



Scott A. Thomson
Vice President,
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November 7, 2005

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British Columbia Utilities Commission
6th Floor - 900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Mr. R.J. Pellatt, Commission Secretary

Dear Sir:

**RE: Terasen Gas Inc.
2004 – 2007 Performance Based Rate Plan
2005 Annual Review - November 10, 2005
BCUC Order No. G-104-05**

In Commission Order G-98-05 "Approval of Transactions Related to the Southern Crossing Pipeline and Inland Pacific Connector" dated October 6, 2005, the Commission approved the debiting of an annual charge of \$3.6 million (relating to the termination of the BC Hydro Transportation Service Agreement) against the Midstream Cost Reconciliation Account, with an equal and offsetting amount to be credited to the delivery margin revenue account. The forecast utilized in the preparation of the 2005 Annual Review advance materials filed on October 19, 2005 did not reflect this approval.

Enclosed are twenty (20) copies of the revised Section A Tab 1 advance information for the 2005 Annual Review on November 10, 2005. Please replace the Section A Tab 1 materials distributed on October 19, 2005 with these revisions.

The incorporation of the above approval results in a decrease to the 2006 revenue requirement of \$3.6 million due to the increase in "Other Operating Revenue" by the same amount. The revised 2006 revenue requirement increase identified in the enclosed materials is \$18.0 million, equivalent to a 3.68% increase in gross margin or a 1.10% increase in total revenue at existing rates. After taking into consideration the earnings surplus incentive sharing, the increase is \$10.7 million, equivalent to a 2.19% increase in gross margin, or a 0.65% increase in total revenue at existing rates.

When the effects of the projected changes to the RSAM and Earnings Sharing Mechanism riders are factored in, residential customers can expect an increase of 0.76% at the burnertip. A summary of the contributors to the increase are summarized in Tab A-1, Page 4.

Should further information be required, please contact Tom Loski at (604) 592-7464.

Yours very truly,

TERASEN GAS INC.

Original signed by Tom Loski

For: Scott A. Thomson

cc: 2004 – 2007 PBR NSP Participants
2005 Annual Review Registered Participants

**2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN
SUMMARY OF REVENUE REQUIREMENTS
FOR THE YEAR ENDING DECEMBER 31, 2006**

By Order No. G-51-03 dated July 29, 2003, the Commission approved the Negotiated Settlement of the Terasen Gas Inc. ("Terasen Gas") Multi-Year Performance Based Rate Plan for 2004 – 2007 (the "Settlement" or "PBR").

Pursuant to the provisions of the Settlement Agreement, Terasen Gas has developed the projections and forecasts needed to establish the 2006 revenue requirement. The attached costs and revenues incorporate updated data for:

- 2005 projected year-end customers,
- 2005 projected formula-based capital expenditures trued up for customer additions and average total customers, the resulting year-end plant balances, and other rate base information,
- 2005 projected deferral account balances and amortization,
- 2005 projected formula-based utility O&M trued up for average total customers,
- Other projected 2005 cost-of-service items required under the terms of the Settlement for setting 2006 rates,
- 2006 forecast cost drivers, such as customer additions, average total customers and inflation (less an adjustment factor),
- 2006 customer use rate forecasts,
- 2006 forecast volumes and revenues,
- 2006 formula-based utility O&M expenses including adjustments, as per the terms of the Settlement, for the change in forecast pension and insurance costs,
- 2006 formula-based base capital expenditures and resulting plant balances, accumulated depreciation and contributions-in-aid-of-construction,
- 2006 forecast property taxes,
- 2006 forecast working capital, deferred account balances and amortization, and
- 2006 forecast long-term debt and the associated financing costs of long-term and unfunded debt to be included in 2006 rates.

A summary of the 2006 revenue requirement increase determined pursuant to the terms of the Settlement Agreement and the Revised Target is shown on the following financial summary pages:

Page 5 Summary of Rate Increase Required

Page 6 Utility Rate Base

Page 7 Utility Income and Earned Return

Page 8 Income Taxes / Revenue Surplus

Page 9 Return on Capital

The 2006 test year costs and revenues are explained under the following section of this Annual Review material:

- Cost Drivers - see Section A, Tab 2,
- Gas plant in service, plant additions and other rate base components - see Section A, Tab 3,
- Volumes and revenues - see Section A, Tab 4,
- Operating and maintenance costs - see Section A, Tab 5,
- Taxes and other expenses - see Section A, Tab 6,
- Financing costs - see Section A, Tab 7, and
- 2005 projected results - see Section A, Tab 8.

