Looking Forward…

to Enhancing Customer Service.
to Competitive Opportunities.
to Working With Our Communities.
to Expanding Our Business.
to Our Future Together.
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...to Enhancing Customer Service.
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1997 ANNUAL REPORT
All successful companies are guided by a long-term vision of where they want to go and how they plan to get there. Moreover, all winning organizations have a clear and meaningful set of values that help define the organization’s philosophy and operational style. SaskEnergy is no different. Set out below are our perspectives on the future and the values we believe will guide our way.

**VISION**

SaskEnergy will be Canada’s leading energy company by anticipating our customers’ changing needs and providing innovative and responsive solutions.

**MISSION**

SaskEnergy employees provide natural gas and related services to fulfill the needs of customers and gas producers while enhancing Saskatchewan’s competitive position.

**VALUES**

- **Employee Development**
  - We are committed to continuous employee development.

- **Individual Contribution**
  - We enable individuals to be responsible and accountable for providing excellent customer service.

- **Trust and Teamwork**
  - We have relationships that are based on trust, cooperation and teamwork.

- **Safety, Health and Environment**
  - We provide a safe, healthy workplace and high environmental and public standards.

- **Union Equality**
  - We recognize and respect our partnership with the union.

- **Partnerships**
  - We will develop partnerships that will enhance the economic well-being of Saskatchewan.

- **Community Involvement**
  - We encourage corporate and individual involvement in community activities.

- **Recognition**
  - We recognize the contributions of individuals and teams.

- **Respect**
  - We respect one another and the importance of family.

- **Customers**
  - We are committed to providing consumers and gas producers with reliable, cost-effective service.
March 31, 1998

To His Honour
The Honourable J.E.N. Wiebe
Lieutenant Governor of the Province of Saskatchewan

Dear Sir:

I have the honour to submit herewith the Annual Report of SaskEnergy Incorporated for the year ended December 31, 1997 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.

Respectfully submitted,

Dwain Lingenfelter
Minister Responsible
SaskEnergy Incorporated
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Directors & Executive
A NEW OUTLOOK

Chairman’s Message

As I visit and meet with people across the province, I am constantly reminded of the deep sense of pride and the tradition of service that is both the legacy and the future of Saskatchewan’s Crown corporations.

For decades, Crown corporations have been committed to the concept of universally available and affordable service, and SaskEnergy is no exception. In the face of distance, geography, and a widely dispersed population, SaskEnergy has built and operates the largest natural gas distribution system in North America, while at the same time providing rates that are among the very lowest on the continent.

Such an achievement does not come by accident. By building bridges and real links of communication with its customers, employees and industry, SaskEnergy has forged a company that can confidently face a future filled with change.

Even in its relatively mature market, it is a company that continues to add new customers, and find more ways for people to take advantage of a safe and clean-burning energy source, natural gas. It is also choosing to embrace the changes brought through increased customer choice, by opening the residential gas supply market to competition.
At the same time, TransGas, SaskEnergy’s subsidiary, continues to pioneer innovative ways to provide transportation and storage services to its industrial and commercial customers, gas producers and marketers — a significant and important segment of Saskatchewan’s economy.

This type of vision comes from the Corporation’s strong relationship with its shareholders, the people of Saskatchewan, who are also the company’s main customers. SaskEnergy has therefore rededicated itself and this annual report to those customers: they are the prime reason for its continuing success.

By looking forward and being open to new services for customers, competition and the opportunities it offers, and business growth within and beyond our borders, SaskEnergy is committed to reaching its goal to be Canada’s leading energy company.

Most importantly, SaskEnergy will maintain the foremost strength upon which it was built, providing a safe, cost-effective and reliable source of energy for businesses and homes across Saskatchewan.

Honourable Dwain Lingenfelter
Minister Responsible for SaskEnergy
As we at SaskEnergy look forward to an exciting and challenging future, we maintain a profound sense of the privilege of serving our shareholders, the people of Saskatchewan.

For 45 years Saskatchewan people have counted on our commitment to provide safe, reliable and dependable natural gas service at rates that are among the lowest in North America. That commitment will not change.

Our SaskEnergy team will continue to work with you to meet your natural gas needs, playing an active role in the health and well-being of your communities. Our corporation will continue to buy locally, support education, youth and literacy and lead the way in environmental stewardship. That commitment will not change.

Furthermore, we will continue to operate cost-effectively, actively seeking new and innovative ways to bring the benefits of natural gas to the homes of more Saskatchewan families and the workplaces of more Saskatchewan businesses. That commitment will only grow.

It is for the next generation of Saskatchewan children that we look forward in new directions to strengthen SaskEnergy. And we plan to succeed.
Building and operating one of the largest natural gas transmission and distribution networks in North America has given SaskEnergy employees a unique set of skills not available elsewhere.

Not only do we know how to do things well, we know how to do them efficiently and effectively. When we measure our performance against natural gas companies of a similar size, SaskEnergy and our subsidiary, TransGas, perform extremely well on a consistent basis.

So for us, the question is not whether we can succeed, but how our achievement can continue to benefit SaskEnergy and Saskatchewan people — whether that opportunity is entering a new market to provide services for customers in Saskatchewan, or examining a new business venture beyond our borders.

The answers are clear: New jobs and new opportunities for Saskatchewan. New revenues to help expand our natural gas network and services and keep your rates affordable. And a concrete way to protect and strengthen your natural gas utility during these times of change.

That is what looking forward is all about.

As our shareholders, you can rest assured that we will carefully apply due diligence and scrutiny to any new directions, as we have in the past. Those traits have made our company an industry leader. We will never jeopardize the proud heritage of affordable, dependable service that has been the hallmark of SaskEnergy and its employees.

We have long been part of the Saskatchewan community. Moreover, we’re here to stay.

Ronald S. Clark
President and Chief Executive Officer
A NEW OUTLOOK

Corporate Profile

SaskEnergy Incorporated (SaskEnergy) is a provincial Crown corporation operating under the authority of The SaskEnergy Act. The Distribution Utility provides natural gas service to residential, farm, commercial and industrial customers in Saskatchewan. SaskEnergy’s wholly owned subsidiaries include TransGas Limited (TransGas), SaskEnergy International Incorporated (SEII), Many Islands Pipe Lines (Canada) Limited (MIPL) and Bayhurst Gas Limited.

SaskEnergy has consolidated assets of over $1 billion and consolidated annual revenues of over $350 million. The Corporation and its subsidiaries perform the following functions:

- Through its 60,000 kilometre (km) distribution system, SaskEnergy, the Distribution Utility, supplies and delivers natural gas to homes, farms, and commercial and industrial customers, in about 560 communities. SaskEnergy has more than 309,000 customers.

SaskEnergy also purchases natural gas from independent suppliers and contracts the transport of natural gas supplies to the distribution system.

- TransGas owns and operates transmission, gathering, compression, treatment and natural gas storage facilities in Saskatchewan. TransGas and its affiliate, MIPL, own and operate more than 13,500 kilometres of gathering and transmission pipelines in Saskatchewan. TransGas’ 11 storage locations store almost 38 billion cubic feet (Bcf) or 1,070 million cubic metres (10^6 m³) of natural gas.

TransGas transports natural gas for more than 280 customers, including SaskEnergy, as well as producers, industrial and commercial customers. TransGas’ interconnections with MIPL on Saskatchewan’s western border provide access to Alberta gas supplies. TransGas’ and MIPL’s interconnections with other transmission systems (Foothills Pipe Lines Ltd., TransCanada PipeLines Limited, Havre Pipeline Company and Williston Basin Interstate Pipeline Company) provide access to eastern Canadian and American markets.
• SEII was created in 1996 to market the Corporation’s operational and technological expertise throughout North America and the world. Transmission, storage and distribution services and expertise are marketed to enhance SaskEnergy’s core business performance and provide additional revenue opportunities.

SEII, with its objective of enhancing the Corporation’s growth and providing employees with additional challenging assignments, participated in several projects in 1997.

• MIPL owns several transmission pipeline facilities, which are used to transport natural gas interprovincially from Alberta to Saskatchewan, and internationally, both to and from United States interconnecting pipelines. This company is regulated by the National Energy Board, which maintains jurisdiction over the interprovincial and international movement of natural gas.

MIPL’s connecting facilities to the United States include a pipeline that transports natural gas from the United States border to the TransCanada PipeLines Limited interconnection point at Herbert, Saskatchewan. In the Steelman area of southeast Saskatchewan, MIPL has a 36 kilometre pipeline that connects to the Williston Basin Interstate Pipeline Company system at North Portal, Saskatchewan, allowing natural gas to reach American markets through North Dakota.

• Bayhurst Gas Limited owns a gross overriding royalty on certain petroleum and natural gas properties.

MIPL and Bayhurst Gas Limited do not have employees. Their affairs are managed by SaskEnergy and TransGas.
SaskEnergy is a ten-year-old provincial Crown corporation with roots that extend 45 years into Saskatchewan’s history. Initially part of the province’s electric utility, SaskEnergy Incorporated became a separate entity in 1988 with a mandate to provide economical natural gas service to Saskatchewan customers.

Today our team of more than 900 employees serves some 309,000 customers in about 560 communities across Saskatchewan. We operate the natural gas transmission and storage system in Saskatchewan and the largest distribution network in North America, with a cost structure that ranks our operations among the most efficient in the industry. We have built our business upon our commitment to Saskatchewan — a commitment to provide the best possible natural gas service at the lowest possible price.

That commitment will continue in 1998, in our continuing effort to supply competitive natural gas service. SaskEnergy representatives are committed to working with Saskatchewan residents, communities, gas producers and businesses to expand our service area, and our skilled technicians are committed to delivering SaskEnergy’s tradition of safety, reliability and dependability across the province. Moreover, SaskEnergy employees who develop new programs are committed to helping our customers make natural gas a natural part of their lives.

**PROVIDING AFFORDABLE NATURAL GAS RATES TO CONSUMERS**

Providing customers with affordable, competitive natural gas rates has traditionally been one of our strengths. SaskEnergy does not own any major natural gas reserves, but rather purchases gas supply requirements for our customers on the open market. We strive to protect our customers from the fluctuations of that market by hedging; that is, we can lock in prices as a means to reduce volatility. With the assistance of our hedging program, our 1997 rates were the lowest among the provinces for the first time in the Corporation’s history.
Low rates also result from our commitment to supply natural gas at cost. Our profits come from distributing gas, not from the commodity itself which is typically the most volatile component of the rate structure. We provide rate decreases to our customers when natural gas prices fall, as they did in 1995 and 1996, and we pass along increases when natural gas prices rise. Four of the last five rate adjustments, including the 6.9 per cent increase of January 1, 1998, were made solely because of commodity costs. As part of our commitment to pass on actual costs, we will issue a rebate to customers in 1998 if natural gas prices fall below our expectations due to the weather effects of El Niño or other factors.

Competitive rates are an incentive to locate and do business in Saskatchewan. Our subsidiary, TransGas, will continue to offer its customers export transportation rates 10 per cent lower than similar services in Alberta, a significant benefit to producers, marketers and industrial customers.

