

March 19, 2014

Our File: S927

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Dear Sirs/Mesdames:

RE: CSA Staff Notices 91-303 and 91-304 – Mandatory Central Counterparty Clearing ("Central Clearing Rule") and Customer Clearing and Protection of Customer Collateral and Positions ("Customer Clearing Rule").

SaskEnergy Incorporated ("SaskEnergy") and TransGas Limited ("TransGas") welcome the opportunity to comment on Multilateral CSA Staff Notice 91-303 and 91-304.

Proposed Model Rules

The Central Clearing Rule (91-303) proposes requirements for central counterparty clearing of OTC derivatives transactions. As noted in the staff notice, the Rule is divided into two rule-making areas:

- (i) mandatory central counterparty clearing, including end-user and intragroup exemptions, and
- (ii) the determination of derivatives subject to mandatory central counterparty clearing.

The purpose of the Customer Clearing Rule (91-304) is to ensure that customer clearing is performed in a manner that protects the customer's collateral and positions. It governs members of a clearing agency, members of a clearing agency indirectly clearing for non-members (intermediaries), and the clearing agency.

As we understand the intent, product cleared on behalf of a customer and falling within the scope of Rule 91-506 *Derivatives: Product Determination* would be subject to the Customer Clearing Rule.

About SaskEnergy and TransGas

SaskEnergy is a Saskatchewan Crown corporation and operates as a natural gas distribution utility. TransGas is a wholly owned subsidiary of SaskEnergy and operates primarily as a natural gas transmission utility.

SaskEnergy enters into financially settled transactions largely for the purpose of offsetting risk created by physical transactions where gas is sold at a tariff rate, fixed rate or other rate which may not reflect the market price of the gas commodity over time.

Additional information on SaskEnergy, its subsidiaries, and our use of derivatives has been provided in our prior submissions.

Comments on Staff Notice 91-303 – Central Clearing Rule

The central clearing rule provides for exemptions for end-user and inter-group (affiliate) transactions provided certain criteria are met.

Similarly, there is an exemption for Crown corporations as follows:

Non-Application

11. Section 4 does not apply to a transaction if one of the counterparties is the government of Canada, a government of a province or territory of Canada, a crown corporation or an entity wholly owned by the federal or provincial government whose obligations are guaranteed by the federal or provincial government.

SaskEnergy interprets the current wording to not require a Crown guarantee for Crown corporations. SaskEnergy supports this exemption as written.

SaskEnergy further notes that a valid public policy rationale exists for the crown corporations exemption generally.

Crown corporations are confined in their powers and mandates, and may have derivative related oversight built in by statute (as SaskEnergy does), and presumably exist for some meritorious reason. In the case of SaskEnergy, its assets are the assets of the Crown by statute. The corporation and its wholly owned subsidiaries are for all their purposes agents of the Crown, and the corporation's powers may be exercised only as an agent of the Crown. It does not possess a credit rating in its own right, and it has never required a Crown guarantee to do business.

The assumption is that clearing will have a cost as layers of administration and third party profit taking are introduced. It will discourage the use of derivatives where derivatives would otherwise be beneficial. If the benefit of this rule does not warrant the cost, then SaskEnergy supports an exemption not only for Crown corporations but for any end user or other entity where it is not absolutely clear that the rule is required. To apply it broadly, solely for the sake of treating everyone equally, arguably benefits third party service providers and not the utility end user or the public.

Comments on Staff Notice 91-304 – Customer Clearing Rule

SaskEnergy has no comment on this rule at this time.

Conclusion

SaskEnergy and TransGas are thankful for the opportunity to provide these comments.

Where any doubt exists that the benefits of the new regulatory regime will not warrant its cost, directly and indirectly, SaskEnergy would argue for some caution, some care, and potentially a narrower scope.

Respectfully submitted,

SASKENERGY INCORPORATED



Mark H. J. Guillet

Vice President, General Counsel & Corporate Secretary

MHJG/TJ/tdr

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