



Presentation to:  
Prairie Policy Centre  
November 15, 2006



## Who is CEG Energy?

- Based in Saskatoon since 1987 – 20<sup>th</sup> year.
- Regional offices in Calgary, Edmonton, Vancouver.
- Established to help smaller-volume customers take advantage of gas deregulation
- Customer base: hotels, schools, hospitals, nursing homes, apartments, commercial buildings, warehouses, high rise office towers, potash mines, manufacturers, etc.

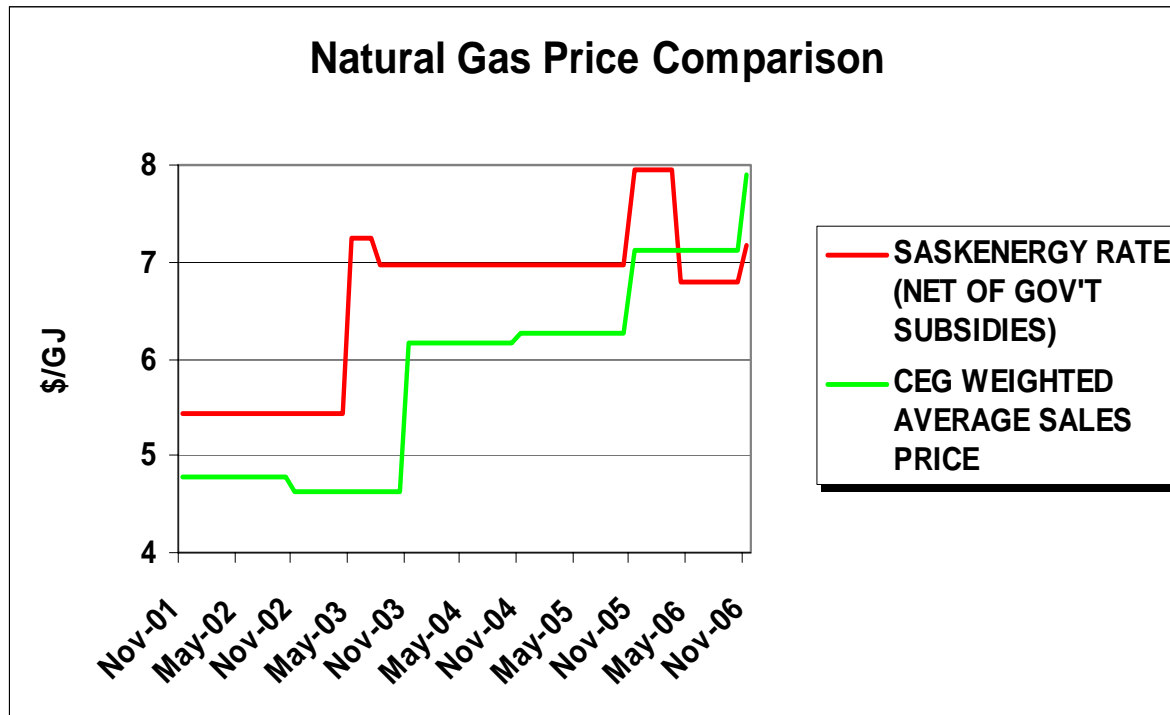


## Who is CEG Energy? (cont'd)

- 15,000 customers in SK, AB, and BC.
- Utility rate changes:
  - Monthly in AB
  - Quarterly in BC
  - Annual in SK
- CEG differentiates with guaranteed fixed prices for terms of up to 5 years.