**EXPANDING THE SASKENERGY NETWORK**

As natural gas is a cost-effective and environmentally friendly energy source, a growing number of customers seek new ways to take advantage of new service connections and the expanded use of natural gas appliances and equipment. SaskEnergy is committed to helping on both fronts.

By February 1998, more than 1,200 new SaskEnergy customers had requested quotations for natural gas connections for the coming year. In total, we are targeting 4,000 to 6,000 new customer connections, a significant increase over 1997. We expect that our continuing strong growth will include emerging agricultural markets, such as commercial grain dryers and hog barn operations.

To support and encourage this growth, and in response to customer requests, we will offer several new options in 1998 to help manage the initial cost of installing natural gas service. With SaskEnergy Customer Financing, customers who live in unserved areas can finance gas line installation costs through the Corporation for up to five years by making payments on their SaskEnergy bills. In many cases, the customers’ monthly payments, even with financing costs included, are less than the monthly cost of other energy sources, such as electric heat or propane.

Carrie Hubert-Brennan owns and operates the Fieldstone Inn, a bed-and-breakfast in Craven. One benefit of Hubert-Brennan’s work with neighbours to bring natural gas service to her community was the reduction of the Inn’s heating costs by about 66 per cent.

**Savings with Natural Gas**

[Graph showing savings with natural gas compared to other energy sources.]

Based on an average Saskatchewan household and winter, and the historical spread between fuel costs.
Financing has already proven to be an important tool for our customers. In 1996 and 1997, the Smart Choice Energy Conversion Program provided financing for purchasing and installing natural gas water heaters. In 1997, working with private contractors and natural gas dealers across Saskatchewan, consumers invested more than $500,000 in water heater conversion in the province. We are currently exploring ways to expand the financing program to include other natural gas appliances.

Communicating with potential new customers will continue to be a priority in 1998. SaskEnergy representatives will hold town hall meetings with resort, farm and First Nations communities to explain the benefits of natural gas service and to work with them on gasification projects.

SaskEnergy will also continue to work with northern communities which have expressed interest in natural gas service in 1998. Although these areas present a larger challenge because of their location outside the Corporation’s transmission network, SaskEnergy will attempt to reduce resulting higher service costs by examining every possible alternative and endeavoring to maximize natural gas loads.

BUILDING PARTNERSHIPS WITH INDUSTRY

Seeking new ideas and forging partnerships with industry and consumers are critical to our forward-looking vision.

In 1997, we established a series of discussions with mechanical contractors, natural gas equipment dealers, and natural gas appliance dealers in the province. Throughout 1998, participants in the SaskEnergy Industry Dialogue Process will work together to develop new business alliances to better serve Saskatchewan customers.
In a similar partnership, a commitment to open communication has already paid dividends for TransGas. The company will continue its Customer Dialogue Process with producers, marketers and end-users. Established in 1996, these round-table discussions examine key business issues presented by members and by TransGas. New initiatives have evolved, such as the TransGas tie-in policy, which provides for facilities to be constructed and operational within 90 days from the date of customer commitment. In addition, a subcommittee of the Customer Dialogue Process will keep working to increase natural gas development in the province. A robust natural gas industry is vital to the economic future of the province and to all producers and consumers, including TransGas.

TransGas will continue to serve its clientele of more than 280 marketers, producers and industrial and end-use customers with innovative services and solutions. Developed in 1996, the TransGas Energy Pool (TEP) will continue to provide customers with more flexible means of contracting transportation and storage of natural gas. Essentially a trading pool, TEP increases the commercial appeal of Saskatchewan’s natural gas by giving producers and potential customers increased access to one another. In 1997, during its first full year of operation, TEP’s title transfer activities totaled 9,650 transactions, trading about 54 billion cubic feet (Bcf) of natural gas.

TransGas will examine new options to provide its customers with natural gas storage, a service so popular that it was fully subscribed in 1997. The company operates storage service through 24 natural gas caverns and four former gas fields, and it is examining ways of expanding this service to meet the increasing needs of both short-term and long-term customers. Storage is used for seasonal and annual balancing of gas supply and demand. For example, demand for natural gas storage is high when there is a significant difference between summer and winter gas prices, as projected for 1998.

TransGas will work closely with potential customers in 1998 to match their short-term and long-term needs with an appropriate facility or storage service. TransGas will also seek to improve its service by considering the expansion of its storage facilities and entering new long-term contracts.
TransGas will continue to support the oil industry in 1998. In 1997, with a high level of oil well drilling in Saskatchewan, TransGas conducted many pipeline locates, assisting companies to conduct about 66,000 kilometers of seismic in their search for new oil and gas reserves.

Our experience in developing salt caverns also attracts interest from industries that need disposal sites for naturally occurring by-products from oilfields, including sand and hydrocarbon material. With the pending sale of three salt caverns, one at Landis and two in Melville, TransGas can optimize important assets, while providing the local oil and gas industry with an ecologically sound way of disposing of these by-products. TransGas anticipates further business opportunities in these areas in 1998.

**MAINTAINING OUR STRENGTHS**

By working with customers, listening to them and responding to their needs, SaskEnergy and TransGas will maintain low rate structures, expand their transmission and distribution systems, solidify relationships with industry partners and seek solutions to difficult issues — like serving northern Saskatchewan communities.

Safety and reliability will continue to be an integral part of our long-standing commitment to Saskatchewan consumers. In 1997, our service technicians conducted 28,000 service calls to help keep our customers warm and safe.

SaskEnergy is committed to becoming Canada’s leading energy company and Saskatchewan’s natural gas supplier of choice. To achieve these goals, we must continue to offer our customers the most competitive natural gas rates possible and innovative services, while maintaining our 45-year tradition of customer confidence in the reliability and dependability of our natural gas transmission and distribution systems.

As we face increased competition, we will continue to build on our strengths — safe, reliable and affordable service — so that we can remain Your Natural Choice.
To SaskEnergy, giving our customers the best service possible means giving them the freedom to choose.

SaskEnergy’s introduction of gas supply competition for residential and small volume users on November 1, 1998, will represent the next step in the evolution toward greater choice for Saskatchewan consumers. In the mid-1980s, the Canadian natural gas marketplace was deregulated for commercial, industrial and other large volume consumers. In Saskatchewan, these customers could stay with SaskEnergy as a full service customer, or purchase their gas from another supplier and contract separately for transportation service. It is important to remember that SaskEnergy has no monopoly mandate for supply of the actual natural gas commodity.

Competition in this market continues to be healthy for both SaskEnergy and its customers. By focusing on strong customer service and ensuring rates have been aligned in accordance with costs, SaskEnergy has remained a strong and effective competitor.

Today more consumers are looking for opportunities to compare price, service and reliability. That’s a challenge we are ready and eager to meet.

In November 1997, SaskEnergy entered the 45-day public review process as part of its application for a 1998 rate increase, due to higher cost of gas. We don’t like these increases any more than our customers do, but SaskEnergy purchases all its required gas supply from producers and gas prices are driven by the forces of supply and demand in the marketplace. Because natural gas is a pass-through cost for the Corporation, increases or decreases in market prices do not change our net income.
During the 45-day rate review process, customers told us they were unaware how natural gas rates were set, why these increases or decreases occurred, or how they could be sure they were receiving the best service at the best price.

From SaskEnergy’s perspective, fair and open competition is the solution. That is why we brought forward the concept of gas supply competition as part of public accountability. We believe customers want choice and the freedom to compare price, service and reliability among suppliers.

**KEEPING OUR SYSTEM SAFE AND RELIABLE**

SaskEnergy is proposing to open up to competition the commodity portion of residential and small business natural gas supply in Saskatchewan. Customers will have the choice of remaining with SaskEnergy or selecting an alternate supplier. The delivery service — the system of pipes, town border stations, infrastructure and service calls — will continue to be our responsibility. That means SaskEnergy will remain the distributor of natural gas and continue all current functions, providing safe, reliable and efficient service to all customers.

SaskEnergy will be collaborating with customers and competitors to establish fair and equitable terms and conditions for commodity competition. The Corporation plans to complete these arrangements by mid-year, so that all parties involved can prepare for the launch of competition on November 1, 1998.

We are confident in our ability to be competitive and offer excellent service. And we’re committed to doing more. Just as with the deregulation of the natural gas market for large customers, competition will create an environment that continually challenges us to better serve our customers’ needs. We will work hard to keep winning our customers’ business, not because we are the only supplier, but because we are the best supplier.
A strong sense of community has always been part of the fabric of life in Saskatchewan. People helping people build a better tomorrow: that is an important part of our history and our future.

SaskEnergy and its employees share this vision. Our culture is built on encouraging both individual and corporate involvement in every area of the province. By holding special events, supporting service projects and community activities, and helping non-profit organizations, SaskEnergy is focused on building and strengthening the larger Saskatchewan community for the betterment of all.

We support a broad range of community and charitable activities, and in 1998 our emphasis will be on youth and education, family health and safety, community leadership, aboriginal initiatives and Saskatchewan excellence.

Preparing our young people for the workforce of the 21st century means helping them understand important areas of study, such as science and technology. Science and related fields will create thousands of new opportunities in Saskatchewan for the next generation. That is why we have renewed our award-winning sponsorship of regional and provincial science fairs for another three years, providing Saskatchewan students with an opportunity to showcase their best efforts.

That is also why we are investing in a new, interactive, permanent exhibit at the Saskatchewan Science Centre. The centre will educate visiting students about the energy industry and its important role in our province. Promoting a similar, hands-on approach, we also sponsor the Federation of Saskatchewan Indian Nations (FSIN) summer science camp for aboriginal youth and Science and Technology Adventures for Regina Students (STARS), a conference and mentoring program that encourages young women to explore careers in the sciences.

Forty Aboriginal students attended the First Nations Summer Science Camp, sponsored by SaskEnergy and the FSIN. Classroom experience and other activities help spark interest in science and math, and encourage young people to stay in school.
We also recognize that while an increasing number of young adults have the mind to succeed, not all are given the tools.

With a new $500,000 post-secondary scholarship program, we will invest in 100 of Saskatchewan’s brightest minds of tomorrow over the next five years. In addition, we are extending a helping hand to young people who are determined to redirect their lives toward a more positive future, through programs such as the Adult Learning Centre. To help build the values of leadership and entrepreneurship, we also sponsor Junior Achievement.

Along the way, we have not forgotten what our young people can offer us. Our partnership with Thom Collegiate in Regina is indicative of the synergy that is possible when young people and businesses work together.

In 1997, SaskEnergy and Thom Collegiate developed a program to integrate computer technology, business needs and curriculum.

Thom students and staff put all their energy into involving schools across Saskatchewan in the fourth annual “Share the Warmth” Sweater Recycling project, designed to collect warm winter clothing for Saskatchewan families in need. Spurred on by a new province-wide effort, we collected 20,000 sweaters, making the program a resounding success. Next year, by involving more communities, schools, service organizations and youth groups, we expect even more donations to the Sweater Recycling initiative.
Our new involvement in Horses for the Handicapped — a therapeutic riding program in the Saskatoon area — builds on our past participation in Ranch Ehrlo, Camp Easter Seal and other ‘Share the Warmth’ projects, and helps deliver a legacy of lasting support to communities across Saskatchewan and their non-profit organizations.