The results of incorporating the forecast and formula-based costs and revenues in the 2006 test year show that the revenue requirement increase, before the earnings surplus sharing, is \$18.0 million, equivalent to a 3.68% increase in gross margin, or a 1.10% increase in total revenue at existing rates. After taking into consideration the earnings surplus incentive sharing, the increase is \$10.7 million, equivalent to a 2.19% increase in gross margin, or a 0.65% increase in total revenue at existing rates.

The increase to rate base as a result of plant additions and increased gas in storage values contributed \$7.8 million to the \$18.0 million revenue requirement increase. Other contributors to the revenue requirement increase include lower revenues from the Southern Crossing Pipeline of \$0.8 million, lower average customer use rates from Rates 1, 2, 3/23, higher property taxes of \$1.8 million, higher operating and maintenance expenses of \$5.4 million and increased depreciation expense of \$4.2 million. Mitigating the cost pressures are lower income taxes due to decreased income tax rates, and lower financing costs. A summary of the components of the revenue requirement increase is at Page 4.

In addition to the delivery rate changes arising from the \$18.0 million revenue requirement increase, core market customers will also experience rate changes in 2006 related to the Revenue Stabilization Adjustment Mechanism (RSAM) rider which is expected to go up from the 2005 level by \$0.023 per gigajoule. This increase is offset by a decrease in the revenue requirement of an average of \$0.052 per gigajoule resulting from the earnings sharing surplus as determined in accordance with the earnings sharing mechanism. There will also likely be a flow-through of cost of gas increases. The cost of gas is dependent on the commodity market which is subject to considerable volatility. A cold weather snap or unexpected negative news can change the natural gas commodity market outlook quite quickly. The increase in the RSAM rider and the delivery rate net of the earnings sharing credit will result in an increase of 0.76% to the annual bill for residential customers.

The final rates for 2006 may be subject to further adjustments for changes in the allowed return on common equity ("ROE"). The financial calculations for 2006 in the enclosed materials have been made using an ROE of 9.03%, representing the approved 2005 ROE and the capital structure currently approved for rate making purposes. Any revision to rates as a result of a variance between the approved ROE for 2006 and the 9.03% ROE utilized in this filing, or as a result of a change in the capital structure approved for rate making purposes, will be in addition to the rate adjustments reflected in these Annual Review materials.

SUMMARY OF 2006 REVENUE REQUIREMENT INCREASE (Revision #1)

(\$ Millions)

Volumes/Revenue Related

- Change in Use rates for Rates 1/2/3/23 \$10.2
- Customer growth and Industrial revenue changes (7.2) \$3.0

O & M Related

- Higher O&M per formula 3.9
- Change in Pension and Insurance forecast 1.5 5.4

Other Items

- Higher Property Taxes 1.8
- Higher Depreciation and Amortization 4.2
- Lower Interest Expense (3.0)
- Large Corporations Tax Rate Reduction (1.7)
- BC Corporate Income Tax Rate Reduction (2.2)
- Lower Other Revenues (primarily SCP related) 4.7
- Lower Income Tax Deductions 1.6
- Higher Rate Base due to Plant Additions and Others 7.8 13.2

Revenue Increase (Section A, Tab 1, Page 5, Column 6, Line 15) 21.6

Earnings Sharing (7.3)

Net Revenue Increase after Earnings Sharing - Annual Review 14.3
Advance Filing dated October 19, 2005

- Add Southern Crossing Revenues in accordance with BCUC Order G-98-05 dated October 6, 2005 (3.6)

Net Revised Revenue Increase after Earnings Sharing \$10.7

TERASEN GAS INC.

