



SaskEnergy

SASKENERGY ANNUAL REPORT
BREAKING GROUND

2008

CHAIR/PRESIDENT'S MESSAGE



On behalf of the SaskEnergy Board of Directors, I am pleased to provide my perspective on the Organization's 2008 performance.

We are pleased to see SaskEnergy's focus on strong operational performance in its core utility operations. Management was successfully focused on delivering safe and reliable service at competitive rates in 2008, while maintaining a high grade of customer service. The Corporation's Strategic Plan and reporting scorecard demonstrate its overall achievement of these objectives, which are arguably the most important to its customers.

At the same time, SaskEnergy is playing an important supporting role in building the energy sector within our Province and growing the capacity of the private sector. Relationships such as the SaskEnergy Network of private-sector plumbing and heating companies and the TransGas Customer Dialogue, whereby a proxy of transmission and storage customers mutually discuss policy and rate issues, are illustrative of this approach. We look to the company to productively expand these relationships and others in 2009. New business directions, such as its existing flare gas partnership with ATCO which is slated to expand, should provide SaskEnergy with the opportunity to leverage additional private sector capital and investment in growing Saskatchewan for the future.

The impact of the economy and the industry as a whole on the business will require continued diligent management in 2009. The core utility distribution, transmission and storage businesses are fundamentally well positioned to keep delivering cost-effective customer service and industry-comparable returns through the duration of the downturn. Historically, the company has effectively managed internal and external resourcing to arrive at the most appropriate mix which will become even more crucial should the downturn become more sustained. Longer term, we would share management's view that the natural gas industry is likely to recover significantly, and create additional growth opportunities.

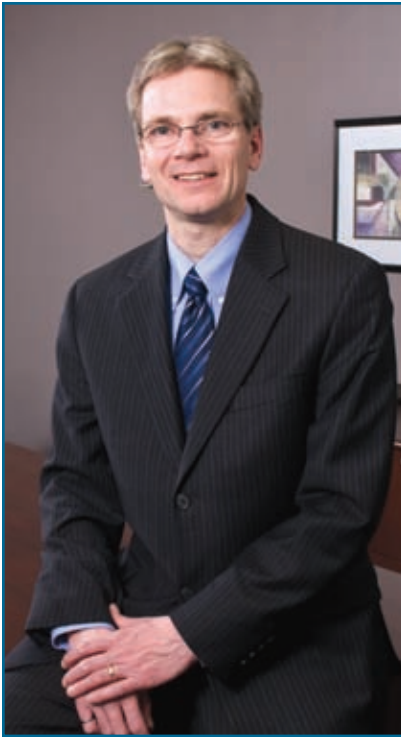
I thank management for its good and cooperative working relationship with the Board of Directors. The focus of the Strategic Plan around future, growth, service and people directions is balanced and provides considerable direction in making sure we all put our efforts in the right place, for the benefit of our customers and our shareholders, the people of Saskatchewan.

[Original signed by R. Pletch]

Robert Pletch
Chair, SaskEnergy Board of Directors

PRESIDENT'S MESSAGE

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The value of SaskEnergy's strong connections — to our partners, to the private sector and to the customers we serve throughout the Province — was highly evident during the economic fluctuations of 2008.

The significant changes that affected the commodity market, including natural gas, were felt at SaskEnergy and TransGas, as both natural gas users and producers moved from heightened market pricing in the first part of 2008 through a cycle of dampened pricing in the latter part of the year, triggered by the world economic slowdown. The resilience of our Strategic Plan and our partnership model gives us confidence in a bright future. We are ready to keep “breaking ground” for the future, as proven by the following 2008 achievements:

- We served 6,094 new customers with natural gas in 2008, the highest total since the 1980s.
- We continued our commitment toward operational efficiency with the implementation of mobile work dispatch technology that will allow us to deliver better customer service in a timelier manner.
- We are leveraging our core expertise through partnerships with the private sector, including working with ATCO to expand our flare gas capture business in southeast Saskatchewan and a consortium led by the Petroleum Technology Research Centre and other partners on a highly promising project to transport and store carbon dioxide in an underground aquifer.
- Our core distribution and transmission businesses remain fundamentally healthy, as we provide competitive rates to our customers, and competitive returns to our shareholder.

In terms of go-forward strategies, “Our Service” focus is at the forefront. We will continue to concentrate on a high customer service standard with the realization that new solutions will be critical to our success. Within these efforts is the priority of maintaining a safe and reliable pipeline system, some components of which are over 50 years old. Our ability to meet these substantive challenges, and others, is linked both to our skills and experience but also to our success in achieving meaningful external partnerships with communities and businesses around the Province. This is highlighted by the SaskEnergy Network, our private sector plumbing and heating partnership of 138 businesses around the Province, which jointly participates with SaskEnergy in delivering customer energy efficiency programs.

SaskEnergy and TransGas invest more people and capital resources in ensuring safe and reliable natural gas service annually than any other single activity. Such are the responsibilities of operating an integrated 80,000 kilometre system that must transport and deliver natural gas on the coldest days. It is why we use leading-edge technologies to ensure we maintain a system over 50 years old and ensure our employees are trained to implement leading-edge safety practices.

While sometimes that reliability may be taken for granted by our customers, we can never lose the focus of ensuring we both communicate and practice the importance of safety. The tragic Nipawin incident in 2008 certainly recognized the response of our dedicated and well-trained staff as well as emergency responders from Nipawin and the surrounding areas in dealing with the situation. This is why we will continue to invest the necessary time, effort and resources on safety.