Arts, culture and sporting events that highlight Saskatchewan excellence will continue to be a focus of our community involvement. From initiatives as varied as the Saskatchewan Indian Summer Games, Saskatchewan Book Awards, provincial theatre tours for youth and children’s festivals, SaskEnergy and its employees will be committed to making a difference in the quality of life that Saskatchewan people enjoy throughout 1998.

Amid the dozens of activities and events in which we are involved, seeing the effect that a program or sponsorship can have on the lives of Saskatchewan people brings a warm reminder of what is really important.

That is what being part of the Saskatchewan community is all about.
Looking Forward

...to Expanding Our Business

Our 309,000 Saskatchewan customers will remain our first priority. To better serve these customers, we are committed to being a strong performer in an increasingly deregulated marketplace — and to being the natural gas supplier of choice in Saskatchewan.

Serving new customers, both within our existing pipeline infrastructure and in northern Saskatchewan, remains at the forefront of our plans. By offering programs, such as SaskEnergy Customer Financing, and exploring new technologies, such as liquefied natural gas, we strive to bring the cost-savings of natural gas to as many Saskatchewan families, businesses and organizations as possible.

While we explore every opportunity to expand our operations here in Saskatchewan, we are sometimes presented with new opportunities that allow us to capitalize on our unique skills and experience. Prudently and carefully managed, these opportunities can provide new work experience and jobs for Saskatchewan people, as well as new revenues to keep our customers’ rates among the lowest in North America.

Since its beginnings in 1992, our gas brokering business has been an excellent example of the way we have used our expertise to increase revenues. Over the past five years, our brokering revenues have contributed over $16 million to SaskEnergy, helping to reduce the rates our customers would otherwise have paid. Revenues generated within our borders and beyond, also contribute to the overall growth and success of the Corporation and the province. Over the past decade, SaskEnergy and TransGas have provided nearly $200 million in dividends to our parent company, Crown Investments Corporation of Saskatchewan — revenues that ultimately support Saskatchewan, including our health, education and highway systems.
Exploring ways to market our expertise in developing salt caverns for natural gas storage holds similar promise for 1998 and beyond. With some 40 years of experience, we are among North America’s foremost experts. Our expertise is now being applied to other areas, such as the redevelopment of caverns to dispose of naturally occurring oil-field by-products, including sand and hydrocarbon material, in an economical and ecologically sound manner.

Our natural gas expertise has also attracted international interest. In 1997, we were awarded a consulting contract from the Canadian International Development Agency (CIDA) to undertake a major natural gas distribution feasibility study for the Government of Uruguay. The study, which was completed in December 1997, identified the technical and cost-of-service issues involved in providing natural gas service to customers throughout that country.

Through our efforts to create new business growth for SaskEnergy, we are creating more opportunities for Saskatchewan people to share their unique skills with others. For example, a SaskEnergy customer service manager recently assisted a power utility in the American mid-west with scheduling service and construction.

In examining any new opportunities, we always exercise caution and prudence. When appropriate, we will seek the advice of independent experts to ensure that new business opportunities will strengthen our Corporation and our province. Every project will be evaluated on sound economic business and operating criteria. Our employees look forward to these opportunities, and at SaskEnergy we are looking forward to growing our business for the benefit of our Saskatchewan customers.
Our philosophy is that positive changes within SaskEnergy, and the ability to understand our customers’ needs, begin and end with the people who serve them — our employees. Our people are our greatest asset. Our highly skilled and well-trained team of men and women take pride in delivering superior service to our customers. But as far as we have come, we know we can do more. That’s why we are building a workforce which will better reflect Saskatchewan’s demographics and diverse communities.

As part of that commitment, we instituted a formal policy on Aboriginal employment, business development, education and training. In 1996, our employees were the first in corporate Canada to volunteer for Aboriginal issue-based training, and their efforts were recognized by the Corporation, their Union, and our First Nations and Metis communities. We were successful in our Aboriginal Supplier Development program, creating an additional 20,000 person-days of employment for Aboriginal people in Saskatchewan in 1997.

Chief Joe Quewezance of the Saskatoon Tribal Council wrote in a recent letter to the Corporation, “SaskEnergy has truly led the way in Aboriginal policy development within Saskatchewan’s corporate sector.” Similarly, Pamela Sloan and Roger Hill report in Corporate Aboriginal Relations: Best Practice Case Studies, “The initial results from SaskEnergy’s Aboriginal Framework have been very positive. A number of partnership agreements are in place with tribal councils to facilitate Aboriginal recruitment. Aboriginal representation rates have increased sharply” (Toronto, 1995).
While we seek new opportunities for Aboriginal people and businesses, our focus will continue to be on our Saskatchewan customers, the core of our distribution and transmission businesses.

For them, natural gas has emerged not only as the low-cost alternative, but also as the cleanest burning alternative. A growing number of customers are choosing to make natural gas their fuel of choice for environmental, as well as economic reasons. For example, the future holds improved air quality for young figure skaters and hockey players, with the introduction of natural gas powered ice cleaners to six Saskatchewan arenas, and more are slated to follow in 1998. We actively encourage conversion to natural gas vehicles, and we support research and development into other non-traditional appliances, such as natural gas grain dryers.

While we act locally, we continue to think globally. We are working to improve and protect our planet’s future by cooperating in programs, such as the Kyoto Protocol to the United Nations Framework Convention on Climate Change, and by participating in an expected 80 environmental reviews in 1998.

The integrity of our delivery system and the safety of our customers are ongoing priorities at SaskEnergy. In 1998, we will expand our existing pipeline maintenance programs to ensure our natural gas lines are safe. Our team will be there around the clock if customers have any concerns with natural gas service.

SaskEnergy is working for you to deliver safe and reliable natural gas throughout Saskatchewan. We’re working with you to build a better future for all.
A Look At 1997

Significant Events & Highlights

Announced competition in the residential gas supply marketplace, scheduled to begin November 1, 1998.

Provided Saskatchewan customers with the lowest provincial natural gas rates in Canada.

Maintained safe and reliable natural gas service during the winter of 1996-97, one of the coldest on record.

Expanded our distribution system by 4,596 new customers, a significant increase over 1996.


Fully subscribed TransGas’ storage service.

Successfully completed the first year of operation of the TransGas Energy Pool.

Added six new receipt and 25 new delivery points on the TransGas transmission system.

Hosted more than 100 delegates for a national conference of the Canadian Gas Association, which represents more than four million Canadian customers.

Conducted a pilot project on Electronic Data Interchange with another company.
## Financial and Operating Highlights

### Consolidated Financial Statistics

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<td>Transportation and Storage Revenue</td>
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<td>Net Sales from Gas Brokering and Other</td>
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<td>Total Revenue</td>
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<td>Net Earnings</td>
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### Operating Statistics

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SASKENERGY

A Look At 1997

Distribution Utility

Providing the lowest rates ... during the coldest weather

SaskEnergy engineered and built its natural gas transmission, storage and distribution system to withstand the severest extremes of Saskatchewan's climate — the kind of winter 1996-97 proved to be. While the province endured several of the coldest months in its history, natural gas usage was at one of its highest points in history.

Throughout that period of extraordinarily high demand, when natural gas prices in the market increased, SaskEnergy offered its customers the lowest provincial rates in the country. We had anticipated the rising market prices in 1997 and we purchased most of our gas supply for the year at a locked-in price of $1.30 per gigajoule (a standard unit of purchase or sale) That saved Saskatchewan consumers between $25 and $30 million.

Our involvement in the natural gas brokerage business, which markets “off-peak” capacity, is another way of saving money for our customers. Additional revenues of about $6 million were generated through brokering activities in 1997, helping to maintain low natural gas rates for our customers and contributing to the economic health of our province.

In 1995 and 1996, falling commodity prices led to successive rate decreases totalling more than 11 per cent. But in July 1997, increased transportation and depreciation expenses at SaskEnergy necessitated a 2.3 per cent rate increase, the first adjustment due to internal operating costs since 1993. We have successfully kept operating cost rate increases below the rate of inflation to help mitigate the effects of volatile gas prices.

Page Twenty Three
We anticipate a further shift in the market in November 1998, when pipeline expansion to eastern Canada and the United States is expected. Because Western Canadian natural gas prices have been artificially low for several years because of a lack of pipeline capacity out of Western Canada, expansion will likely escalate prices.

**EXTENDING THE NATURAL GAS NETWORK**

In response to community requests, SaskEnergy worked with regional gas committees to deliver natural gas services to new customers across Saskatchewan. We added 13 summer resorts and two First Nations communities to our distribution system in 1997. This expansion reflects the province’s continuing economic growth and customers’ increasing recognition of the savings afforded by natural gas. With the competitive advantage of natural gas, many communities are able to attract new commercial customers to their areas.

In total, we filled about 4,600 new service requests from customers province-wide, a 29 per cent increase over the number of new service requests in 1996. Total customer growth was 1.5 per cent in 1997, compared to 1.1 per cent in 1996.

Growth was strongest in the residential market. Residential natural gas appliance installations grew by 33 per cent, compared to 22 per cent in 1996. This increase demonstrates that more Saskatchewan homeowners are choosing natural gas ranges, clothes dryers, and heating units when they buy new appliances. It also reflects the achievements of our Customer Financing program for water heaters, the growth of new markets for our Distribution Utility, and the successful promotional efforts of SaskEnergy and our industry partners, the Natural Gas Equipment and Dealers Association (NGEADA).

Growth was also strong in Saskatchewan’s agricultural community. In 1997, we added 128 new natural gas grain dryers, more than double the number installed in 1996. Because drying grain requires large amounts of heat, the low cost of fuel for a natural gas grain dryer makes it the most economical option, especially in large operations. We also added 17 new hog barn operations to our distribution system last year.
Because of a sharp increase in the number of residential and agricultural customers in 1997, construction and engineering activity correspondingly increased over 1996. During the 1997 construction season, more than 1,000 kilometres of new pipe were laid, requiring up to 36 work crews.

Our line locating service received 101,000 requests in 1997, an 18 per cent increase over the previous year. This increase reflects customer knowledge of ‘dialling before you dig’ and the intense activity in the construction and oil industries. Our highly trained service technicians continued to deliver 24-hour emergency service to our customers throughout the year, even during some of the coldest winter months on record.

**ENHANCING COST COMPETITIVENESS**

As we expand our service into more communities in the province, our internal customer service network continues to grow, challenging local resources.

To manage increasing new customer activity in 1997, we initiated a program to streamline our business and operational processes. By changing the way we do business, we ensured that our customer service standards remained high. These changes also led to reduced administrative costs and improved efficiencies.