Section A
 Tab 1
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SUMMARY OF RATE CHANGE REQUIRED
 FOR THE YEAR ENDING DECEMBER 31, 2006
 (\$000)

Line No.	Particulars (1)	2005 Approved (2)	2006			Total (6)	Change (7)
			Core (3)	Non-Core (4)	Bypass and Special Rates (5)		
1	RATE CHANGE REQUIRED						
2							
3	Gas Sales and Transportation Revenue,						
4	At Prior Year's Rates	\$1,389,037	\$1,554,511	\$59,367	\$12,589	\$1,626,467	\$237,430
5							
6	Add - Other Revenue Related to SCP Third Party						
7	Revenue / Terasen Gas (Vancouver Island)	15,991	0	0	15,159	15,159	(832)
8							
9	Total Revenue	1,405,028	1,554,511	59,367	27,748	1,641,626	236,598
10							
11	Less - Cost of Gas	(908,924)	(1,149,012)	(1,696)	(863)	(1,151,571)	(242,647)
12							
13	Gross Margin	\$496,104	\$405,499	\$57,671	\$26,885	\$490,055	(\$6,049)
14							
15	Revenue Deficiency (Surplus)	(\$2,196)	\$15,797	\$2,247	\$0	\$18,044	
16							
17	Revenue Deficiency (Surplus) as a % of Gross Margin	-0.44%	3.90%	3.90%	0.00%	3.68%	
18							
19	Revenue Deficiency (Surplus) as a % of Total Revenue	-0.16%	1.02%	3.78%	0.00%	1.10%	

TERASEN GAS INC.

Section A
 Tab 1
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UTILITY RATE BASE
 FOR THE YEAR ENDING DECEMBER 31, 2006
 (\$000)

Line No.	Particulars	2006				Change	Reference
		2005 Approved	Existing Rates	Adjustments	Revised Rates		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Plant in Service, Beginning	\$2,922,348	\$3,067,485	\$0	\$3,067,485	\$145,137	- Tab A-3, Page 7.1
2	CPCNs	53,749	4,564	0	4,564	(49,185)	- Tab A-3, Page 7.1
3							
4	Additions	117,728	125,924	0	125,924	8,196	- Tab A-3, Page 7.1
5	Disposals	(20,340)	(56,345)	0	(56,345)	(36,005)	- Tab A-3, Page 7.1
6							
7	Plant in Service, Ending	3,073,485	3,141,628	0	3,141,628	68,143	
8							
9	Add - Intangible Plant	837	837	0	837	0	
10							
11		3,074,322	3,142,465	0	3,142,465	68,143	
12							
13	Contributions In Aid of Construction	(153,989)	(137,019)	0	(137,019)	16,970	- Tab A-3, Page 8
14							
15	Less - Accumulated Depreciation	(625,051)	(671,378)	0	(671,378)	(46,327)	- Tab A-3, Page 15
16							
17							
18	Net Plant in Service, Ending	<u>\$2,295,282</u>	<u>\$2,334,068</u>	<u>\$0</u>	<u>\$2,334,068</u>	<u>\$38,786</u>	
19							
20							
21	Net Plant in Service, Beginning	<u>\$2,266,265</u>	<u>\$2,302,480</u>	<u>\$0</u>	<u>\$2,302,480</u>	<u>\$36,215</u>	- Tab A-3, Page 9
22							
23							
24	Net Plant in Service, Mid-Year	\$2,280,774	\$2,318,274	\$0	\$2,318,274	\$37,500	
25	Adjustment to 13-Month Average	0	0	0	0	0	
26	Construction Advances	(2)	(11)	0	(11)	(9)	
27	Work in Progress, No AFUDC	12,358	11,902	0	11,902	(456)	
28	Unamortized Deferred Charges	6,710	13,109	0	13,109	6,399	- Tab A-3, Page 13.1
29	Cash Working Capital	(22,876)	(28,951)	(82)	(29,033)	(6,157)	- Tab A-3, Page 14
30	Other Working Capital	121,715	194,361	0	194,361	72,646	- Tab A-3, Page 14
31	Deferred Income Tax, Mid-Year	(364)	(364)	0	(364)	0	
32	LIFO Benefit	(2,564)	(2,312)	0	(2,312)	252	
33	Utility Rate Base	<u>\$2,395,751</u>	<u>\$2,506,008</u>	<u>(\$82)</u>	<u>\$2,505,926</u>	<u>\$110,175</u>	

TERASEN GAS INC.