# Who is CEG Energy? (cont'd)

- SK track record





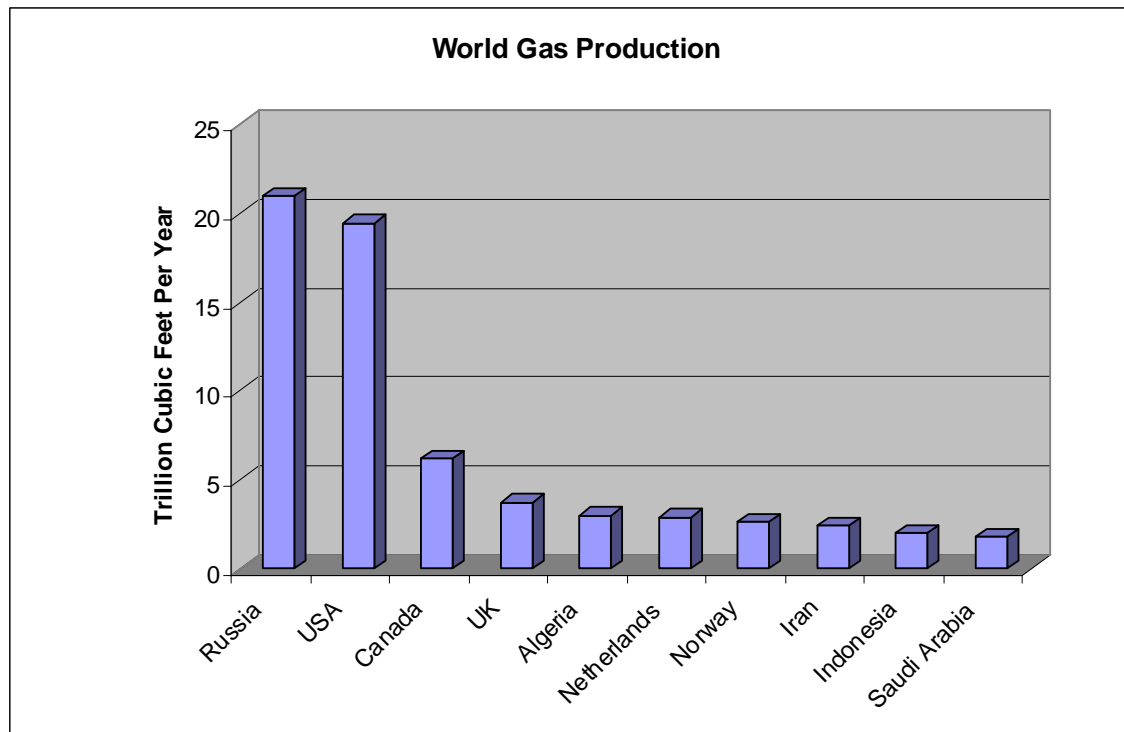
## SK Natural Gas Industry

- First commercial well in 1934.
- Net importer until 1987.