Implementing the SaskEnergy Labour and Materials Application (SELMA) system in December 1996 was key in allowing us to effectively manage customer requests for service in 1997. Using the SELMA system, the materials needed to complete a customer’s project are ordered early in the planning process, reducing the need for last-minute purchases of pipe, fittings, and other materials. Customer requests are automated, moving electronically between departments throughout the Corporation. This system reduces paper flow and improves turnaround time on new projects. In 1997, work management teams handled more than 12,000 requests for service through SELMA.

Computerworld reported that since installing SELMA, SaskEnergy “exceeded its conservative estimates of improving employee productivity” and “cutting capital expenditures” (September 29, 1997).
We are also working to avoid adverse operational or financial problems in the future by preparing the Corporation for the year 2000. While the difficulties that corporations face in preparing for a new millennium are manageable technically, the scope and scale of this project is enormous. SaskEnergy will be prepared for these challenges by the end of 1998; however, there is significant work ahead to minimize the impact on our business and our customers.

Working with the Canadian Gas Association, we are taking a leadership role to help address the effects of the year 2000 on our industry and on third parties. As part of this process, we are collaborating with peer companies to collectively address common issues and concerns.

**Expanding Industry Partnerships**

To excel in an increasingly competitive marketplace, SaskEnergy is building strategic business alliances with industry organizations and associations to offer natural gas customers an extensive industry sales and service network. In the Industry Dialogue Process we initiated in 1997, we are discussing partnerships with members of the Natural Gas Equipment and Dealers Association (NGEADA), the Mechanical Contractors Association (MCA), and independent natural gas appliance contractors. The parameters established for the process include maintaining a new business focus, seeking win-win solutions, focusing on Saskatchewan industry, and cooperating in the face of external competition.

At the meetings held during 1997, the participants agreed to pursue alliances so that they could cost-effectively build on collective strengths, while enhancing the services they provide to customers.

Working with an industry partner, SaskEnergy continued to market Natural Gas Vehicle (NGV) conversion technology to the Saskatchewan market in 1997. As a result of these marketing efforts, NGV conversions in 1997 totaled eight school buses and one taxi fleet, in addition to one federal, 21 provincial and 33 municipal government fleet vehicles. With more than 280 NGV vehicles now operating in the province, SaskEnergy will strive to increase market development and customer understanding of NGV conversion.
SASKENERGY

Supporting Saskatchewan Business

Doing business in our home province continues to be an important part of SaskEnergy’s philosophy. We are continuing our strong support of Saskatchewan manufacturers, distributors and contractors. The benefits of these relationships extend beyond the supply of goods and services to SaskEnergy. Our Supplier Development group also seeks opportunities for these companies to do business with other organizations, both inside and outside the province.

In 1997, 80 per cent of the $31 million that SaskEnergy spent on goods and services stayed in Saskatchewan. That compares to total spending of $25 million in 1996, 77 per cent of which the Corporation spent in Saskatchewan.

This practice extends to pursuing alliances and partnerships on specific projects with Aboriginal businesses in Saskatchewan. In 1997, the value of our Aboriginal business initiatives exceeded $1.5 million, an increase of 26 per cent, compared to $1.2 million in 1996. In the course of these alliances and partnerships, we have developed an extensive database of emerging Aboriginal businesses in the province.

During 1997, we also worked to develop Supplier Alliances with several Saskatchewan companies. In establishing long-term relationships with proven vendors, we are assured of competitive pricing, excellent results, and superior customer support.
As the natural gas transportation and storage subsidiary of SaskEnergy, TransGas has operated in the competitive market for a decade, aggressively seeking creative and individual solutions to meet customer needs. As a partner in the development of Saskatchewan’s natural gas industry, TransGas continued to work cooperatively with customers to resolve key issues affecting the company and its customers in 1997.

In addition to the first successful year of operation for the TransGas Energy Pool (TEP), a key achievement was a competitive solution for producers in the Hatton area, near Swift Current, Saskatchewan. Hatton is an older gas field with depleting production and weakening returns for companies operating in the region. With the potential construction of new pipelines to serve the area, TransGas wanted to ensure its long-term competitiveness and continuing ability to remain the transporter of choice from the area. As a result, TransGas lowered transmission operating pressures, offering producers long-term savings by reducing their operating and capital costs.

By remaining with TransGas, producers also have the flexibility to access Saskatchewan and export markets, including connections through the Foothills, Williston Basin and TransCanada pipeline systems.

This type of customer flexibility was also evident in TransGas’ decision to offer “biddable storage injection service” on its facilities. This service allows storage customers to competitively use spare capacity to inject gas into storage. In addition, as part of TEP, TransGas introduced a balancing service, allowing customers to achieve zero balances when nominating to, within, and from TEP.
The cumulative effect of these measures on customer service has been significant, and it is matched by TransGas’ commitment to upgrade internal systems to more effectively and efficiently manage the delivery of services to its customers. To that end, in 1997 TransGas fully implemented TransNet, a multifunctional information delivery system that offers the contracting, nominating, volume allocation, billing and other supporting information that is necessary to serve customers. TransNet will improve the company’s ability to deliver seamless service and it will be further developed as part of a program to provide electronic data access for customers.

CONTINUING THE CUSTOMER DIALOGUE PROCESS

Nowhere was TransGas’ strong relationship with industry better demonstrated than through the ongoing Customer Dialogue Process. This open exchange between TransGas and its producer, marketer, industrial, and end-user customers encourages a frank and wide ranging discussion concerning issues facing Saskatchewan’s natural gas industry and the services TransGas provides. During 1996 and 1997, 41 issues were brought to the table, more than half of which have already been successfully resolved.

As discussion of operational issues continues, one critical long-term issue concerns all partners at the table — the decline in natural gas exploration and drilling in the province. A subcommittee of the Dialogue group was established in 1997 to identify the reasons for and the long-term effects of the decline, and to bring forward potential solutions. TransGas, natural gas producers and end-users welcomed the recent news that the provincial government will lower natural gas royalties. The subcommittee will present a joint recommendation as part of a report to government in early 1998. The Customer Dialogue Process will continue to be a means of developing the full potential of the natural gas transportation and storage business in Saskatchewan.
In the interim, TransGas continues to work toward long-term, maximum use of its pipeline system. By improving competitiveness and enhancing relationships with partners and customers, TransGas will work toward moving gas from new sources of supply on its system. Together with a Saskatchewan made solution to stimulating drilling in the province, TransGas is fully committed to an approach that will earn the best results for its shareholders, the people of Saskatchewan.

**Enhancing System Performance and Integrity**

The TransGas transportation system was designed to serve our customers through the severest prairie weather. Although record temperatures in the winter of 1996-97 provided a significant challenge to the reliability of our system, requiring transmission of over 1.3 Bcf of natural gas per day, performance was excellent.

Total transportation volumes in 1997 were 319.4 Bcf, a decrease of 5.5 per cent over 1996. Of those volumes, 169.6 Bcf were delivered to the domestic market and 149.8 Bcf were delivered for export.

We are proud of the operating history we have developed through our service to Saskatchewan over the past 45 years. Despite extremes of climate, we have delivered safe and reliable natural gas service across the province. However, TransGas recognizes that as our pipeline system ages, we will need to put increasing emphasis on system integrity and safety.

To that end, we are enhancing our pipeline integrity management program. This includes improving the programs we use to monitor and model the condition of all areas of our system, and conducting more visual inspections of the physical condition of the pipelines underground. The longstanding practice of using cathodic protection as a means to control corrosion will be enhanced in 1998 to determine if pipeline life can be extended by improvements in the use of this technology.

Rodger Fettes is General Manager with TransGas in the Hatton and Success districts of southwest Saskatchewan. He and his staff take a service-oriented approach to working with gas producers in the area.
The safety and reliability of our pipelines also improved with new “hot tapping” pipeline welding introduced in 1997. By welding at elevated pressures, branch connections or sleeves can be welded onto pipelines that are in service and under pressure. This process reduces the amount of natural gas that is vented into the atmosphere and decreases the number of service interruptions to customers.

Through these programs, pipeline integrity concerns are immediately addressed, and future mitigation programs are planned when necessary. This approach combines research, field investigation and engineering assessment to drive new approaches to pipeline design, construction, operation and maintenance.

We will continue to work with industry members and associations to develop new assessment, research, integrity-related modeling and integrity management programs.

In 1997, TransGas spent $12.3 million on new receipt and delivery point additions, system improvements and general plant requirements.

**DIGITIZING FACILITY MAPS**

SaskEnergy and TransGas are taking steps to digitize all facility maps, a major step forward in customer service and information sharing. SaskEnergy and TransGas currently have 12,000 facility maps, two-thirds of which are on paper. In 1997, the Corporation successfully completed a pilot project demonstrating that a Geographical Information System (GIS) could effectively link our maps to other corporate facility databases. GIS has the potential to also link databases belonging to other Crown corporations and government agencies.

Before converting maps to the GIS format, however, the Corporation will take the first step of digitizing all facility maps to an intermediary AutoCAD format by 1999. About 4,000 maps are already in this format. This step will ensure that all maps will meet a high level of consistency and accuracy.

The second step will be to eventually convert all maps to the GIS format. An economic evaluation conducted in 1997 showed this incremental approach will be economical and effective for the Corporation. Benefits include increased efficiency through reduced drafting time for maintenance and creation of maps in the future and improved information security.
At SaskEnergy, our resolve to uphold the principles of environmental stewardship and to deliver efficient energy solutions to our customers remains unwavering.

Our commitment to the environment is demonstrated in our continuing response to the United Nations Framework Convention on Climate Change, which Canada signed in Rio de Janeiro in 1992. Immediately after the Rio Accord, SaskEnergy began developing action plans to reduce our greenhouse gas (GHG) emissions. We developed a Voluntary Climate Change Challenge Task Force and, based on their recommendations, we began to replace equipment in 1997 and alter our work procedures to reduce emissions of methane and carbon dioxide, two of the principal greenhouse gases.

In December 1997, more than 160 countries, including Canada, agreed to the Kyoto Protocol to the United Nations Climate Change convention, which is scheduled to be ratified by March 1999. The agreement calls upon Canada to reduce its GHG emissions by six per cent below 1990 levels between 2008 and 2012. The federal government has earmarked $60 million over the next few years to increase energy efficiency in buildings, and increase the use of renewable energy as a way to reduce emissions. Plans include implementing programs to encourage energy efficiency in the design and construction of new commercial and institutional buildings, to upgrade existing commercial buildings, and to develop renewable energy technologies for heating and cooling.
To comply with the Kyoto Protocol, SaskEnergy’s objective is to reduce corporate GHG emissions by 359,500 tonnes of carbon dioxide (CO2) equivalent by 2012, despite predicted increases in natural gas transportation and consumption in the province. In addition to activities in 1997 — including the replacement of blowdown valves, bleed devices and pressure relief valves at compressor stations, the implementation of combustion efficiency improvements, and the use of hot tapping technology on transmission lines — SaskEnergy continues to seek opportunities to achieve the more ambitious targets established in Kyoto.