UTILITY INCOME AND EARNED RETURN
FOR THE YEAR ENDING DECEMBER 31, 2006
(\$000)

Section A
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Line No.	Particulars (1)	2005 Approved (2)	2006 ----Revised Rates-----		Change (6)	Reference (7)
			Existing Rates (3)	Revised Revenue (4)		
1	ENERGY VOLUMES (TJ)					
2	Sales	119,302	116,140	0	116,140	(3,162) - Tab A-4, Page 15
3	Transportation	105,684	98,287	0	98,287	(7,397) - Tab A-4, Page 15
4		<u>224,986</u>	<u>214,427</u>	<u>0</u>	<u>214,427</u>	<u>(10,559)</u>
5						
6	Average Rate per GJ					
7	Sales	\$11.051	\$13.390	\$0.000	\$13.526	\$2.475
8	Transportation	\$0.648	\$0.726	\$0.000	\$0.749	\$0.101
9	Average	\$6.164	\$7.585	\$0.000	\$7.669	\$1.505
10						
11	UTILITY REVENUE					
12	Sales - Existing Rates	\$1,320,326	\$1,555,107	\$0	\$1,555,107	\$234,781 - Tab A-4, Page 16
13	- Increase	(1,939)	0	15,801	15,801	17,740
14						
15	Transportation - Existing Rates	68,711	71,360	0	71,360	2,649 - Tab A-4, Page 16
16	- Increase	(257)		2,243	2,243	2,500
17	Total	<u>1,386,841</u>	<u>1,626,467</u>	<u>18,044</u>	<u>1,644,511</u>	<u>257,670</u>
18						
19	Cost of Gas Sold (Including Gas Lost)	908,924	1,151,571	0	1,151,571	242,647 - Tab A-4, Page 17.1
20						
21	Gross Margin	<u>477,917</u>	<u>474,896</u>	<u>18,044</u>	<u>492,940</u>	<u>15,023</u>
22						
23	Operation and Maintenance	161,729	167,091	0	167,091	5,362 - Tab A-5, Page 2
24	Vehicle Lease	1,915	1,804	0	1,804	(111) - Section B, Tab 6
25	Property and Sundry Taxes	39,573	41,379	0	41,379	1,806 - Tab A-6, Page 4
26	Depreciation and Amortization	79,720	83,894	0	83,894	4,174 - Tab A-6, Page 7
27	Other Operating Revenue	(25,969)	(24,837)	0	(24,837)	1,132 - Tab A-4, Page 19
28		<u>256,968</u>	<u>269,331</u>	<u>0</u>	<u>269,331</u>	<u>12,363</u>
29	Utility Income Before Income Taxes	220,949	205,565	18,044	223,609	2,660
30						
31	Income Taxes	38,321	31,788	5,956	37,744	(577) - Tab A-1, Page 8
32						
33	EARNED RETURN	<u>\$182,628</u>	<u>\$173,777</u>	<u>\$12,088</u>	<u>\$185,865</u>	<u>\$3,237</u>
34						
35	UTILITY RATE BASE	<u>\$2,395,751</u>	<u>\$2,506,008</u>	<u>(\$82)</u>	<u>\$2,505,926</u>	<u>\$110,175</u>
36						
37	RATE OF RETURN ON UTILITY RATE BASE	<u>7.623%</u>	<u>6.930%</u>		<u>7.417%</u>	<u>-0.21%</u>

TERASEN GAS INC.

Section A
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INCOME TAXES / REVENUE DEFICIENCY
 FOR THE YEAR ENDING DECEMBER 31, 2006
 (\$000)