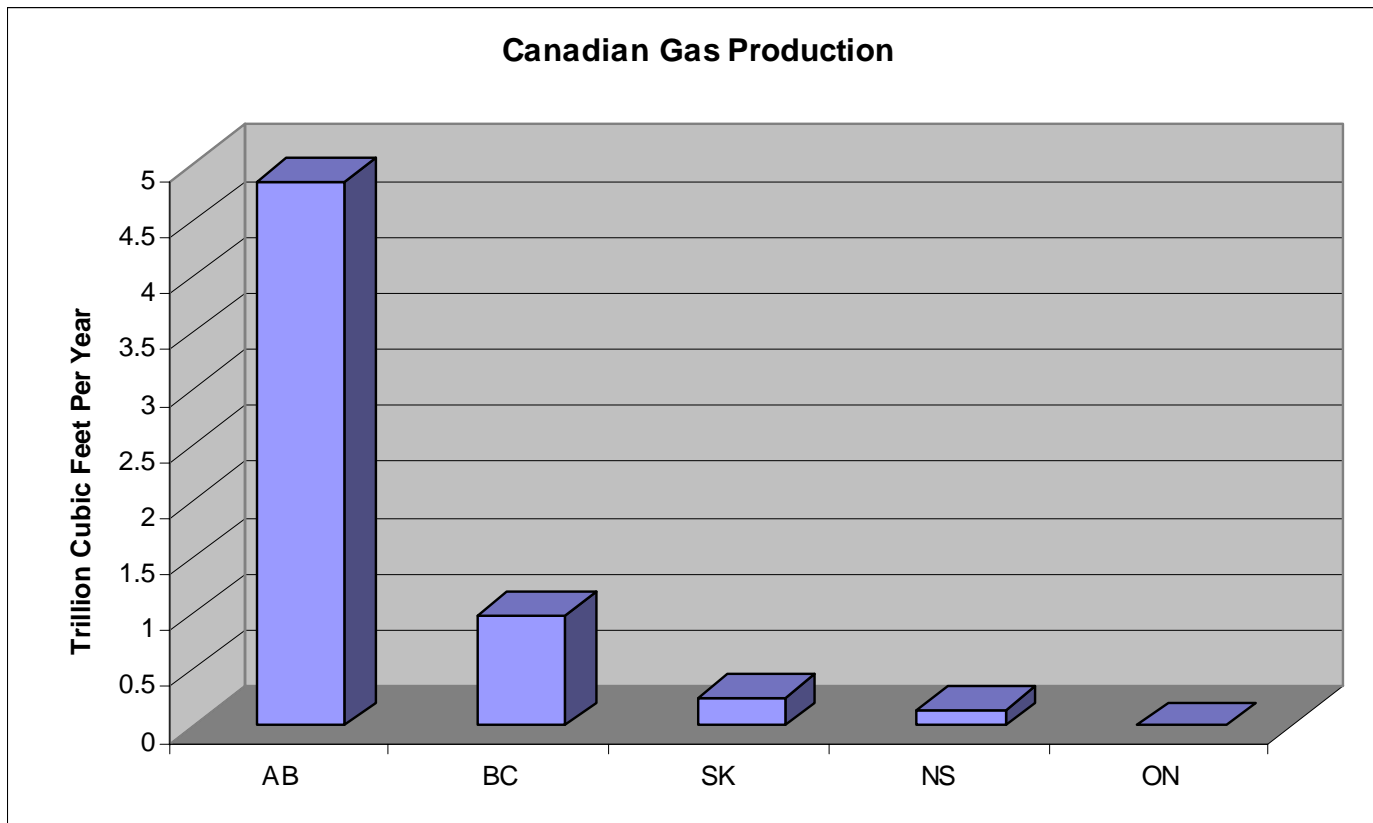
## SK Natural Gas Industry (cont'd)

