1. *Please list all subsidiary companies of Terasen Inc. with a book value in excess of $50 mil. Indicate:*

- *percentage of Terasen Inc ownership*
- *approximate book value of each subsidiary company*
- *if each company is regulated or not.*
- *Debt/Equity ratio of each regulated subsidiary*

Response:

The response includes only those companies which are wholly owned subsidiaries and excludes equity-accounted investments or those companies which are proportionally consolidated. The debt/equity ratio of Terasen Pipelines (Corridor) Inc. cannot be disclosed due to confidentiality restrictions contained in agreements between Corridor and its shippers.

The percentage of debt provided in the table below is as of December 31, 2004.

Subsidiary:	% Owned	Regulated	Debt/Total Capital
Terasen Gas Inc	100%	Regulated	65.8%
Terasen Gas (Vancouver Island) Inc.	100%	Regulated	63.1%
Terasen Pipelines (Trans Mountain) Inc	100%	Regulated	44.1%
Terasen Pipelines (Corridor) Inc	100%	Regulated	

2. *Do the same as IR #1 for Terasen Gas Inc. (TGI) using a book value cut off $25 mil.*

Response:

None of the operating subsidiaries of Terasen Gas Inc. have a book value greater than $25 million.

3. *Provide the total yearly volume in gigajoules of gas sales for TGI for each of the last 10 years.*

Response:

Please refer to the table below for the total yearly volume of gas sales for TGI for the last 10 years. Please note that the totals exclude transport customers and are comprised of volumes for rate schedules 1-7 and include Fort Nelson.

Year	Total Sales (TJ)
1995	124,856
1996	144,084
1997	135,866
1998	129,537
1999	136,150
2000	135,216
2001	120,553
2002	124,260
2003	113,391
2004	109,799

4. Assuming that TGI were to require an infusion of $100 mil for a capital project, clearly show the expected additional revenue requirement, if the debt/equity ratio were 67/33 and also 62/38 for that $100 mil.

Response:

The table below illustrates what additional Revenue Requirement levels might be associated with a $100 million capital project under different debt/equity ratios for TGI:

Capital Structure	**67/33**	**62/38**
Short Term Debt	6.70%	1.70%
Long Term Debt	60.30%	60.30%
Common Equity	33.00%	38.00%
	100.00%	100.00%
Short Term Debt	$ 6.7	$ 1.7
Long Term Debt	$ 60.3	$ 60.3
Common Equity	$ 33.0	$ 38.0
	$ 100.0	$ 100.0
Embedded Cost		
Short Term Debt	4.000%	4.000%
Long Term Debt	7.255%	7.255%
Common Equity	10.050%	10.050%
Earned Return		
Short Term Debt	$ 0.3	$ 0.1
Long Term Debt	4.4	4.4
Common Equity	3.3	3.8
Total Earned Return	$ 8.0	$ 8.3
Operating and Maintenance	6.8	6.8
Property Taxes	1.6	1.6
Depreciation	2.4	2.4
Income Taxes	0.9	1.2
Revenue Requirement	$ 19.7	$ 20.3

Note – the calculation of the above revenue requirement was based on the assumption that the $100 million plant addition attracts a 2.4% depreciation rate and a corresponding 4% CCA rate for tax purposes. Furthermore, O&M expenses and Property Taxes were assumed at system wide average levels. The assumed return on common equity is based on the applied for benchmark ROE of 10.50% adjusted for 75% of the difference between the current forecast yields on benchmark 30 year Canada bonds of 4.65% and 5.25%.

5. *Please provide a table showing the financial results of Terasen Gas Inc. since 1994 to present. Include both the Balance Sheet and Earnings Statement.*

Response:

The financial results of Terasen Gas Inc. since 1994 to present are as follows:

TERASEN GAS INC. CONSOLIDATED

	YEARS ENDED				
	2004	2003	2002	2001	2000
Revenues					
Natural gas distribution	$ 1,305.2	$ 1,305.6	$ 1,246.4	$ 1,423.2	$ 1,085.3
Expenses					
Cost of natural gas	807.0	805.2	749.4	932.3	658.8
Operation and maintenance	164.4	160.9	155.0	140.0	125.5
Depreciation and amortization	81.6	76.7	77.8	75.6	67.0
Property and other taxes	39.6	41.4	39.0	41.7	33.6
	1,092.6	1,084.2	1,021.2	1,189.6	884.9
Operating income	212.6	221.4	225.2	233.6	200.4
Financing costs	106.4	111.9	112.5	126.1	96.7
Restructuring costs	-	-	-	-	-
Earnings before income taxes	106.2	109.5	112.7	107.5	103.7
Income taxes	35.4	39.1	45.6	40.3	41.8
Net earnings	70.8	70.4	67.1	67.2	61.9
Dividends on 6.32% preference shares	-	-	-	-	4.0
Earnings applicable to common shares	$ 70.8	$ 70.4	$ 67.1	$ 67.2	$ 57.9
ASSETS					
Current assets					
Cash	1.7	-	-	-	27.2
Accounts receivable	252.9	318.0	230.0	222.3	415.5
Inventories of gas in storage and supplies	151.5	113.6	74.2	101.3	81.4
Prepaid expenses	5.7	5.8	4.9	4.0	3.4
Current portion of rate stabilization accounts	13.8	8.8	62.4	105.9	45.0
	425.6	446.2	371.5	433.5	572.5
Property, plant and equipment	2,260.0	2,285.8	2,245.0	2,261.4	2,214.8
Rate stabilization accounts	27.9	32.2	14.3	41.8	105.1
Other assets					
Deferred charges	25.5	23.9	20.6	15.8	16.2
Long-term receivables and investments	8.2	5.1	6.9	4.1	1.8
	$ 2,747.2	$ 2,793.2	$ 2,658.3	$ 2,756.6	$ 2,910.4
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Bank indebtedness	-	4.3	2.1	3.5	-
Short-term notes	107.0	352.9	350.0	233.0	168.9
Accounts payable and accrued liabilities	254.9	275.1	207.7	274.8	567.9
Income and other taxes payable	18.9	44.5	38.1	27.2	16.1
Current portion of rate stabilization accounts	27.6	2.5	-	-	-
Current portion of long-term debt	397.2	2.2	102.3	177.4	72.5
	805.6	681.5	700.2	715.9	825.4
Long-term debt	1,051.4	1,297.3	1,148.0	1,249.4	1,324.0
Deferred gain	80.2	48.9	52.0	23.1	-
Future income taxes	0.5	0.5	0.5	0.5	0.5
	1,937.7	2,028.2	1,900.7	1,988.9	2,149.9
Shareholders' equity					
Share capital	594.0	594.0	594.0	594.0	594.0
Contributed surplus	176.9	143.2	126.2	123.4	123.4
Retained earnings	38.6	27.8	37.4	50.3	43.1
	809.5	765.0	757.6	767.7	760.5
	$ 2,747.2	$ 2,793.2	$ 2,658.3	$ 2,756.6	$ 2,910.4