Our actions to date have resulted in a reduction in carbon dioxide equivalent emissions of 700 tonnes in 1996 and 22,000 tonnes in 1997. Other projects in various stages of implementation will reduce emissions over the next three years by 109,000 tonnes. Four new projects under review have the potential to reduce GHG emissions by a further 142,300 tonnes. That leaves an outstanding balance of 85,200 tonnes that must be targeted. We expect all targets can be achieved in a cost-effective manner, and we have committed to spending a total of $2.7 million on GHG emission reduction between 1997 and 2000.
Our team of committed, highly skilled and well-trained employees is our greatest asset. In recognition of the importance of the role that our employees will play in our future success, SaskEnergy is committed to maintaining a culture of openness, integrity and trust throughout the Corporation.

This culture extends to our relationship with the Communications, Energy and Paperworkers (CEP) Union, Local 649. In December 1997, we began negotiations with the CEP on a new Collective Bargaining Agreement, based on affordability, flexibility and fairness. Both SaskEnergy and the CEP are working to ensure that our employees and the Corporation are poised to succeed as we move into a more competitive business environment.

Our success will hinge on our ability to retain and attract high quality employees. In 1996, we established the Job Evaluation Project to determine the relative value of in-scope and management positions. The Job Evaluation Steering Committee completed its review in late 1997 and developed salary ranges aimed at achieving equal pay for work of equal value within the Corporation. The plan will be implemented in 1998.

In 1997, we also enhanced our employee benefits package to include Extended Health Care, Vision Care, and Orthodontics coverage, as well as Supplementary Maternity benefits.
Continued emphasis on training and development programs also reinforces our commitment to developing our employees to their fullest potential. We are identifying the leadership skills we need in the Corporation and working to develop those skills in our people. Our Leadership Development program is a four-tiered plan that addresses management and leadership skills, to help develop our next generation of leaders within SaskEnergy.

Hand-in-hand with this approach is a commitment to making SaskEnergy a place where all employees can better balance their personal and work lives. To that end, we introduced a job sharing program in 1997 and reiterated our commitment to flex-time for employees, whenever it can be introduced without diminishing customer service.

We will continue to develop the programs and business practices that best support our employees, as they strive to provide the best possible service to all our customers.
**Management’s Discussion & Analysis**

The following discussion and analysis of the financial operations of SaskEnergy Incorporated (SaskEnergy) and its subsidiaries has been prepared by Management to provide a comprehensive understanding of the Corporation’s financial position. The analysis should be read in conjunction with the audited consolidated financial statements and the accompanying notes.

**DISTRIBUTION OF NATURAL GAS IN SASKATCHEWAN**

SaskEnergy has the legislated mandate to distribute natural gas within the Province of Saskatchewan. Although SaskEnergy is not regulated by a formal regulatory body, the Province of Saskatchewan has mandated that SaskEnergy be subject to a 45-day Public Notification and Review Process. During this process, stakeholders and the general public are encouraged to provide input and comments on proposed rate adjustments.

**RATE DESIGN**

Currently, SaskEnergy’s rates consist of a basic monthly charge and an energy charge.

As illustrated by the following chart, SaskEnergy uses the combination of these two charges to recover the cost of providing service to its customers.
BASIC MONTHLY CHARGE
Each customer is charged a fixed amount per month which is referred to as a basic monthly charge. This charge is designed to recover the cost of the service line and the meter specific to each customer’s premise, including the customer’s share of related depreciation, interest expense and return on investment. The basic monthly charge also includes the cost of reading the customer’s meter plus the cost of administering each individual customer’s account, including billing and payment processing.

ENERGY CHARGE
The energy charge recovers the cost of delivery plus the cost of the gas supply.

The cost of delivery typically includes natural gas transportation and storage services, operating, maintenance and administration expenses, depreciation expense, interest expense on debt and return on investment in SaskEnergy’s extensive distribution network.

In addition to delivering natural gas, SaskEnergy also provides the service of procuring and selling natural gas to its customers. The Corporation purchases natural gas from about 70 suppliers. Significant volumes of natural gas are sourced from both Saskatchewan (74 per cent) and Alberta (26 per cent) suppliers. The cost of gas supply has historically been SaskEnergy’s largest single expense. There is no profit or markup added to this cost. Thus, like other Canadian natural gas utilities, SaskEnergy sells the natural gas to its customers at cost.

OPENING THE MARKET TO COMPETITION
Commencing in November 1998, it is intended that customers be given the choice of purchasing natural gas from suppliers other than SaskEnergy. Although the delivery of natural gas remains the legislated mandate of SaskEnergy, customers will have the ability to choose the supplier of the commodity. As SaskEnergy does not profit from the sale of natural gas, opening the commodity market to competition is not expected to directly affect SaskEnergy’s net income.

The introduction of the gas supply competition will lead to a subdivision of the energy charge into two components: a delivery charge and the cost of gas. The identification of the specific cost of gas will provide consumers with the ability to compare prices between SaskEnergy and other suppliers.
TransGas Limited, a wholly owned subsidiary of SaskEnergy, has the legislated franchise right to transport natural gas within Saskatchewan. TransGas Limited is not regulated by a formal regulatory body; however, it has established a voluntary Customer Dialogue Process whereby representatives from customer groups are afforded the opportunity to provide comments on rate proposals and business policy changes prior to implementation.

**RATE DESIGN**

TransGas Limited rates are based on the concept of “postage stamp tolling,” which means that all shippers pay the same rate per volume regardless of the distance transported. Similar to the Distribution Utility, TransGas Limited applies standard Canadian rate making methodology for natural gas transmission utilities in developing its rates. Therefore, TransGas Limited’s rates are designed to recover the cost of service plus a return on investment.

TransGas has a three-part rate structure for the firm, interruptible, gathering, compression, transportation and storage service it provides. The rates consist of a combination of a Basic Charge per month, a Demand Charge per month and a Commodity Charge. The application of the components of the rate structure will depend on the customer size and the service that is contracted for and provided.

**FACTORS AFFECTING FINANCIAL PERFORMANCE**

**OVERVIEW**

Each business has its own unique set of factors which affect its financial performance. Following is a discussion of those factors which can have a major impact upon the financial results of SaskEnergy.

**DISTRIBUTION UTILITY**

The major factor affecting the financial results of SaskEnergy’s natural gas Distribution Utility is the volume of natural gas delivered to customers. As the primary use of natural gas by the Distribution Utility’s customers is for heating premises during winter months, volumes distributed are directly affected by winter weather patterns. Second, the growth in new customer service connections is important as it increases distribution volumes and assists in increasing capacity utilization.
NEW CUSTOMERS

New customer service connections were relatively strong in 1997. The 4,596 new customers connected in 1997 represented a 29 per cent increase over 1996. New service connections are expected to experience strong growth in 1998. The areas experiencing the most growth are resorts, First Nations communities, farms and new city residential subdivisions.

WINTER WEATHER

The chart opposite illustrates the volumes distributed in 1996 and 1997 and the amount of volume anticipated to be distributed in 1998. Winter weather during 1996 was 16 per cent colder than the 30-year average which resulted in 10 billion cubic feet (Bcf) of incremental volumes distributed. However, winter weather during 1997 was 2 per cent warmer than the 30-year average and therefore volumes distributed were less than in 1996. The anticipated volumes for 1998 are based on the 30-year average and include the impact of customer growth.

CUSTOMER CATEGORIES

The graph opposite identifies the volumes distributed to each customer category. The volumes distributed to residential customers constitutes the largest segment at 51 per cent of the total. Also, the distribution of natural gas to this customer category is most affected by winter weather.

Small Commercial 25%
Large Commercial 14%
Farm 6%
Residential 51%

Small commercial: Annual consumption less than 100,000 cubic metres; eg. strip malls and nursing homes. Large commercial: Annual consumption between 100,001 cubic metres and 660,000 cubic metres; eg. large apartments, schools and hotels.
TRANSMISSION BUSINESS

The major factor affecting the financial results of TransGas Limited’s transmission business is the volume of natural gas contracted for transportation and storage by shippers. The volume of natural gas transported on the transmission pipeline system can be affected by several factors, such as:

- prices received by shippers for their product;
- success of producers in replacing depleting well production and developing new natural gas reserves in Saskatchewan;
- availability of space on third party pipelines to move natural gas out of Saskatchewan to export markets;
- the relative profit that a producer can achieve in Saskatchewan versus other jurisdictions in the Canadian Western Sedimentary Basin, and
- demand for natural gas by end users.

Volumes Transported

Volumes transported were somewhat lower in 1997 as compared to 1996. A decrease in volumes transported for Export category of shippers is consistent with the trend of lower drilling activity in Saskatchewan. Also, the warmer weather in 1997 reduced the transportation requirements of the Distribution Utility.

Volumes Transported by Customer Category

In 1997, 22 per cent of natural gas transported by TransGas Limited was for SaskEnergy. The volume of natural gas transported for the Distribution Utility will vary, depending upon winter weather conditions.

The Intra category consists of large volume shippers who transport natural gas for consumption within Saskatchewan. As these customers are primarily large industrial users, volumes transported are relatively stable. However, volumes can vary, depending on business conditions within each industry.

Export category shippers transport natural gas for the purpose of export out of Saskatchewan, primarily to Eastern Canadian markets. The volume of natural gas transported for these shippers has declined over the past three years, due primarily to reduced well drilling.
SaskEnergy has developed risk management programs to assist in mitigating its business risks in the following areas.

**Prices Paid for Natural Gas**

As noted above, SaskEnergy provides the service of procuring and selling natural gas to its customers. Market prices for natural gas paid by SaskEnergy can be subject to significant variations within relatively short periods of time. For example, if the price for natural gas were to increase or decrease by one cent per gigajoule (a standard unit of purchase or sale) over an entire year’s purchased volume, SaskEnergy’s cost of gas would vary by over $600,000. Increases and decreases in costs in turn affect the rates SaskEnergy must charge its customers.

SaskEnergy has established a Natural Gas Price Hedging Program to assist in the proper matching of purchase prices with selling prices. Accordingly, SaskEnergy has the authority to utilize financial derivatives to fix its commodity cost at the prevailing market price for volumes of natural gas to be purchased in future periods.

A Corporate Derivatives Policy has been established in order to govern the use of financial derivatives. This policy specifies the controls and procedures that must be followed and does not allow for speculative types of transactions to be conducted.

### Volumes Stored

In 1997, TransGas was fully subscribed for firm storage by SaskEnergy, Intra customers, marketers and for TransGas’ own backstopping services. The firm contracted storage was 31.5 Bcf. A further capacity of 6.3 Bcf was contracted as summer use storage.
INTEREST RATE REPRICING

As at December 31, 1997, SaskEnergy had approximately $708 million of long-term debt owing to the Province of Saskatchewan’s General Revenue Fund. This debt consists of 24 individual loans each with an interest rate fixed for the term of the loan. As each loan matures the associated fixed interest rate expires, and SaskEnergy is subject to potential upward interest rate repricing risk on any new financing that may be required at that time. Over the next 10 years an average of $94 million of outstanding debt will mature each year. Therefore, on average, a one per cent change in interest rates could affect expected financing costs by approximately $0.5 million annually.