- Canada #3 World Producer
- Produce 6.2 TCF/yr, Export 3.7 TCF/yr to US



# SK Natural Gas Industry (cont'd)

- SK #3 Producing Province in Canada





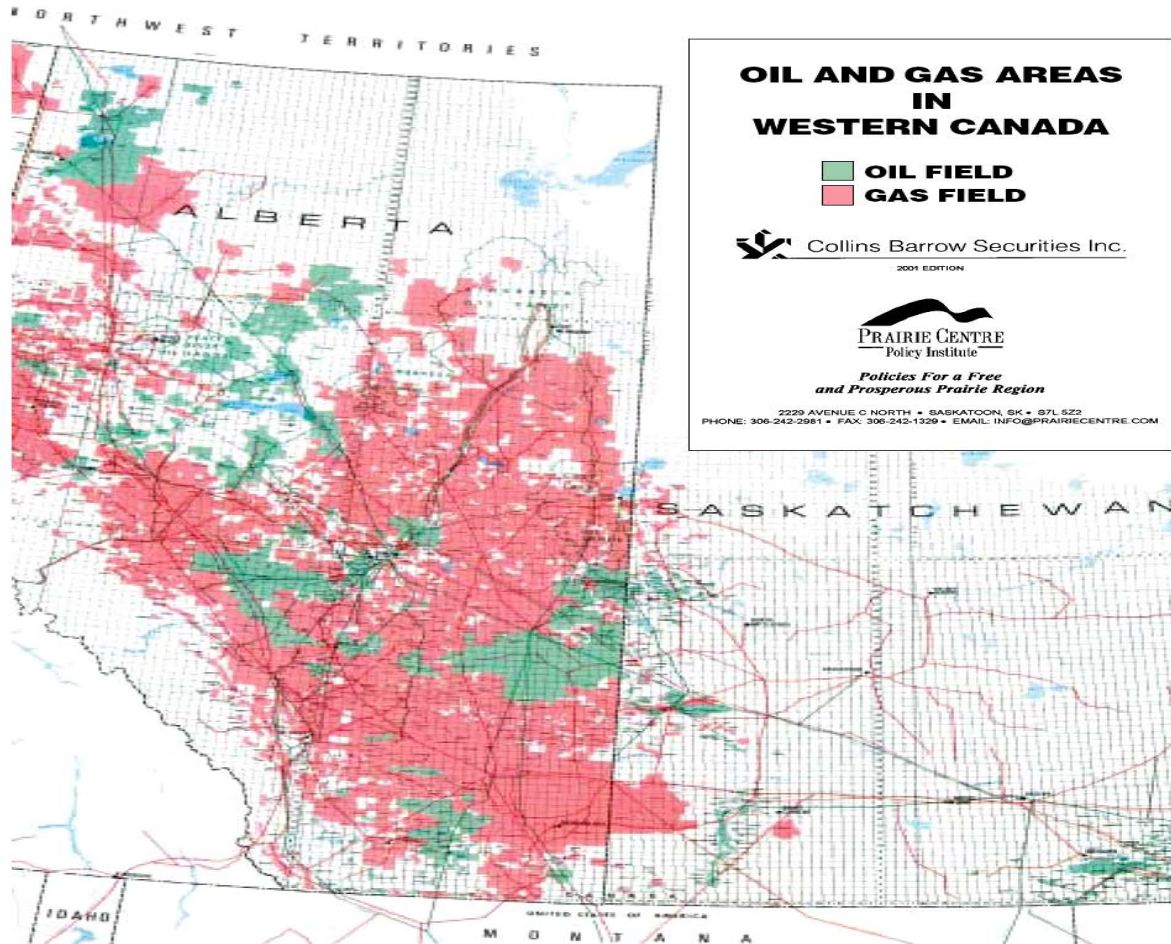
## SK Natural Gas Industry (cont'd)

- SK current established reserves 9-10 years @ current production rates.
- National Energy Board estimates SK ultimate reserves 30+ years @ current production rates.

## SK Natural Gas Industry (cont'd)

- SK Advantages:
  - Extensive, well run, cost effective pipeline infrastructure.
  - Ease of doing business, royalty regime.
  - Mostly dry, sweet gas – requires little processing.
  - Interconnects to TransCanada, Northern Border, Williston Basis, potentially to Alliance
- SK Disadvantages:
  - Quality of reserves - perception or reality?
  - Corporate Capital Tax (CAPP issue)?

