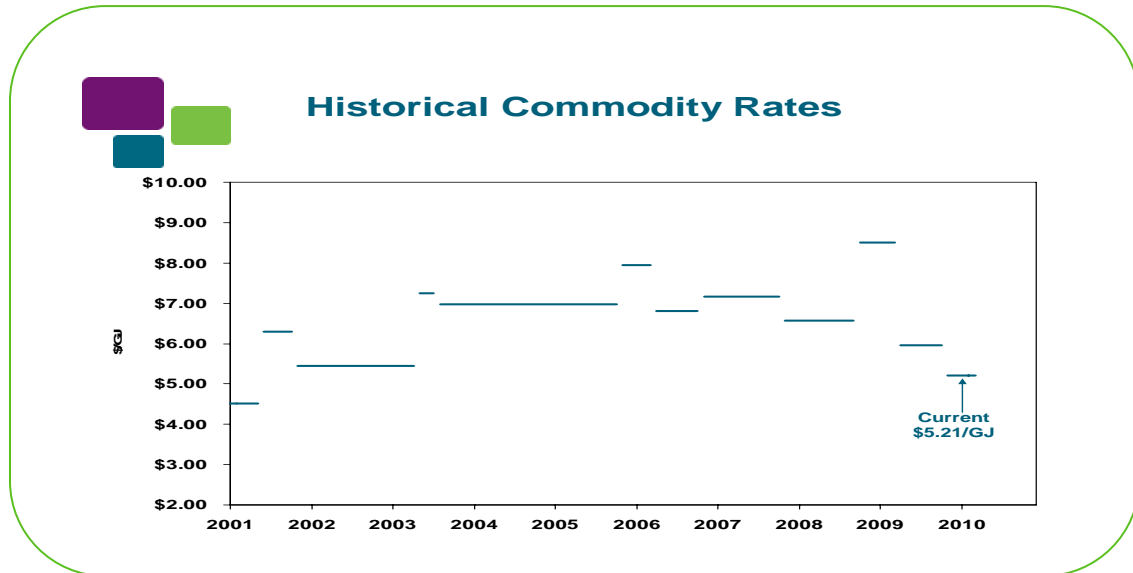


SaskEnergy Commodity Rate 2009 Review and Natural Gas Market Update

The following is a discussion of how SaskEnergy sets its commodity rate, the status of the natural gas marketplace and the Corporation's 2009 performance.

A. Residential Commodity Rates

SaskEnergy's commodity rate that was approved for November 01, 2009 is the lowest commodity rate that our customers have seen in almost nine years.



In setting the commodity rate, SaskEnergy follows the standard natural gas utility regulatory practice in Canada to pass through the cost of gas sold to customers without markup. No profit or loss should be incurred by the utility on the sales of natural gas.

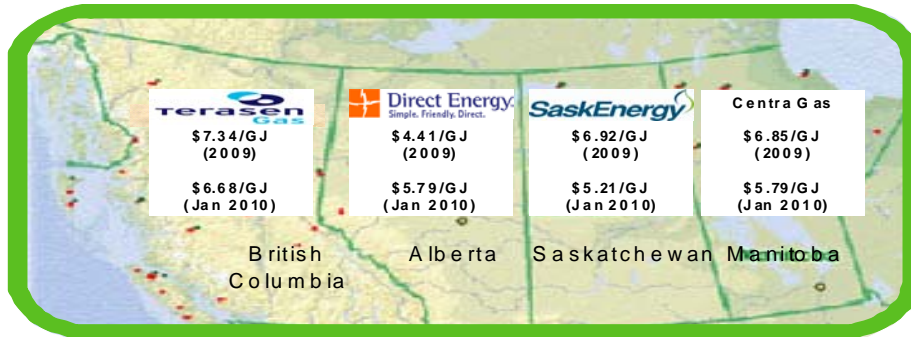
The difference between SaskEnergy's cost of gas and the revenue generated from commodity rates is tracked in the Gas Cost Variance Account (GCVA). Balances in the GCVA are refunded to or collected from customers in future commodity rate applications. This process supports the principle that no profit or loss is made by SaskEnergy on the sale of natural gas. The company's auditors, as well as the Saskatchewan Rate Review Panel, independently monitor the GCVA to ensure this principle is followed.

Each natural gas utility across Canada has a different rate setting process within their province. SaskEnergy's process is to recommend a rate based on the forward natural gas market and reduction of the GCVA balance to zero over that same 12 month time period. The rate is established for November 01 of each year and then reviewed for a potential change on April 01 if the GCVA continues to be too large or if market conditions change. Rate applications are reviewed by the Saskatchewan Rate Review Panel and they make a recommendation to Cabinet for their approval.



