focus on safety and reliability.

This investment involved a combination of proactive safety measures, including visual and non-destructive examination of infrastructure wherever possible. TransGas also conducted aerial inspections of its pipeline right-of-way to check for encroachments on its facilities, and leak surveyed all rural pipelines – approximately 14,000 kilometres – by helicopter.

To complement these aerial inspections, ground-based leak detection took place in all urban centres, in rural areas, and at plant facilities. With ground-based surveys utilizing sensitive leak detection equipment, SaskEnergy inspected approximately 67,000 customer service lines and another 11,700 kilometres of its main pipelines for natural gas leakage. SaskEnergy and TransGas also performed a combined 70 direct examinations of pressure vessels and station piping sections.

In 2003 the Corporation used a variety of industry-proven technologies to assess the structural integrity of its transmission and gathering pipelines. Sophisticated computer modeling allowed us to assess and mitigate age-related potential pipeline and facility risks such as external corrosion and stress corrosion cracking. For example, TransGas conducted In-Line-Inspections (ILI) – where a computerized tool is inserted into and down

IN-LINE INSPECTION (ILI) TO LOCATE PIPELINE CORROSION – TRANSGAS



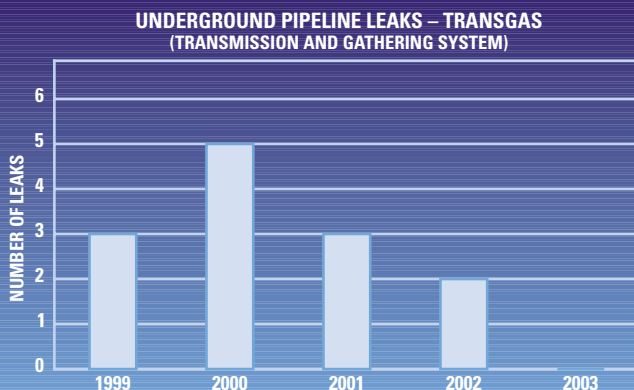
To ensure safety while managing costs, SaskEnergy and TransGas use a sophisticated risk assessment system which factors in pipeline age, construction material, geographic location and other risk factors to determine which pipelines should be inspected each year.

DELIVERING RELIABILITY

a pipeline to gather data on potential problem areas – on 586 kilometres of pipeline. Analysis of ILI data and system-predictive modeling resulted in 28 investigative digs totalling 1,205 metres on six major pipelines in the Province. Without the use of electronic inspection tools, these proactive steps would not otherwise have been possible.

There were three minor TransGas pipeline hits in 2003, all of which were on small pipelines, and only one briefly disrupted service. After service was restored, a detailed investigation took place to determine reasons for the incident so steps could be taken to minimize the potential of similar situations occurring elsewhere.

Increasing public awareness was perhaps the most important proactive measure we took in 2003 to protect our infrastructure and those who work around it. We instructed First Responders in 35 communities of the actions necessary in the event of a natural gas incident. Through mailouts and 1,750 visitations with landowners, members of Saskatchewan's First Nations and other individuals, we emphasized the importance of conducting a line locate before digging. Throughout the Province we also held pipeline safety discussions with 2,194 contractors representing 203 companies, and actively promoted *Sask 1st Call* as a crucial first step in any construction process.

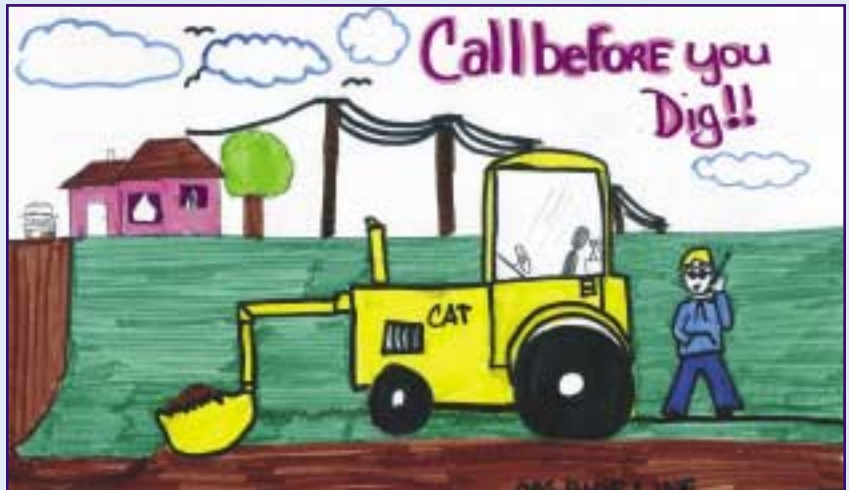


DELIVERING RELIABILITY

These ongoing maintenance, improvement and public awareness initiatives have tangible results for the Corporation. They help us deliver reliable service and ensure the safety of Saskatchewan people, as well as our employees. At the same time, they allow us to manage our extensive infrastructure in the most efficient manner possible, minimizing its effect on our transmission and distribution delivery rates.