TERASEN GAS INC. CONSOLIDATED

	YEARS ENDED					
	1999	**1998**	**1997**	**1996**	**1995**	**1994**
Revenues						
Natural gas distribution	$ 844.5	$ 742.2	$ 765.6	$ 721.7	$ 732.1	$ 704.5
Expenses						
Cost of natural gas	442.6	338.5	375.6	361.3	399.8	424.5
Operation and maintenance	116.0	120.6	124.2	112.6	108.4	98.5
Depreciation and amortization	62.4	61.3	55.3	56.0	49.1	44.4
Property and other taxes	31.9	31.5	30.9	28.2	28.0	24.5
	652.9	551.9	586.0	558.1	585.3	591.9
Operating income	191.6	190.3	179.6	163.6	146.8	112.6
Financing costs	87.4	86.8	83.9	87.5	86.8	70.6
Restructuring costs	-	-	9.4	-	-	-
Earnings before income taxes	104.2	103.5	86.3	76.1	60.0	42.0
Income taxes	48.7	49.4	38.5	12.2	13.8	- 3.5
Net earnings	55.5	54.1	47.8	63.9	46.2	45.5
Dividends on 6.32% preference shares	4.7	4.7	4.7	4.7	2.2	10.1
Earnings applicable to common shares	$ 50.8	$ 49.4	$ 43.1	$ 59.2	$ 44.0	$ 35.4
ASSETS						
Current assets						
Cash	1.9	-	-	7.5	1.6	-
Accounts receivable	156.4	148.8	127.6	186.0	145.2	136.9
Inventories of gas in storage and supplies	38.4	28.4	22.3	24.5	26.0	29.3
Prepaid expenses	2.3	3.3	4.2	3.5	1.5	1.2
Current portion of rate stabilization accounts	32.8	14.6	-	-	-	-
	231.8	195.1	154.1	221.5	174.3	167.4
Property, plant and equipment	1,801.5	1,729.6	1,675.1	1,625.4	1,565.6	1,475.2
Rate stabilization accounts	-	-	-	-	-	-
Other assets						
Deferred charges	8.7	12.7	21.0	13.2	24.4	18.6
Long-term receivables and investments	1.8	2.1	2.0	17.0	13.8	12.6
	$ 2,043.8	$ 1,939.5	$ 1,852.2	$ 1,877.1	$ 1,778.1	$ 1,673.8
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities						
Bank indebtedness	-	10.8	1.5	-	-	4.9
Short-term notes	220.0	219.0	189.0	267.4	245.0	226.8
Accounts payable and accrued liabilities	156.3	158.7	134.0	162.3	107.8	113.6
Income and other taxes payable	4.9	- 4.1	35.5	10.1	9.1	8.3
Current portion of rate stabilization accounts	-	-	24.4	17.3	26.7	27.8
Current portion of long-term debt	77.2	191.2	93.5	7.7	27.3	4.1
	458.4	575.6	477.9	464.8	415.9	385.5
Long-term debt	891.9	678.8	761.8	799.2	765.7	670.6
Deferred gain	-	-	-	-	-	-
Future income taxes	0.9	0.9	0.9	3.6	6.9	9.9
	1,351.2	1,255.3	1,240.6	1,267.6	1,188.5	1,066.0
Shareholders' equity						
Share capital	549.0	549.0	484.1	484.1	484.1	504.0
Contributed surplus	102.3	80.4	80.4	80.4	80.4	80.4
Retained earnings	41.3	54.8	47.1	45.0	25.1	23.4
	692.6	684.2	611.6	609.5	589.6	607.8
	$ 2,043.8	$ 1,939.5	$ 1,852.2	$ 1,877.1	$ 1,778.1	$ 1,673.8

6. *Please provide a Balance Sheet for Terasen Inc. as of 2004 year end, which isolates the subsidiaries from the holding company. Group the subsidiaries together and isolate the holding company financials.*

Response:

This proceeding is considering the appropriate return on equity and capital structures for Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. Terasen Inc. is not regulated by the Commission and its financial circumstances are not a subject matter of this proceeding.

The information requested in the question is not relevant to the matters being addressed in this proceeding. TGI and TGVI are declining to provide the requested information.

7. *Are the debt borrowings for TGI presently borrowed by TGI directly or indirectly through Terasen Inc. (TI)? If some are through TI, please indicate the amount of debt TGI has borrowed through TI.*

Response:

Terasen Gas sources its debt directly and does not borrow from TI.

8. *Please provide a description of the interest coverage ratio required by lenders and show the calculation of the 2004 interest coverage ratio achieved by TGI in 2004.*

Response:

Terasen Gas has a debt issuance interest coverage test in the trust indenture governing the Terasen Gas debentures. The test is required to be met prior to issuing debentures. The test requires that the available earnings from a continuous 12-month period from the 23-month period preceding the debenture issue date be in excess of 2 times the interest on issued and outstanding debentures.

The new issue interest coverage test for the February 2005 issue of debentures can be found in Appendix 8.

9. *What is the present interest coverage ratio required by lenders on existing bond issues and on new bond issues of TGI?*

Response:

There is no interest coverage requirement on existing debentures. The interest coverage test is a new issue test required to be met prior to issuing new debentures. The test requires 2 times interest coverage, as discussed in response to question 8.