Residential Commodity Rate

Weighted Average Commodity Rate Jan-Dec 2009
Current Rate January 2010



Winter Price Protection < 60% 0% 90% < 80%

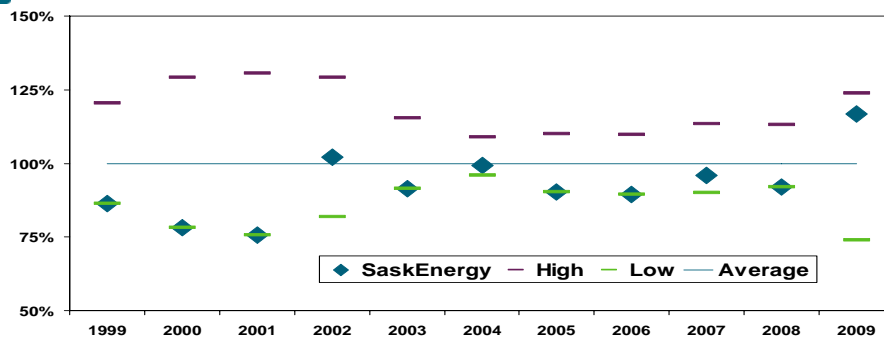
- 70% of gas used in the winter

The SaskEnergy rate was \$8.51/GJ from January 1 to March 31, \$5.96 from April 01 to October 31 and \$5.21/GJ from November 1 to December 31. The current rate is very comparable to other utilities with the added value that the majority of the 2009/10 winter supply costs are fixed to protect against upside volatility that is prevalent in the natural gas market. SaskEnergy had the lowest commodity rates in 2008 and the lowest in 7 out of the last 11 years.

Currently, the rate is very comparable to Manitoba (Centra) and British Columbia (Terasen) that provide price protection to their customers. Rates for these utilities are \$6.68/GJ for Terasen and \$5.79/GJ for Centra. This compares to SaskEnergy's \$5.21/GJ.



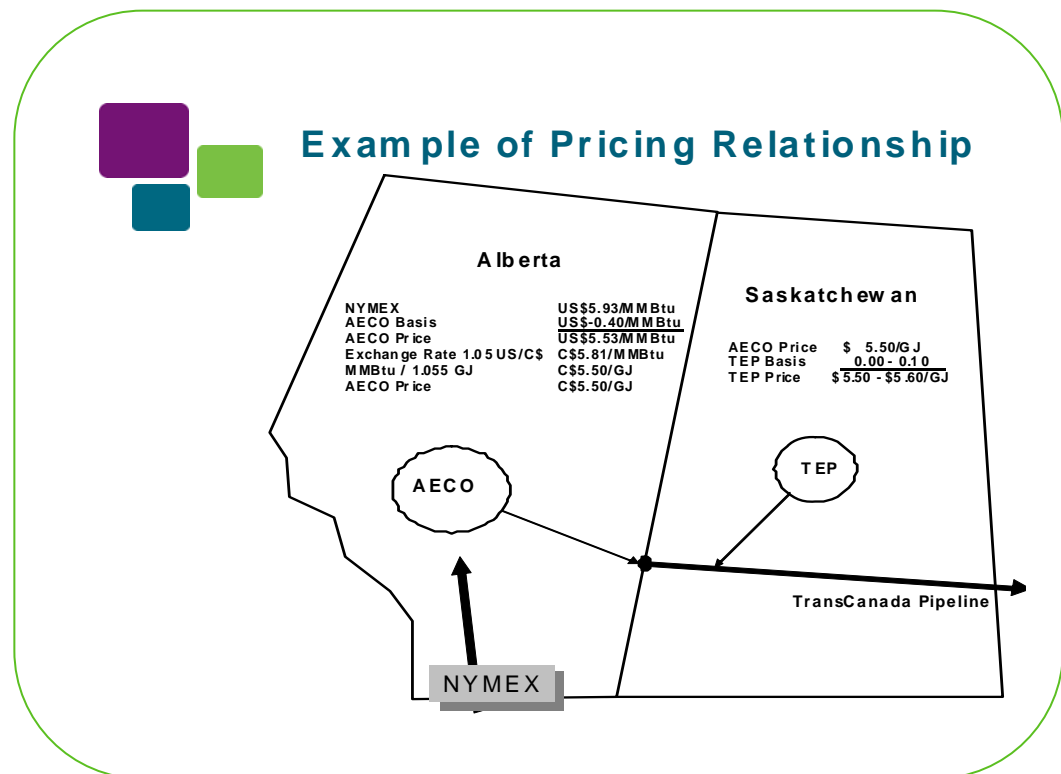
Comparison to Other Major Canadian Utilities