# SK Natural Gas Industry (cont'd)



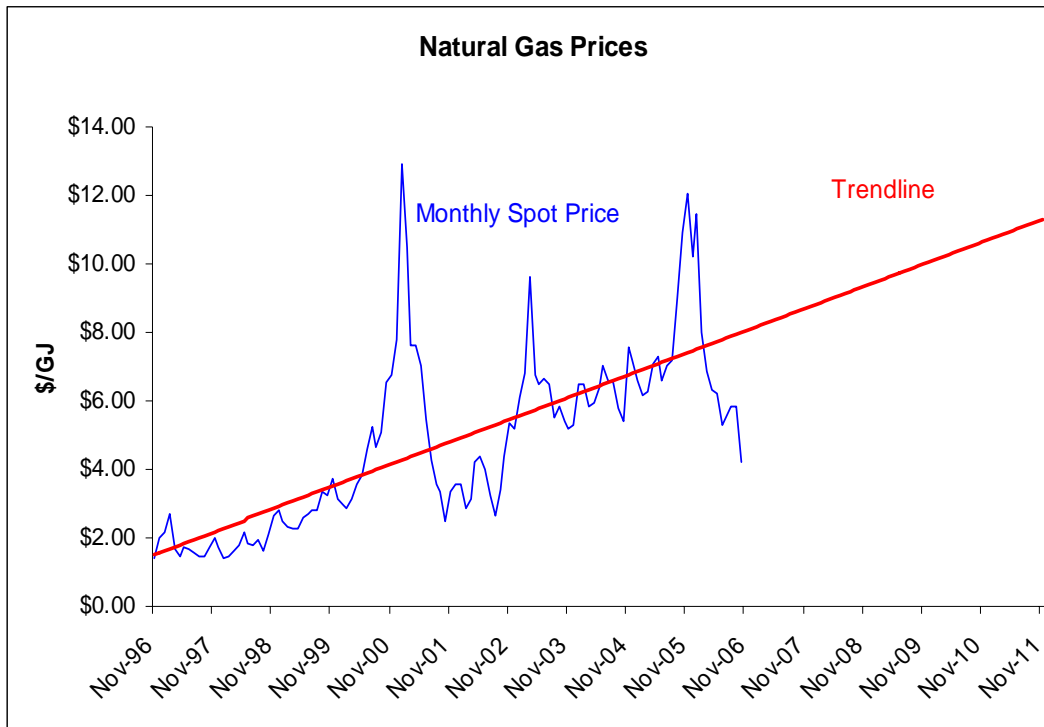
## SK Natural Gas Industry (cont'd)

- What does oil and gas mean to SK?
  - \$2.4 B in capital spending.
  - \$1.4 B direct payments to province.
  - Single largest contributor to GDP 8%
  - >24,000 direct and indirect employment

