

Saskatchewan

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# Rate Review Panel

**Report to the Minister of Crown Investments Corporation on:**

**The Proposal from SaskEnergy for a Change in  
the Natural Gas Commodity Rate**

**December 14, 2001**

## **Panel Conclusions and Recommendations**

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The Panel met with the consultant and subsequently sought additional information from SaskEnergy officials on the rate proposal.

The consultant prepared a report and assessment of the SaskEnergy submission (attached as Appendix B).

### **Load Forecast**

All differences between forecast and actual costs of purchasing gas accumulate to the Gas Cost Variance Account (GCVA). Consequently variances between forecast and actual volumes are not as critical as they might be in a delivery charge rate application. Based on a limited review and comparison to SaskEnergy's forecast for 2000/01, the consultant indicated the 2001/02 forecast should be accepted as reasonable.

The Panel concurs with the consultant's assessment.

### **Supply Portfolio**

The consultant noted Saskatchewan consumers benefit greatly from the available storage in close proximity to load requirements. The consultant also noted SaskEnergy had extensively (84 percent) hedged its purchases by buying call options to set a cap price.

SaskEnergy uses financial hedging strategies to provide customers with upward price protection but allow downward price participation. For 2001/02 SaskEnergy extensively hedged purchases by buying call options to set a cap price. Some of the call options were associated with the sale of put options to provide a 'costless' collar for a portion of the hedges. Premiums from the sale of put options offset some of the costs of the call options but the put options establish a floor price (ie. set a minimum price) for related gas purchases.

The Panel particularly notes the consultant's observations regarding the preferred time to review the composition of a supply portfolio is before gas supplies are contracted. The consultant reiterated greater oversight of SaskEnergy's gas contracting and price risk management strategy would be preferable prior to implementation and recommended the Panel implement such a process for SaskEnergy for the 2002/03 gas contract year.

The Panel notes that earlier involvement may better allow it to meet its mandate to balancing the needs of the customer, the Crown corporation and the public.

***The Panel recommends SaskEnergy file with the Panel its Gas Supply and Price Risk Management Plan for 2002/03, setting out the Utility's strategy for buying a sufficiently reliable supply of gas at the lowest overall cost prior to entering into significant new supply contracts or hedges for this period.***