Line No.	Particulars	2005 Approved	2006		Change	Reference	
			Existing Rates	Revised Revenue			Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	CALCULATION OF INCOME TAXES						
2	Earned Return	\$182,628	\$173,777	\$12,088	\$185,865	\$3,237	- Tab A-1, Page 7
3	Deduct - Interest on Debt	(111,229)	(111,175)	2	(111,173)	56	
4	Add- Non-Tax Ded. Expense (Net)	(424)	(1,348)	0	(1,348)	(924)	- Tab A-6, Page 6
5							
6	Accounting Income After Tax	70,975	61,254	12,090	73,344	2,369	
7	Add (Deduct) - Timing Differences	(10,273)	(6,115)	0	(6,115)	4,158	- Tab A-6, Page 6
8	Add - Large Corporation Tax	3,049	2,129	(202)	1,927	(1,122)	
9							
10	Taxable Income After Tax	<u>\$63,751</u>	<u>\$57,268</u>	<u>\$11,888</u>	<u>\$69,156</u>	<u>\$5,405</u>	
11							
12	Income Tax Rate (Current Tax)	35.620%	34.120%	34.120%	34.120%	-1.500%	
13	1 - Current Income Tax Rate	64.380%	65.880%	65.880%	65.880%	1.500%	
14							
15	Taxable Income (L10 / L13)	<u>\$99,023</u>	<u>\$86,927</u>	<u>\$18,046</u>	<u>\$104,973</u>	<u>\$5,950</u>	
16							
17	Income Tax - Current (L12 x L15)	\$35,272	\$29,659	\$6,156	\$35,817	\$545	
18							
19	- Large Corporation Tax	3,049	2,129	(202)	1,927	(1,122)	
20							
21	Total	<u>\$38,321</u>	<u>\$31,788</u>	<u>\$5,954</u>	<u>\$37,744</u>	<u>(\$577)</u>	- Tab A-1, Page 7
22							
23							
24	REVENUE DEFICIENCY						
25	Earned Return	\$182,628		\$12,088	\$185,865	\$3,237	- Tab A-1, Page 7
26	Add - Income Taxes	38,321		5,956	37,744	(577)	- Tab A-1, Page 7
27	Deduct - Utility Income Before Taxes,						
28	Existing Rates	(223,145)		0	(205,565)	17,580	- Tab A-1, Page 7
29	Corporate Capital Tax	0		0	0	0	
30							
31	Deficiency After Corporate Capital Tax	<u>(\$2,196)</u>		<u>\$18,044</u>	<u>\$18,044</u>	<u>\$20,240</u>	

TERASEN GAS INC.

RETURN ON CAPITAL
FOR THE YEAR ENDING DECEMBER 31, 2006
(\$000)

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Line No.	Particulars	Reference	----- Capitalization -----		Embedded Cost	Cost Component	Earned Return
	(1)	(2)	Amount	%	(6)	(7)	(8)
1	2006 AT 2005 RATES						
2	Long-Term Debt		\$1,432,919	57.18%	7.072%	4.044%	
3	Unfunded Debt		246,106	9.82%	4.000%	0.393%	
4	Preference Shares		0	0.00%	0.000%	0.000%	
5	Common Equity		826,983	33.00%	7.555%	2.493%	
6							
7			<u>\$2,506,008</u>	<u>100.00%</u>		<u>6.930%</u>	
8							
9	2006 REVISED RATES						
10	Long-Term Debt		\$1,432,919	57.18%	7.072%	4.044%	\$101,331
11	Unfunded Debt		\$246,106				
12	Adjustment, Revised Rates	(55)	246,051	9.82%	4.000%	0.393%	9,842
13	Preference Shares		0	0.00%	0.000%	0.000%	0
14	Common Equity		826,956	33.00%	9.030%	2.980%	74,674
15							
16			<u>\$2,505,926</u>	<u>100.00%</u>		<u>7.417%</u>	<u>\$185,847</u>
17							
18	2005 APPROVED						
19	Long-Term Debt		\$1,444,684	60.30%	7.255%	4.375%	\$104,812
20	Unfunded Debt		\$160,463				
21	Adjustment, Revised Rates	6	160,469	6.70%	4.000%	0.268%	6,417
22	Preference Shares		0	0.00%	0.000%	0.000%	0
23	Common Equity		790,598	33.00%	9.030%	2.980%	71,399
24							
25			<u>\$2,395,751</u>	<u>100.00%</u>		<u>7.623%</u>	<u>\$182,628</u>
26							
27	2006 CHANGE FROM 2005 APPROVED						
28	Long-Term Debt		(\$11,765)	-3.12%	-0.183%	-0.331%	(\$3,481)
29	Unfunded Debt		\$85,643				
30	Adjustment, Revised Rates	(61)	85,582	3.12%	0.000%	0.125%	3,425
31	Preference Shares		0	0.00%	0.000%	0.000%	0
32	Common Equity		36,358	0.00%	0.000%	0.000%	3,275
33							
34			<u>\$110,175</u>	<u>0.00%</u>		<u>-0.206%</u>	<u>\$3,219</u>