



SUMMARY OF COMMODITY RATE APPLICATION

November 1, 2005

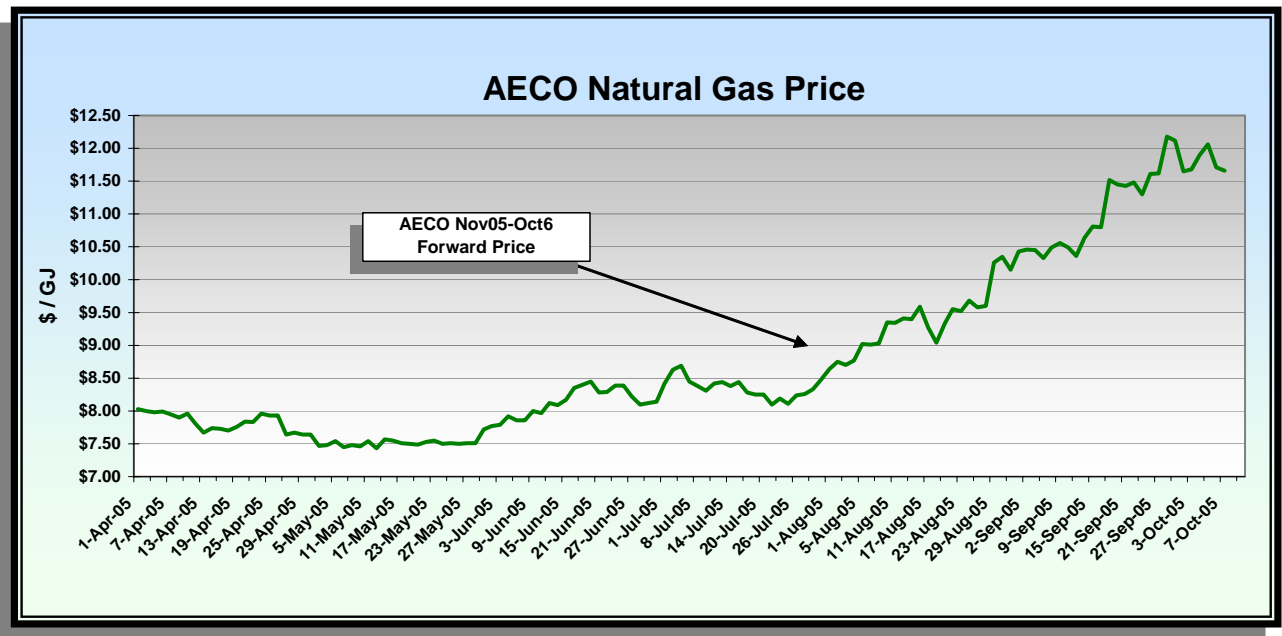
(Revised October 11, 2005)

Introduction

SaskEnergy buys natural gas on the open market on behalf of its 319,500 customers. According to standard regulatory practice, SaskEnergy is to pass on the cost of gas to customers at the same price it pays suppliers for the gas. Over this past summer the market price of natural gas reached record levels. Through its price risk management plan, SaskEnergy has been able to minimize the impact of higher costs to the end of October 2005. However, forecasted gas costs starting in November are considerably greater than its current commodity rate of \$6.97/GJ which was last adjusted in August 2003.

Background

Natural gas prices have been rising throughout 2005. Growth in demand for natural gas, particularly in the electrical power generation sector, has been tremendous. Record gas well drilling by producers has not yet resulted in an increase in production to match the increased demand. To date the gap between demand growth and continental supply has been primarily met with imports of liquefied natural gas (LNG). However the current LNG infrastructure is limited, and until more capacity is built, natural gas prices will be extremely sensitive to weather – specifically hot summers and cold winters.



Excessive heat this past summer in the most highly populated areas of Eastern Canada and the U.S. caused demand for electricity to meet air conditioning loads to reach record levels. Any concerns over production capability have an immediate impact on prices, and with 20% of total natural gas produced in the U.S. coming from the Gulf of Mexico, an active hurricane season raises concerns of natural gas production.

This concern became a reality on August 29, 2005, when Hurricane Katrina made way through the Gulf of Mexico. Still struggling to recover from Katrina, Hurricane Rita slammed through the Gulf on September 24, 2005. Serious damage to energy infrastructure, both on and offshore is expected to negatively impact production through the winter. This resulted in prices moving substantially higher over the past few weeks. Although SaskEnergy sources all of its natural gas from Saskatchewan production, it must pay the going North American price to secure the gas.

➤ **Key Issues**

- ◆ SaskEnergy buys its customers’ natural gas on the open market.
- ◆ SaskEnergy does not profit from commodity prices since it only collects from customers what it pays to suppliers.
- ◆ The price of natural gas has risen dramatically over the past year and is now \$4.00 to \$7.00 per gigajoule above SaskEnergy’s existing commodity rate.
- ◆ SaskEnergy’s proposed rate represents an approximate 41% system-wide impact for SaskEnergy customers.

Rate Proposal

SaskEnergy is proposing to increase the current commodity rate of 25.82 cents per cubic metre (\$6.97/GJ) to 40.39 cents per cubic metre (\$10.88/GJ) effective November 01, 2005.

This rate recognizes current market prices, gas held in storage, and the target recovery of the existing GCVA deficit within one year.

Customer Bill Impacts

Customer bill impacts include both the Gas Consumption charge and Delivery charge. The bill impacts are calculated over the 12 months – November 01, 2005 to October 31, 2006.

The average residential customer will see their monthly bill increase by \$39 or about 40%.

Gas Consumption Charge of 40.39 Cents Per Cubic Metre Effective November 01, 2005		
Rate Class	Average Increase (Dollars per Month)	Average Increase (%)
Residential	39	39.6
Farm	50	40.2
General Service II	148	43.1
General Service III	2290	46.2

Excludes Municipal Payments and Federal Goods and Services Tax (GST).
Over all classes, the average increase on the total bill is 41%

General Service II includes most main street businesses including restaurants, as well as curling rinks, smaller elementary schools and hospitals, commercial agricultural operators, and nonprofit organizations. These customers consume up to 100,000 cubic metres of natural gas annually, which would be approximately equivalent to 30 homes.

General Service III customers consume between 100,000 and 660,000 cubic metres of natural gas annually. These are larger hotels, high schools, and hospitals; larger municipal offices or warehouse buildings; larger office buildings, livestock operations and manufacturers.

Summary

In order to recover the high increase in the price of natural gas, SaskEnergy requires a commodity rate increase.