As part of "Our Future" strategy, we continued to touch people across the Province through our community investment program, by participating in 1,321 projects which reached 328 cities, towns and villages in Saskatchewan. The principle of helping communities leverage additional capacity lies at the heart of our program, with no greater illustration being the third annual province-wide Share the Warmth Home Energy Efficiency Project whereby more than 500 internal and external volunteers came together to make energy efficiency improvements for some 500 low-income homeowners across the Province. This special spirit of giving and community engagement is an important part of our culture.

"Our People" strategies have proven effective in meeting the continuing challenge of renewing our workforce. Simply put, we are a younger company, with 17 per cent of our

workforce now 30 years of age or under. With our external recognition received in 2008 as a Top 100 employer in Canada, we believe SaskEnergy is positioned to meet future demographic changes. In addition, partnerships have effectively allowed SaskEnergy and TransGas to increase our Aboriginal representation, currently at nearly 14 per cent of our workforce. These efforts have included working with the Dumont Technical Institute and the Saskatchewan Indian Institute of Technologies to recruit candidates for entry-level trades jobs while initiating a new partnership in 2008 with the University of Saskatchewan to stream Aboriginal professionals to our company.

We are excited by the Saskatchewan-based focus of "Our Growth" strategies. While we have already realized opportunities such as flare gas capture and transport, Saskatchewan is presenting several other opportunities in the mid-streaming and storage business that may well allow us the benefit of leveraging our expertise. These ventures will allow us to support further energy-based economic activity within Saskatchewan, including continued focus on private sector partnerships.

I want to thank all of our employees for their efforts in 2008 and all of our over 340,000 distribution, transmission and storage customers. Without all of you, there can be no business. It is my great privilege, and that of the entire executive team, to work in your collective service.

Sincerely,

[Original signed by D. Kelln]

Doug Kelln
President and Chief Executive Officer, SaskEnergy

FINANCIAL AND OPERATING HIGHLIGHTS

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CONSOLIDATED FINANCIAL INFORMATION*	2008	2007	2006	2005	2004
<i>(\$ millions)</i>					
Commodity sales	441	400	389	376	387
Gas marketing sales	576	485	594	644	327
Delivery revenue	182	167	153	156	162
Transportation and storage revenue	77	82	86	86	87
Other	41	37	32	37	31
Total revenue	1,317	1,171	1,254	1,299	994
Commodity cost of gas sold	479	373	395	365	349
Gas marketing cost of gas sold	539	450	558	599	290
Operating expenses	269	260	248	258	247
Total expenses	1,287	1,083	1,201	1,222	886
Net income	30	88	53	77	108
Dividends	43	53	35	29	70
Total assets	1,561	1,411	1,327	1,371	1,286
Property, plant and equipment – net	1,008	978	955	947	949
Capital expenditures	124	100	71	59	68
OPERATING STATISTICS	2008	2007	2006	2005	2004
Distribution volumes (<i>petajoules</i>)					
Residential	33	30	29	30	32
Commercial	30	29	27	28	29
Farm	3	3	3	4	4
Industrial	72	70	66	66	69
TOTAL	138	132	125	128	134
Transmission volumes (<i>petajoules</i>)					
Domestic	216	208	204	201	211
Export	81	121	155	162	147
TOTAL	297	329	359	363	358
Number of customers					
Distribution	342,606	336,512	332,148	329,240	327,586
Transmission	129	129	124	121	108

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

FIVE-YEAR OPERATING SUMMARY — DISTRIBUTION

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	2008	2007	2006	2005	2004
Sales in million cubic metres ¹	3,675	3,498	3,339	3,411	3,607
Residential annual average usage (<i>cubic metres</i>)	3,088	3,025	2,873	3,060	3,287
Degree days ²	5,990	5,700	5,345	5,577	5,844
PIPELINE					
<i>(kilometres)</i>					
Distribution Utility					
SaskEnergy Incorporated	66,709	66,340	66,043	65,872	65,712
Swan Valley Gas Corporation	120	120	120	120	120
TOTAL	66,829	66,460	66,163	65,992	65,832

¹ Retail, industrial and natural gas marketing.

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

FIVE-YEAR OPERATING SUMMARY — TRANSMISSION

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	2008	2007	2006	2005	2004
Peak day natural gas flows (<i>petajoules</i>)	1.50	1.49	1.53	1.38	1.48
Date of peak day flow	Jan. 28	Feb. 14	Feb.16	Jan.15	Jan. 27
Storage cavern sites	8	8	8	8	7
Storage caverns	26	26	25	24	22
Storage field sites*	3	3	3	3	3
Producing field sites*	1	1	1	1	1
PIPELINE					
<i>(kilometres)</i>					
TransGas Limited					
Transmission	13,592	13,573	13,528	13,482	13,412
Gathering	199	197	197	188	188
Many Islands Pipe Lines (Canada) Limited					
	435	435	435	435	435
Bayhurst Gas Limited					
	113	113	92	92	92
TOTAL	14,339	14,318	14,252	14,197	14,127
COMPRESSOR STATIONS					
TransGas Limited					
	22	22	22	23	22
Bayhurst Gas Limited					
	4	4	3	3	3
TOTAL	26	26	25	26	25
COMPRESSION HORSEPOWER					
TransGas Limited					
	82,200	82,200	82,200	88,325	93,550
Bayhurst Gas Limited					
	6,835	6,835	6,300	6,300	6,300
TOTAL	89,035	89,035	88,500	94,625	99,850

* Includes Bayhurst Gas Limited.