If an equal amount of long-term debt matured each year, the amount of repricing risk would be relatively constant over time. However, SaskEnergy’s actual maturity schedule (see chart) is very uneven: the Corporation expects to refinance $273 million in long-term debt in 2001, which includes $50 million that matures in 2001, and a further $223 million that matures in 2003 but is callable in 2001. This concentration of maturities means that a one per cent change in interest rates in the year 2001 would affect expected financing costs by approximately $2.7 million annually from 2001 onward.

To manage repricing risk related to debt maturities, SaskEnergy utilizes financial derivatives, such as interest rate swaps to hedge the rate on new borrowings in advance of their actual issue. This allows SaskEnergy to manage the amount of interest rate exposure in any year by fixing the refinancing rate on maturing debt prior to its maturity.

WEATHER VARIATIONS

The foregoing narrative indicated that SaskEnergy faces the possibility of substantial variations in the volumes of natural gas distributed to its customers due to fluctuations in winter weather patterns. Excess volumes of natural gas caused by lower than expected consumption may be sold in the open market to avoid storage and other carrying costs.
The following is a discussion of the 1997 financial results for SaskEnergy and its subsidiaries.

**Distribution Revenue**

Distribution revenue for 1997 of $260 million was $30 million less than 1996. Revenue was most affected by winter weather, as 1996 was 16 per cent colder than the 30-year average, whereas 1997 was 2 per cent warmer than the 30-year average.

Effective July 1, 1997 the Distribution Utility received approval to increase rates by an average 2.3 per cent. This rate increase contributed an additional $2.6 million to revenue in 1997. Finally, 4,596 new customer services were installed in 1997. These new services, combined with the full effect of the 1996 customer additions, contributed $3.4 million to revenue in 1997.

**Cost of Gas**

Even though on an overall basis weather in 1997 was warmer than 1996, during 1997 there was considerable variation in weather patterns. The accompanying graph illustrates that weather was colder than anticipated in January, March, April and October but warmer than normal in February, September, November and December.

Although 1997 cost of gas was $12 million lower than 1996 due to reduced volume requirements, this volume reduction was offset by higher purchase prices during the year.
The cold weather in January 1997 was a continuation of the severely cold months of November and December 1996. During this exceptionally cold period of November 1996 to January 1997 prices for natural gas rose significantly. As the volumes of natural gas distributed in these peak periods exceeded planned amounts and reduced storage volumes to low levels, the Corporation was placed in a position where it was required to purchase additional volumes of natural gas during a period of high prices. These additional volumes purchased, coupled with higher market prices which prevailed through the year, added approximately $12 million to the cost of natural gas in 1997.

**TRANSMISSION AND STORAGE REVENUE**

Transmission and storage net revenue in 1997 was approximately $7 million below 1996 levels. Lower volumes contracted by Export customers was the primary reason for the lower revenue, along with a slight decline in the Intra customer category. This reduction in revenue totalled over $10 million. Storage revenue increased by approximately $0.4 million, as all available capacity was fully contracted from June to December 1997. Finally, the 5.9 per cent average rate increase effective May 1, 1997 contributed almost $3 million to revenue.

**NET SALES FROM GAS BROKERING**

The Corporation operates a natural gas brokering business whereby natural gas may be purchased from and sold to a variety of producers, marketers and end-users. Brokering opportunities produced $6 million of net revenue for the Corporation in 1997 and $8 million in 1996. Revenue from this business is used to assist in lowering revenue requirements for the Distribution Utility and therefore lowers rates to retail customers.

In addition, volumes of natural gas produced from a former storage field in West Central Saskatchewan, owned by TransGas Limited, were sold in both 1996 and 1997. The net revenue realized from these sales of natural gas was $7 million in 1997 and $4 million in 1996. Revenue from these sales was used to reduce transmission and storage rates.

Finally, net revenue of $4 million from competitive bidding for natural gas sales to large volume end-users was comparable to the $4 million realized in 1996.
OPERATING AND MAINTENANCE EXPENSES

Total 1997 operating and maintenance expenses were $88 million, which represented a $5 million reduction compared to 1996. This change resulted from renegotiation of contract terms of various services, cost containment measures and certain one-time 1996 charges which did not recur in 1997. During 1997, the Corporation continued to streamline operations and find new and innovative ways to reduce costs.

INTEREST EXPENSE

Interest expense was $3 million lower in 1997 than 1996. In May 1997, SaskEnergy borrowed $30 million in new long-term debt at a rate of 6.65 per cent, mainly to refinance a maturing $50 million loan at 8.13 per cent. This debt reduction was possible because of the incremental earnings and cash flow that resulted from the extremely cold weather in late 1996. The lower debt level, coupled with lower short-term debt interest rates in 1997, assisted the corporation in achieving a reduction in interest expense of over $2 million in 1997.

AMORTIZATION OF CAPITAL ASSETS

Amortization expense was approximately $5 million higher in 1997 than 1996 for two primary reasons. First, 1997 amortization increased by $2.2 million as a result of the full year effect of 1996’s capital expenditures and the part year effect of 1997’s capital expenditures.

Second, an amortization review was conducted on Distribution Utility assets. The review’s conclusion, which received independent concurrence, indicated that amortization rates for pressure reduction stations, mains and services be increased. The higher amortization rates resulted in an increase of $2.5 million in amortization expense in 1997.
The Management of SaskEnergy Incorporated is responsible for the integrity of the accompanying consolidated financial statements and all other information contained in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada and are applied on a consistent basis. Preparation of financial statements necessarily includes the use of estimates as certain transactions are dependent upon future events. These estimates have been subjected to careful consideration by Management.

The Corporation’s Board of Directors is responsible for overseeing the business and affairs of the Corporation and for approving the annual financial statements. The Board of Directors has delegated certain responsibilities to its Audit and Finance Committee, including the responsibility for reviewing the annual financial statements and meeting with Management, Internal Auditors and External Auditors on matters relating to the financial reporting process.

Management maintains a system of internal controls to ensure the integrity of information that forms the basis of the financial statements. The internal control systems provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly guarded against unauthorized use and that reliable records are maintained.

The consolidated financial statements have been audited by Ernst & Young, Chartered Accountants as appointed by the Lieutenant Governor in Council and approved by the Crown Investments Corporation of Saskatchewan. The auditors’ report, which appears on the next page, expresses their opinion on the fairness of the financial statements prepared by Management.

Ronald S. Clark
President & Chief Executive Officer

Greg Mrazek
Vice-President, Finance & Administration (Acting)
AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 1997 and the consolidated statements of earnings and retained earnings and changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Regina, Canada
February 3, 1998

Ernst & Young
Chartered Accountants
Consolidated Statement of Financial Position
As at December 31

<table>
<thead>
<tr>
<th>Note</th>
<th>1997 (thousands)</th>
<th>1996 (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>$72,769</td>
<td>$96,454</td>
</tr>
<tr>
<td>Inventories of supplies</td>
<td>4,740</td>
<td>3,970</td>
</tr>
<tr>
<td>Natural gas in storage</td>
<td>3</td>
<td>23,884</td>
</tr>
<tr>
<td></td>
<td>$101,393</td>
<td>$118,612</td>
</tr>
<tr>
<td><strong>Natural Gas In Storage</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natural gas in storage</td>
<td>3</td>
<td>47,921</td>
</tr>
<tr>
<td><strong>Capital Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets</td>
<td>4</td>
<td>972,444</td>
</tr>
<tr>
<td></td>
<td>$1,121,758</td>
<td>$1,132,256</td>
</tr>
<tr>
<td><strong>Liabilities and Province's Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term indebtedness</td>
<td>5</td>
<td>$21,189</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>75,804</td>
<td>76,608</td>
</tr>
<tr>
<td>Dividend payable</td>
<td>21,700</td>
<td>40,340</td>
</tr>
<tr>
<td>Long-term debt due within one year</td>
<td>5</td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>168,693</td>
</tr>
<tr>
<td><strong>Deferred Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred income</td>
<td>65,880</td>
<td>55,352</td>
</tr>
<tr>
<td><strong>Long-Term Debt</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>5</td>
<td>632,200</td>
</tr>
<tr>
<td></td>
<td>$866,773</td>
<td>$895,015</td>
</tr>
<tr>
<td><strong>Province of Saskatchewan's Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity advances</td>
<td>6</td>
<td>71,531</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>183,454</td>
<td>165,710</td>
</tr>
<tr>
<td></td>
<td>$254,985</td>
<td>$237,241</td>
</tr>
<tr>
<td></td>
<td>$1,121,758</td>
<td>$1,132,256</td>
</tr>
<tr>
<td><strong>Commitments</strong></td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>(See accompanying notes)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

On behalf of the Board:

Director

Director

PAGE FORTY NINE
### Consolidated Statement of Earnings and Retained Earnings

For the year ended December 31

<table>
<thead>
<tr>
<th>Note</th>
<th>1997 (thousands)</th>
<th>1996 (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td>$260,041</td>
<td>$289,836</td>
</tr>
<tr>
<td>Cost of gas sold</td>
<td>96,754</td>
<td>95,939</td>
</tr>
<tr>
<td>Distribution margin</td>
<td>163,287</td>
<td>193,897</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>75,007</td>
<td>82,554</td>
</tr>
<tr>
<td>Net sales from gas brokering</td>
<td>16,722</td>
<td>16,602</td>
</tr>
<tr>
<td>Other</td>
<td>2,025</td>
<td>1,314</td>
</tr>
<tr>
<td><strong>Net revenue</strong></td>
<td>$257,041</td>
<td>$294,367</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating and maintenance</td>
<td>88,141</td>
<td>92,721</td>
</tr>
<tr>
<td>Interest</td>
<td>5,260</td>
<td>73,109</td>
</tr>
<tr>
<td>Amortization of capital assets</td>
<td>40,407</td>
<td>35,686</td>
</tr>
<tr>
<td>Saskatchewan taxes and royalties</td>
<td>18,789</td>
<td>19,509</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$217,597</td>
<td>$221,025</td>
</tr>
<tr>
<td><strong>Net earnings</strong></td>
<td>$39,444</td>
<td>$73,342</td>
</tr>
<tr>
<td><strong>Retained earnings, beginning of year</strong></td>
<td>$165,710</td>
<td>$132,708</td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td>(21,700)</td>
<td>(40,340)</td>
</tr>
<tr>
<td><strong>Retained earnings, end of year</strong></td>
<td>$183,454</td>
<td>$165,710</td>
</tr>
</tbody>
</table>

(See accompanying notes)
Consolidated Statement of Changes in Cash Position
For the year ended December 31