10. *How many basis points would TGI expect their interest costs to change on long bonds if the TGI bond rating changed from BBB+ to BBB?*

Response:

A reasonable rule of thumb would be an expectation of a 10 basis point increase in credit spread.

11. *How much oversight and auditing does the BCUC perform during the year and at yearend on TGI's operations and accounting?*

Response:

The BCUC normally does not perform a duplicative effort in auditing Terasen Gas Inc., although the Utilities Commission Act does give discretionary power to the Commission to audit the utilities under its jurisdiction. Several reports are filed with the Utilities Commission that allows the Commission to have a comprehensive oversight of the activities of the Utility and the costs of the utility. Such reports from Terasen Gas are:

Annual Financial Statements audited by an external firm of Chartered Accountants and Quarterly Interim Financial Statements reviewed by the external firm of Chartered Accountants
Gas Cost Reports (Monthly, Quarterly & Annual)
Service Quality Indicators Report
Natural Gas for Vehicle Grant Program Report
Marketing Demand Side Management filings
Resource Plan report on long term forecast on resources required and cost impact to meet demand for gas
Internal Audit Department Reports as required.
Reports on certain Deferral Accounts such as Revenue Stabilization Adjustment Mechanism & the Gas Cost Reconciliation Account
Other Reports as may be required by the BCUC during the development, construction & / or implementation of special projects

Terasen Gas Inc. does not know to what extent the BCUC reviews the utility's activities and financial statements but Terasen believes the BCUC does have extensive access to a variety of information from Terasen and other sources to oversee the Utility.

The Annual Reports of the BCUC can be viewed on their web site at http://www.bcuc.com or requested from the BCUC which provides information on their activities.

12. *Terasen mentions the risks of "flow through taxes". Under what conditions does Terasen speculate, that they might not be able to re-coop these deferred taxes when the taxes become due?*

Response:

The primary condition for non-recovery would be where cost of service and commodity costs become non-competitive and the increased burden of deferred taxes is not recoverable in rates. As an example, the current soft cap for residential gas rates on Vancouver Island does not recover the full cost of service and commodity cost of gas. Any increased tax burden would not be recoverable from such customers.

Similarly the loss of a major customer and/or throughput volume could result in an inability to recover additional taxes in the future when depreciation timing differences reversed.
For instance, Methanex recently announced it will be winding up its operations in Northern BC in the service area of Pacific Northern Gas. This will result in a significant decline in revenues for PNG and could have a bearing on recovery of taxes in future

13. Reference: T.1, P.16

What revenue requirement does the present 24 month hedging strategy create, and what would it be if TGI moves to a 36 month hedging strategy?

<u>Response:</u>

The current revenue requirement is the same under a 36 month hedge strategy compared to a 24 month hedging strategy. The 36 month hedging is a strategy to assist TGI in managing its longer-term gas costs.

14. Reference: T.2, P.5, L.112-117

Is it reasonable to expect that the interest rates of Canada Government Bonds reflect the perceived risks relative to Global Markets, currency exchange rates and Canadian economic activity?

Response:

The yields reflect those risks as they impact Government of Canada bonds.

15. Reference: T.2, P.7

Provide the formulas and actual calculation of the discounted cash flow to support lines 186-188.

Response:

Please see Application Tab 2 Appendix B, page 2, Application Tab 2 Schedule 18, Application Tab 2 lines 2122-2140, and Response to BCUC IR No 1 71.3.

16. Reference: T.2

In Schedules 8 & 9, what actual stock indexes are being used as the basis for the Stock Returns?

Response:

The Canadian stock index data are obtained from the "Report on Canadian Economic Statistics" produced annually by the Canadian Institute of Actuaries. A copy of the relevant pages from the most recent report are attached as Appendix 16. The US data are from Ibbotson's Stocks, Bonds, Bills, and Inflation: Valuation Edition 2005. Ibbotson utilizes the S&P500 as its stock market benchmark. Data for the UK are taken from Barclay's "Equity Gilt Study". For the years 1947 to 1961, the UK data are the FT 30 Index. For all years from 1962 onwards, the data are the FTSE Actuaries All-Share Index.

17. Reference: T.3, P.5

Please define "Super-Subordinate Debt" and if TGI or TI is using super-subordinate debt, please give details.