In 2003, the Corporation had the energy to deliver safe and reliable service to its customers, something that will continue in 2004 and beyond. By investing approximately \$50 million over the next five years and \$75 million during the next decade to maintain the integrity of our pipeline infrastructure, we will fulfill our primary purpose as a Crown corporation – providing the world-class natural gas service Saskatchewan customers have come to expect.

Each year, one of our most effective public awareness initiatives is the SaskEnergy/First Nations Safety Calendar, which features natural gas safety-related artwork by Saskatchewan First Nations children. The calendar communicates natural gas safety messages, and at the same time reinforces the relationship between the Corporation and First Nations communities across the Province. This drawing by Cheyenne Wolfe of the Muskowekwan First Nation is one of 14 which will appear in the 2004 calendar.



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 of energy used to express the heating value of natural gas or of energy consumed. One GJ is equivalent to one billion J. An average home uses about 130 GJ 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 (m³) – a unit of volume measurement commonly used to express the amount of natural gas sold to consumers. The typical home uses about 3,550 m³ of gas per year.

BOARD OF DIRECTORS



Board of Directors

Standing, left to right: Emmet Reidy, Tim Gitzel, George Lafond, Jean Weimer, Ron Clark, Mervyn Simon

Seated, left to right: Ralph Hesje, Geoffrey Bartlam, Mike Chorlton

Executive Committee

Ronald S. Clark, President and Chief Executive Officer

Larry Braun, President, Communications, Energy & Paperworkers (CEP) Union, Local 649

David Easton, President, SaskEnergy International

Ken From, Senior Vice President, Gas Supply

Mark Guillet, Vice President, General Counsel & Corporate Secretary

Robert Haynes, Vice President, Human Resources

Colleen Huber, Vice President, Information Systems

Doug Kelln, Senior Vice President, Distribution Utility

Greg Mrazek, Vice President, Finance & Administration and Chief Financial Officer

Ron Podbielski, Executive Director, Corporate Affairs

Daryl Posehn, Vice President, TransGas

Dean Reeve, Executive Vice President, SaskEnergy and TransGas

FIVE-YEAR OPERATING SUMMARY - DISTRIBUTION

	2003	2002	2001	2000	1999
Sales in million cubic metres ¹	3,686	3,419	3,151	3,501	3,409
Residential annual					
Average usage (cubic metres)	3,420	3,478	3,173	3,497	3,316
Degree days ²	5,817	5,987	5,390	5,864	5,343
Customers at year end ³	325,504	323,721	321,612	320,340	317,219
Pipeline (kilometres)					
Distribution Utility					
SaskEnergy	65,559	65,371	65,123	64,744	64,169
Swan Valley Gas Corporation	120	120	120	120	0
	65,679	65,491	65,243	64,864	64,169

¹ Retail.

² A unit measuring the extent to which the temperature falls below 18° Celsius.
(In a normal year, the degree days are 5,704.)

³ Number of active services.

FIVE-YEAR OPERATING SUMMARY - TRANSMISSION¹

	2003	2002	2001	2000	1999
Pipeline (kilometres)					
TransGas Limited					
Transmission	13,358	13,216	13,097	13,067	13,033
Gathering	197	289	286	286	286
Many Islands Pipe Lines (Canada) Limited	435	435	454	434	414
Bayhurst Gas Limited	92	-	-	-	-
	14,082	13,940	13,837	13,787	13,733
Compressor Stations					
TransGas Limited					
	22	22	22	22	22
Many Islands Pipe Lines (Canada) Limited	1	1	1	1	1
Bayhurst Gas Limited	3	-	-	-	-
	26	23	23	23	23
Compression Horsepower					
TransGas Limited					
	93,550	100,620	100,620	100,375	100,375
Many Islands Pipe Lines (Canada) Limited	4,000	4,000	4,000	4,000	4,000
Bayhurst Gas Limited	6,300	-	-	-	-
	103,850	104,620	104,620	104,375	104,375
Peak Day Gas Flows –					
Winter Season (Petajoules)	1.46	1.30	1.30	1.36	1.28
Date of Peak Day Flow	Jan. 22	Jan. 28	Feb. 26	Dec. 11	Dec. 19
Storage Cavern Sites	7	7	7	7	7
Storage Caverns	23	23	23	24	24
Storage Field Sites	3	3	3	3	3

¹ Effective January 2003, the Beacon Hill storage field assets were transferred from TransGas Limited to Bayhurst Gas Limited (an affiliate).



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For additional copies of this year's annual report,
please call SaskEnergy at (306) 777-9378 or visit our website.

**This is part of a three-book set consisting of the Annual Report 2003,
Management's Discussion and Analysis 2003 and Corporate Social Responsibility Report 2003.**