<table>
<thead>
<tr>
<th>Note</th>
<th>1997 (thousands)</th>
<th>1996 (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net earnings</td>
<td>$39,444</td>
<td>$73,342</td>
</tr>
<tr>
<td>Add (deduct) items not requiring an outlay of cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of capital assets</td>
<td>40,407</td>
<td>35,686</td>
</tr>
<tr>
<td>Amortization of deferred income</td>
<td>(1,612)</td>
<td>(1,220)</td>
</tr>
<tr>
<td>Other non-cash items</td>
<td>745</td>
<td>512</td>
</tr>
<tr>
<td></td>
<td>78,984</td>
<td>108,320</td>
</tr>
<tr>
<td>Net change in non-cash working capital related to operations</td>
<td>9</td>
<td>16,415</td>
</tr>
<tr>
<td></td>
<td>Cash provided by operating activities</td>
<td>95,399</td>
</tr>
<tr>
<td><strong>Investing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net additions to capital assets</td>
<td>(48,792)</td>
<td>(40,746)</td>
</tr>
<tr>
<td>Increase in deferred income</td>
<td>12,140</td>
<td>7,381</td>
</tr>
<tr>
<td>Decrease in natural gas in storage (non-current)</td>
<td>919</td>
<td>379</td>
</tr>
<tr>
<td></td>
<td>Cash used in investing activities</td>
<td>(35,733)</td>
</tr>
<tr>
<td><strong>Financing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in long-term debt</td>
<td>(26,517)</td>
<td>(917)</td>
</tr>
<tr>
<td>Dividend paid</td>
<td>(40,340)</td>
<td>(31,700)</td>
</tr>
<tr>
<td></td>
<td>Cash used in financing activities</td>
<td>(66,857)</td>
</tr>
<tr>
<td><strong>Increase (decrease) in cash during year</strong></td>
<td>(7,191)</td>
<td>28,044</td>
</tr>
<tr>
<td><strong>Cash Position, beginning of year</strong></td>
<td>(13,998)</td>
<td>(42,042)</td>
</tr>
<tr>
<td><strong>Cash Position, end of year</strong></td>
<td>$ (21,189)</td>
<td>$ (13,998)</td>
</tr>
</tbody>
</table>

Cash consists of short-term indebtedness.

(See accompanying notes)
1. Status of the Corporation


By virtue of The Crown Corporations Act, 1993, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan, a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of Crown Investments Corporation of Saskatchewan.

As a provincial Crown corporation, SaskEnergy and its wholly-owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and include certain estimates based on management’s judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, TransGas Limited, Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, and SaskEnergy International Incorporated. Separate audited financial statements are prepared for each of these subsidiaries.

b. Inventories of supplies

Inventories of supplies, consisting primarily of pipe and general stock for construction and maintenance, are recorded at the lower of average cost or replacement cost.
c. Natural gas in storage

Natural gas in storage is stated at the lower of cost or net realizable value.

d. Capital assets

Capital assets are stated at cost and include all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major capital asset, or class of capital assets, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other retirements of capital assets are recorded by reducing the asset account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

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

- Transmission and storage: 2.5 to 2.6
- Distribution: 2.5 to 3.5
- Gathering, treatment and compression: 2.5 to 3.5
- Vehicles, equipment and other: 2.5 to 3.3

The royalty interest in certain natural gas wells is amortized on the unit of production method.

e. Deferred income

Deferred income consists of contributions from customers in aid of construction relating to new service connections. These contributions are amortized on a straight-line basis over the estimated service life of the related asset.
f. Revenue recognition

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

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

3. Natural Gas in Storage

a. Natural gas in storage classified as a current asset has been purchased for the purpose of resale.

b. Natural gas in storage classified as a non-current asset is located within the Corporation’s various storage facilities and is required for the ongoing operations of the storage facilities.

c. The Corporation has natural gas reserves that are fully amortized. A portion of these reserves were sold in 1997 and 1996.

4. Capital Assets

<table>
<thead>
<tr>
<th></th>
<th>1997 (thousands)</th>
<th>1996 (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Accumulated Amortization</td>
</tr>
<tr>
<td>Transmission and storage</td>
<td>$508,538</td>
<td>$75,521</td>
</tr>
<tr>
<td>Distribution</td>
<td>$435,893</td>
<td>72,523</td>
</tr>
<tr>
<td>Gathering, treatment and compression</td>
<td>$139,374</td>
<td>27,806</td>
</tr>
<tr>
<td>Vehicles, equipment and other</td>
<td>$90,699</td>
<td>34,455</td>
</tr>
<tr>
<td>Royalty interest</td>
<td>$6,831</td>
<td>3,229</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>4,645</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$1,185,980</td>
<td>$213,536</td>
</tr>
</tbody>
</table>

The composite amortization rate was 3.5 per cent during 1997 (3.2 per cent during 1996).
## 5. Long-Term Debt

<table>
<thead>
<tr>
<th>Years to Maturity</th>
<th>Principal Outstanding (thousands)</th>
<th>Average Fixed Interest Rate (per cent)</th>
<th>Principal Outstanding (thousands)</th>
<th>Average Fixed Interest Rate (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Province of Saskatchewan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 5</td>
<td>$100,000</td>
<td>10.6</td>
<td>$150,000</td>
<td>9.7</td>
</tr>
<tr>
<td>6 - 10</td>
<td>443,888</td>
<td>10.6</td>
<td>396,183</td>
<td>11.0</td>
</tr>
<tr>
<td>11 - 15</td>
<td>89,261</td>
<td>9.3</td>
<td>106,966</td>
<td>9.3</td>
</tr>
<tr>
<td>16 - 30</td>
<td>75,000</td>
<td>8.7</td>
<td>75,000</td>
<td>8.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>708,149</td>
<td></td>
<td>728,149</td>
<td></td>
</tr>
<tr>
<td>Less sinking fund equity</td>
<td>(30,765)</td>
<td></td>
<td>(24,248)</td>
<td></td>
</tr>
<tr>
<td>Less due within one year</td>
<td>(50,000)</td>
<td></td>
<td>(50,000)</td>
<td></td>
</tr>
</tbody>
</table>

### Due to Province of Saskatchewan

- 627,384
- 653,901

**Other**

- 4,816
- 4,816

**Total long-term debt**

- $632,200
- $658,717

#### a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan’s General Revenue Fund, SaskEnergy is required to pay annual installments equal to one per cent of outstanding debt into sinking funds. These sinking funds are administered by the Province of Saskatchewan’s Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 10 per cent for 1997 (9.2 per cent 1996).

#### b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.
c. Other debt

The Corporation’s subsidiary, TransGas Limited, has entered into two agreements which effectively financed the construction of two natural gas caverns at a rate of 13.5 per cent. This debt is noted above as Other.

d. Short-term indebtedness

During 1997, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan’s General Revenue Fund at an average interest rate of 3.5 per cent.

Included in short-term indebtedness at December 31, 1997 is an amount of $19,900 thousand (1996 - $15,500 thousand) that was due to the Province of Saskatchewan’s General Revenue Fund with an interest rate of 4.8 per cent fixed from January 1 to March 31, 1998.

e. Principal repayments

Principal repayments and sinking fund installments due in each of the next five years are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>1998 (thousands)</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal</td>
<td>$ 50,000</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 50,000</td>
<td>$ -</td>
</tr>
<tr>
<td>Sinking fund installments</td>
<td>4,029</td>
<td>4,029</td>
<td>4,029</td>
<td>4,029</td>
<td>4,029</td>
</tr>
<tr>
<td>Total</td>
<td>$ 54,029</td>
<td>$ 4,029</td>
<td>$ 4,029</td>
<td>$ 54,029</td>
<td>$ 4,029</td>
</tr>
</tbody>
</table>

f. Interest expense

Interest expense was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>1997 (thousands)</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on long-term debt</td>
<td>$ 73,140</td>
<td>$ 75,006</td>
</tr>
<tr>
<td>Interest on short-term indebtedness</td>
<td>590</td>
<td>1,229</td>
</tr>
<tr>
<td>Sinking fund earnings</td>
<td>(2,787)</td>
<td>(2,003)</td>
</tr>
<tr>
<td>Interest capitalized</td>
<td>(405)</td>
<td>(667)</td>
</tr>
<tr>
<td>Interest on short-term investments</td>
<td>(278)</td>
<td>(456)</td>
</tr>
<tr>
<td>Total</td>
<td>$ 70,260</td>
<td>$ 73,109</td>
</tr>
</tbody>
</table>
6. Equity Advances

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

7. Financial Instruments

The Corporation engages in hedging activities through the use of financial derivatives. The Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which derivatives may be used by the Corporation and do not allow for speculative type transactions.

a. Hedging transactions

The Corporation purchases natural gas for the purpose of resale. Approximately 79 per cent of annual purchases are made under long-term contracts with natural gas suppliers. These contracts are subject to annual price renegotiation. Prices may be fixed for a one year period or referenced to a floating index price. In order to reduce its exposure to rising natural gas prices, the Corporation fixes the price of a portion of its annual purchases through a natural gas price hedging program. Natural gas purchase prices can be hedged by using financial instruments such as swap contracts with counterparties, option contracts with counterparties and futures contracts traded on the New York Mercantile Exchange. For those hedges denominated in United States dollars, the Corporation also hedges against its foreign exchange risk through the use of Forward Contracts.

• Swaps and options

At December 31, 1997, the Corporation had entered into natural gas price swaps and options to effectively manage the price for approximately 24 per cent, or 15,971,000 gigajoules (GJ’s), of its forecast 1998 system gas supply.

As at December 31, 1997, the Corporation had fixed the sales price of 2,750,000 GJ’s of its 1998 natural gas brokering sales at a total value of $4,174 thousand and 900,000 GJ’s of its 1999 natural gas brokering sales at a total value of $1,800 thousand.

Net receipts or payments resulting from settlement of hedged transactions are recorded upon settlement of the contract as cost of gas.
The Corporation is exposed to possible credit losses in the event of non-performance by counterparties to natural gas price swap and option contracts. The Corporation mitigates this credit risk by:

i. utilizing only counterparties with an A credit rating or better for at least 75 per cent of notional volumes purchased and Baa rated counterparties to hedge up to 25 per cent of gas purchase volumes provided such hedges do not extend beyond 6 months from the transaction date, and

ii. limiting the notional gas volumes hedged to a maximum of 25 per cent with any one counterparty.

During 1997, the Corporation entered into transactions with 17 different counterparties. The Corporation expects all swap and option obligations to be met.

b. Fair value of financial instruments

The fair value of the Corporation’s financial instruments is listed below:

<table>
<thead>
<tr>
<th></th>
<th>1997 Carrying Amount</th>
<th>1997 Fair Value</th>
<th>1996 Carrying Amount</th>
<th>1996 Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt</td>
<td>$712,965</td>
<td>$862,439</td>
<td>$732,965</td>
<td>$870,688</td>
</tr>
<tr>
<td>Sinking fund equity</td>
<td>30,765</td>
<td>34,723</td>
<td>24,248</td>
<td>26,856</td>
</tr>
<tr>
<td>Natural gas price hedges:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- swaps</td>
<td>-</td>
<td>(6,525)</td>
<td>-</td>
<td>21,000</td>
</tr>
<tr>
<td>- options</td>
<td>-</td>
<td>3,139</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- futures</td>
<td>-</td>
<td>382</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Foreign exchange</td>
<td>-</td>
<td>(174)</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The fair values of the above instruments were based on the following:

i. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at December 31, 1997.

iii. Natural gas price swaps - The relevant index price in effect on December 31, 1997.

iv. Natural gas price options - The relevant index price in effect on December 31, 1997.