Lowest in Canada 7 of the last 11 years

AECO is the largest natural gas hub in Canada and is located in Alberta. AECO is priced as a basis (differential) to NYMEX which typically represents regional differences in supply and demand and usually considers the cost to transport gas from western Canada to the high consuming regions in the east. When a large volume of transactions occur at a hub, such as AECO, it becomes a pricing reference point for smaller hubs such as in Saskatchewan. SaskEnergy purchases almost all of its natural gas supply from producers in Saskatchewan. This gas is exchanged at the TransGas Energy Pool (TEP) and the price is quoted as a basis (differential) to AECO prices in Alberta. Therefore factors affecting the price of gas in North America, reflected in the NYMEX natural gas price, affect the price of gas in Saskatchewan.

NYMEX natural gas is quoted in U.S. dollars and is bought and sold in millions of British Thermal Units (MMBtu). Therefore once the AECO price is expressed in US/MMBtu, it must be converted to Canadian dollars and to gigajoules, the standard energy unit used in Canada. Changes in the Canada-U.S. exchange rate affect the price of natural gas in Canada. An appreciating Canadian dollar results in lower Canadian natural gas prices and a depreciating Canadian dollar results in higher natural gas prices, all things being equal. Following is an example of NYMEX natural gas prices converted to the price of gas in Saskatchewan.



iii) **SaskEnergy's Natural Gas Price Risk Management Program**

SaskEnergy has a natural gas price risk management program where it uses financial instruments to manage the price of the natural gas it buys on behalf of its customers. The goal of the price management program is to reduce the volatility of natural gas prices and to have rates that are competitive to other utilities. Over the last several years natural gas prices have illustrated considerable volatility (+/- \$4.00/GJ) making stability highly valued by our customers.

In order to reduce volatility, SaskEnergy may use fixed price swaps or futures contracts to lock in the price of gas for a period in the future. As natural gas is largely used for heating, winter prices have been historically higher than summer and more volatile. Therefore, in the summer, SaskEnergy may lock in the price of gas for the upcoming winter. If natural gas prices have changed by the time the gas is delivered, SaskEnergy's contracted price remains the same. At times SaskEnergy's contracted price will be lower than the market price when the gas is delivered and sometimes it will be higher. The benefit of this type of strategy is that the price for natural gas that SaskEnergy will be paying is known in advance – regardless of what the market price of gas does.

To contribute to its goal of having rates that are comparable to other utilities, SaskEnergy will sometimes accept the market price of natural gas and/or use options strategies to keep the price it pays for natural gas within certain ranges. The benefit of these strategies is that if market prices fall, SaskEnergy's commodity costs will also fall. On the other hand, if prices rise, SaskEnergy's cost of gas may also rise.

The two objectives naturally oppose each other and the balance between the two will change depending on existing market conditions. In the longer term, this price management strategy has proven effective for Saskatchewan consumers. SaskEnergy's price management strategy has achieved the lowest commodity rate for residential customers in 7 out of 11 years.

C. Natural Gas Market Update – December 2009

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. Because of 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. Natural gas prices are extremely volatile due to the high degree of uncertainty associated with weather.

Lower demand and increased production resulted in an over abundance of natural gas throughout 2009. After a sharp drop in natural gas demand in North America as a result of the 2008 recession, demand for natural gas finally began to show signs of recovery during the fourth quarter of 2009. November statistics show U.S. industrial activity stabilized in October and grew 0.8% in November. On the supply side, technological advances in horizontal drilling and fracturing techniques made production of natural gas from shale rock economically viable. This materially increased natural gas supply on the continent in 2009 and is expected to result in a lower long-term price of natural gas than in recent years. However, with demand still primarily weather driven, volatility in prices is expected to continue.

The Energy Information Administration (EIA), the U.S. government agency which reports the volumes of natural gas in underground storage each week, showed natural gas in storage peaked at 3.84 trillion cubic feet in November 2009. This was a new record for total gas in storage in the U.S. Despite cold weather in the high consuming regions of the continent in December, working gas in storage was still at 3.57 trillion cubic feet in the United States at December 11, 2009 – a record high for that time of year.

Its ease of use and its relative environmental benefits compared to fossil fuels, will ensure natural gas continues to be a smart energy choice into the future.

For more information with regards to the natural gas market place, refer to the following links for the National Energy Board (NEB) and the United States Energy Information Administration (EIA).

NEB: <http://www.neb-one.gc.ca/clf-nsi/rnrgynfmtn/prcng/prcng-eng.html>

EIA: <http://tonto.eia.doe.gov/oog/info/ngw/ngupdate.asp>