Source: CAPP

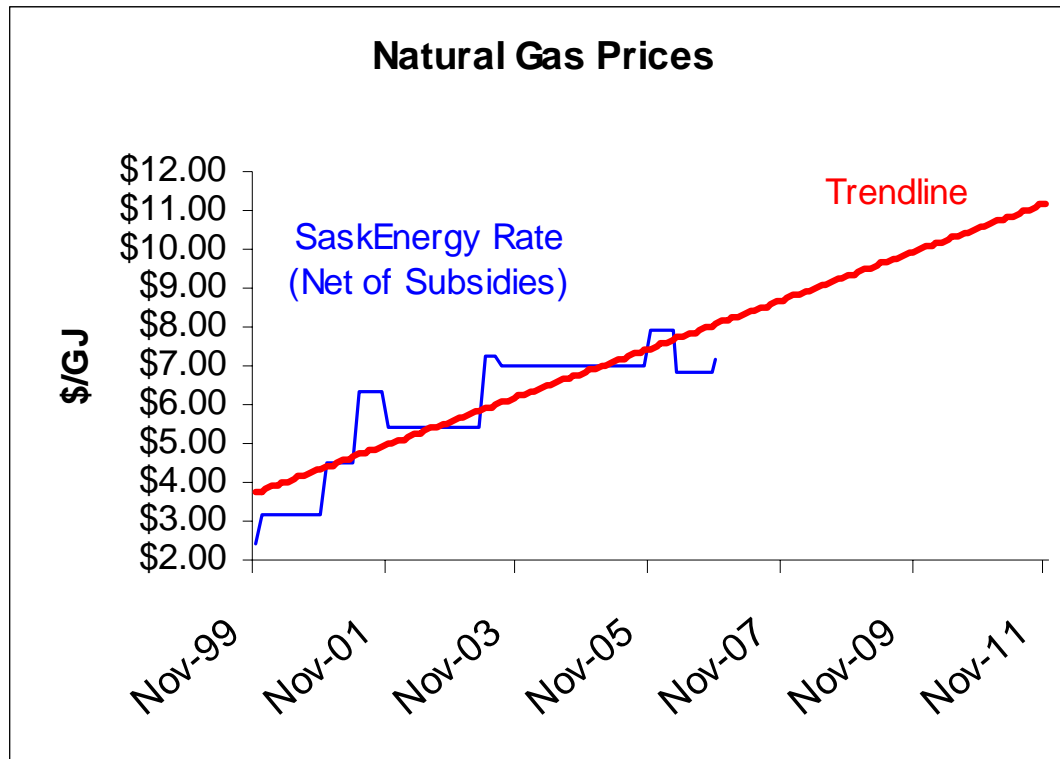
# Natural Gas Price Update

- Market volatility and price escalation.



# Natural Gas Price Update (cont'd)

- SaskEnergy rate escalation.



## Natural Gas Price Update (cont'd)

- Bearish Factors:
  - Weather? Another warm winter could prolong market softness.
  - Further declines in crude oil.
  - LNG.
  - Natural Gas from Coal (Coal Bed Methane).
  - Demand destruction – many fertilizer and methanol producers have moved off-shore.
  - U.S. economic downturn.

## Natural Gas Price Update (cont'd)

- Bullish Factors:
  - Rapid supply response to low spot prices this fall.
  - Production declines from existing wells – 23%/yr in Canada, 30%/yr in US (source BP). Tall order to drill enough new wells to keep production flat.
  - Some permanent damage to Gulf production rigs from '05 hurricanes – 1.5 Bcf/d (source BP).
  - Alaska pipeline project at dead stop – 2015–16 likely earliest flow date.
  - McKenzie Delta likely 2011-12
  - Demand growth – larger homes, gas-fired power generation.

## Natural Gas Price Update (cont'd)

- Is LNG the Savior?
  - 17 export facilities, liquefy by cooling to  $-160^{\circ}\text{C}$ , ship on 151 tankers to 40 LNG import terminals.
  - Exporters are Indonesia, Malaysia, Algeria, Qatar, Trinidad.
  - Import terminals are costly – US\$650 million for a terminal that could import SK equivalent.
  - Regulatory difficult – NIMY – California Gov. race.
  - Long term supply not available – e.g. Kitimat, B.C. Competition for cargos.

## Natural Gas Price Update (cont'd)

- How about Coal Bed Methane?
  - Requires, on average, 9 times greater # of wells than conventional gas.
  - Environmental and water concerns.
  - Considerably higher market prices required to be economically viable.

# Government Subsidies

- Two ways to protect customers from high prices:
  - Use royalties as a “natural hedge”. As prices rise, royalties are used to pay producers. **\$’s flow out of Province.**
  - Allow competitors to use futures market. As prices rise, futures contracts provide funds to pay producers. **\$’s flow in to Province.**

## Government Subsidies (cont'd)

- Fall of 2001 Government forced SaskEnergy to “write off” \$70 million of actual gas costs.
- Fall of 2005 Government subsidized SaskEnergy’s rate at a planned cost of \$92 million (actual cost came in lower).
- That’s \$162 million that could have been targeted to health, education or debt reduction.
- Subsidies have been preferential – SaskEnergy customers only.

## Government Subsidies (cont'd)

- Level playing field?
  - 9 licensed competitors in AB, 1 in SK
  - No supply choice for residential in SK
- Is competition beneficial? Gov't needs to decide whether it wants gas supply competition or not.
- Subsidies are a disincentive to hedge – “Gov't will look after me”.
- Taxpayer funds flow to out-of-province interests (e.g. big box, REIT's, etc.).

## Government Subsidies (cont'd)

- Energy conservation investments:
  - Natural gas is a finite resource.
  - Is it prudent to subsidize the cost of a finite resource?
  - Energy Share plan encourages us to use less energy.
  - By not passing on the actual cost of the commodity, Gov't is actually discouraging investments in energy conservation initiatives.



Questions?



THANK YOU!