Response:

Super-subordinate debt refers to debt which is deeply subordinate to senior secured debt, with features that make it akin to equity (from a senior secured debtholder's perspective), e.g., the ability to defer interest payments or to pay interest and/or principal in common shares. Neither TGI nor TGVI is using super-subordinate debt.

18. *If Terasen will be fielding more than one panel for cross examination; can Terasen please provide a list of the panels, and for each panel list the numbers of the IRs where follow-up questions are best directed. BC Hydro has done this very successfully at the Heritage Contract Hearing and also their 2005 Revenue Hearing, providing the lists at the beginning of the actual hearings.*

<u>Response:</u>

At the present time, Terasen expects to present one Company panel consisting of three members who can deal with Policy, Business Risk and Treasury/Financing matters related to TGI/TGVI and an Expert Panel consisting of Ms. McShane who will deal with technical ROE and capital structure matters from an industry and capital markets perspective.

TGI and TGVI will consider your request regarding identification of responses to Information Requests.

APPENDIX 8

TERASEN GAS INC.
Debenture Trust
Indenture Interest Test ($000)
Minimum Coverage at X 2.00

Line No.	Particulars	USING FINANCIAL RESULTS OF: Actual Jan - Dec 04
	(1)	(2)
1	Earnings Available For Interest:	
2	Income before income from subs and before income taxes	$74,039
3	Add: Dividend Income - SCP	34,455
4		0
5		
6		108,494
7	Add: Interest on funded obligations	73,266
8	Interest savings re MTN Series 19	4,590
9	Interest savings re MTN Series 18	1,000
10	Earnings available for interest	$187,350
11		
12	Interest Requirement On Additional Debentures:	
13	Interest on existing Funded Obligations	$71,348
14	Add: interest re MTN Series 19	8,850
15	Total interest	$80,198
16		
17	Times Interest Earned:	
18	Earnings Available Divided by Total Interest	2.34

Prepared by Finance Department dated February 10, 2005.

APPENDIX 16

REPORT ON
CANADIAN ECONOMIC STATISTICS
1924 – 2004

March 2005

Document 205016

APPENDIX C
SOURCES AND METHODS FOR EACH TABLE

<u>TABLES 1A-1D AND TABLES 2A-2B:</u>

CONSUMER PRICE INDEX:

CANSIM P100000 / V735319	December 1923 – December 2004

Method: Change in December – December period.

COMMON STOCK INDEX:

Prices:	
Urquhart & Buckley H641 (Corporate Composite)	December 1923 – December 1946
CANSIM B4202 (TSE Corporates)	December 1946 – December 1956
S&P/TSX Total Return Index	December 1956 – December 2004
Dividend Yield, Annual Averages:	
Ibbotson & Sinquefield (1977)	January 1923 – December 1933
Urquhart & Buckley H617	January 1934 – December 1955
CANSIM B4245 / V122628	January 1956 – December 2004

Method:
1956 and earlier:
December purchase – December sale, plus dividends. The dividend yield used is a twelve month average. For the period January 1926 – December 1933, Standard and Poor's US dividend yields were used (Ibbotson and Sinquefield, 1977). The values were adjusted by subtracting the average difference, .17%, between the Standard and Poor's dividend yield index and the S&P/TSX dividend yield index over the period January 1956 – December 1965. For the period January 1924 – December 1925, the average Standard and Poor's yield over the period January 1926 – December 1928 was used, 5.05%, reduced by the .17% correction.

1957 and later:
December to December ratio of the S&P/TSX Total Return Index.

GOVT. OF CANADA LONG BOND INDEX (OVER 10-YEAR TERM):

Bank of Canada (1979)	December 1923 – December 1936
CANSIM B14013 / V122487	December 1936 – December 2004

Method:
Assume purchase of a bond with 18 years to maturity in December, sell after one year.

CONVENTIONAL MORTGAGE INDEX:

CANSIM B14024 / V122497	December 1951 – December 2004

Method:
Assume a 25year mortgage with interest rate fixed for 5 years (25 years for calendar year 1969 and earlier) is bought on December 31 and sold on the subsequent December 31 at then current yields. No allowance is made for administration expenses.