The carrying values of other financial instruments (accounts receivable, accounts payable and short-term indebtedness) approximates fair value.

c. Credit risk

The Corporation provides credit to its customers in the normal course of business. The Corporation has over 300,000 customers and does not have a significant credit exposure to any individual customer. For 1997, credit losses were less than three quarters of one per cent of total revenue.

8. Saskatchewan Taxes and Royalties

Saskatchewan taxes and royalties include the following:

<table>
<thead>
<tr>
<th></th>
<th>1997 (thousands)</th>
<th>1996 (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchise fees to municipalities</td>
<td>$ 9,273</td>
<td>$ 10,331</td>
</tr>
<tr>
<td>Corporate capital tax</td>
<td>4,285</td>
<td>5,242</td>
</tr>
<tr>
<td>Royalties</td>
<td>4,489</td>
<td>3,093</td>
</tr>
<tr>
<td>Mitigation payments and property taxes</td>
<td>742</td>
<td>843</td>
</tr>
</tbody>
</table>

$18,789  $19,509

The above amounts do not include Saskatchewan Education and Health Tax payments.

9. Changes in Cash Position

The net change in non-cash working capital was as follows:

<table>
<thead>
<tr>
<th></th>
<th>1997 (thousands)</th>
<th>1996 (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>$23,685</td>
<td>$(16,117)</td>
</tr>
<tr>
<td>Natural gas in storage</td>
<td>(5,696)</td>
<td>908</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(804)</td>
<td>(62)</td>
</tr>
<tr>
<td>Inventories of supplies</td>
<td>(770)</td>
<td>598</td>
</tr>
</tbody>
</table>

$16,415  $(14,673)
10. Related Party Transactions

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

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

<table>
<thead>
<tr>
<th></th>
<th>1997 (thousands)</th>
<th>1996 (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>$ 1,434</td>
<td>$ 2,106</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>893</td>
<td>781</td>
</tr>
<tr>
<td>Revenue</td>
<td>23,093</td>
<td>26,899</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>21,303</td>
<td>22,099</td>
</tr>
<tr>
<td>Deferred income</td>
<td>2,319</td>
<td>2,385</td>
</tr>
</tbody>
</table>

In addition, the Corporation pays Saskatchewan Education and Health Tax, to the Province of Saskatchewan’s Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

11. Pension Plans

Substantially all employees of the corporations included in these consolidated financial statements are members of either a defined contribution or a defined benefit pension plan.

In accordance with the terms of the defined contribution plan (Public Employees Pension Plan) and the defined benefit pension plan (Power Corporation Superannuation Plan), the Corporation’s obligations are limited to making regular payments to the plans to match contributions made by the employees for current services.
12. **Segmented Financial Information**

The Corporation operates predominantly in two industry segments being natural gas distribution and natural gas transportation. The following table provides segmented information relating to the 1997 operating results for each major category of business:

<table>
<thead>
<tr>
<th></th>
<th>Transportation</th>
<th>Distribution</th>
<th>Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td></td>
<td></td>
<td>$268,459</td>
</tr>
<tr>
<td>Cost of gas sold</td>
<td></td>
<td></td>
<td>140,581</td>
</tr>
<tr>
<td>Distribution margin</td>
<td></td>
<td></td>
<td>127,878</td>
</tr>
<tr>
<td>Transportation and</td>
<td></td>
<td></td>
<td>131,648</td>
</tr>
<tr>
<td>storage</td>
<td></td>
<td></td>
<td>136,825</td>
</tr>
<tr>
<td>Net sales from gas</td>
<td></td>
<td></td>
<td>7,593</td>
</tr>
<tr>
<td>brokering</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net revenue</strong></td>
<td>$139,241</td>
<td>$144,098</td>
<td>$132,595</td>
</tr>
</tbody>
</table>

| **Expenses**         |                |              |              |              |              |              |
| Operating and        | 43,108         | 44,591       | 64,287       | 67,914       | 1,510         | 2,352        |
| maintenance          |                |              |              |              | 1,601         | 1,691        |
| Interest             | 44,438         | 46,572       | 24,228       | 24,848       | 1,601         | 1,691        |
| Amortization of      | 21,074         | 20,479       | 18,036       | 14,159       | 1,363         | 1,110        |
| capital assets       |                |              |              |              | 1,601         | 1,691        |
| Saskatchewan         | 7,252          | 6,389        | 11,089       | 12,655       | 447           | 464          |
| taxes and royalties  |                |              |              |              |              |              |
| **Total expenses**   | $115,872       | $118,031     | $117,640     | $119,576     | $4,921        | $5,617       |
| **Net earnings**     | $23,369        | $26,067      | $14,955      | $46,601      | $1,120        | $674         |

The above amounts are before intercompany eliminations. Intercompany eliminations do not affect net income.
Below is a summarized statement of financial position by business segment:

<table>
<thead>
<tr>
<th></th>
<th>Transportation</th>
<th>Distribution</th>
<th>Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(thousands)</td>
<td>(thousands)</td>
<td>(thousands)</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>$ 33,675</td>
<td>$ 29,142</td>
<td>$ 89,993</td>
</tr>
<tr>
<td>Natural gas in storage</td>
<td>47,921</td>
<td>48,840</td>
<td>-</td>
</tr>
<tr>
<td>Capital assets</td>
<td>556,435</td>
<td>564,989</td>
<td>399,545</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 638,031</td>
<td>$ 642,971</td>
<td>$ 489,538</td>
</tr>
<tr>
<td><strong>Liabilities and</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Province’s Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>$ 62,828</td>
<td>$ 52,278</td>
<td>$ 121,872</td>
</tr>
<tr>
<td>Deferred income</td>
<td>20,153</td>
<td>16,193</td>
<td>47,557</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>409,738</td>
<td>439,707</td>
<td>214,633</td>
</tr>
<tr>
<td>Equity</td>
<td>145,312</td>
<td>134,793</td>
<td>105,476</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$ 638,031</td>
<td>$ 642,971</td>
<td>$ 489,538</td>
</tr>
</tbody>
</table>

The above amounts are before intercompany eliminations.

The above noted columns of “Subsidiaries” combines the amounts for Many Islands Pipe Lines (Canada) Limited, SaskEnergy International Incorporated and Bayhurst Gas Limited.

13. Comparative Figures

Certain 1996 amounts have been reclassified to conform with the current year’s presentation.
### Five-Year Operating Summary — Distribution Utility

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (million cubic metres (MM)</th>
<th>Residential annual average usage (cubic metres)</th>
<th>Degree days</th>
<th>Customers at year end*</th>
<th>Pipelines - in kilometres (km)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>3,325</td>
<td>4,328</td>
<td>5,929</td>
<td>309,171</td>
<td>61,831</td>
</tr>
<tr>
<td>1996</td>
<td>3,259</td>
<td>4,328</td>
<td>6,761</td>
<td>304,575</td>
<td>60,746</td>
</tr>
<tr>
<td>1995</td>
<td>2,812</td>
<td>3,804</td>
<td>5,929</td>
<td>301,020</td>
<td>60,046</td>
</tr>
<tr>
<td>1994</td>
<td>1,925</td>
<td>3,674</td>
<td>5,721</td>
<td>298,160</td>
<td>59,347</td>
</tr>
<tr>
<td>1993</td>
<td>1,830</td>
<td>3,764</td>
<td>5,803</td>
<td>295,935</td>
<td>58,745</td>
</tr>
</tbody>
</table>

* A unit measuring the extent to which the temperature falls below 18º Celsius. (In normal year, the degree days are 5,834.)

---

### Five-Year Operating Summary — Transmission

<table>
<thead>
<tr>
<th>Year</th>
<th>Mainline Information</th>
<th>Compressor Stations</th>
<th>Compression Horsepower</th>
<th>Peak Day Gas Flows (Winter Season Peaks)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>Transmission</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1995</td>
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</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

### TransGas

**Transmission & Adjacent Pipeline Systems**

*Alberta Energy Company (AECO)*

---

*SaskEnergy*
## Five-Year Operating Summary — Distribution Utility

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (in million cubic metres (10^6m³))</td>
<td>3,325</td>
<td>3,259</td>
<td>2,812</td>
<td>1,925</td>
<td>1,830</td>
</tr>
<tr>
<td>Residential annual average usage (cubic metres)</td>
<td>3,504</td>
<td>4,328</td>
<td>3,804</td>
<td>3,674</td>
<td>3,764</td>
</tr>
<tr>
<td>Degree days</td>
<td>5,669</td>
<td>6,761</td>
<td>5,929</td>
<td>5,721</td>
<td>5,803</td>
</tr>
<tr>
<td>Customers at year end*</td>
<td>309,171</td>
<td>304,575</td>
<td>301,020</td>
<td>298,160</td>
<td>295,935</td>
</tr>
<tr>
<td>Pipelines — in kilometres (km)</td>
<td>61,831</td>
<td>60,746</td>
<td>60,046</td>
<td>59,347</td>
<td>58,745</td>
</tr>
</tbody>
</table>

* A unit measuring the extent to which the temperature falls below 18º Celsius.

(In a normal year the degree days are 5,834.)

* Number of Active Services.

## Five-Year Operating Summary — Transmission

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pipelines (kilometres)</td>
<td>13,691</td>
<td>13,640</td>
<td>13,599</td>
<td>13,129</td>
<td>12,703</td>
</tr>
</tbody>
</table>

**Transmission**

- TransGas: 12,857, 12,806, 12,765, 12,295, 11,884
- Gathering: 421
- MIPL: 413, 413, 413, 413, 398

**Compressor Stations**

- TransGas: 22, 22, 22, 21, 22
- MIPL: 1, 1, 1, 1, 2

**Compression Horsepower**

- TransGas: 100,375, 100,375, 100,375, 84,875, 84,875
- MIPL: 4,000, 4,000, 4,000, 5,100

**Peak Day Gas Flows (Winter Season Peaks)**

- (10^6m³) | 38.4 | 41.0 | 38.6 | 41.6 | 38.8 |

- Date: Jan 9, Feb 1, Feb 10, Feb 6, Feb 17

---

**Legend**

- TransGas High Pressure Gas Transmission Lines
- TransGas High Pressure Lines (6" and larger)
- Canadian Western Natural Gas Co.
- Centra Gas
- Foothills Pipeline
- Great Lakes Transmission
- Many Islands Pipeline
- Mid Western Gas Transmission
- Montana Power Co.
- Northern Border Pipeline Co.
- Havre Pipeline Co.
- Northwestern Utilities
- Nova
- TransCanada PipeLines
- Williston Basin Interstate Pipeline

* Alberta Energy Company (AECO)
SASKENERGY

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...to Working With Our Communities.
...to Expanding Our Business.
...to Our Future Together.