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

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

**RE: Terasen Gas Inc. ("Terasen Gas")
2008–2009 Extension of the 2004–2007 Multi-Year Performance Based Rate Plan
2007 Annual Review**

By Order No. G-112-07, the British Columbia Utilities Commission ("the Commission") set November 13, 2007 as the date for the joint Terasen Gas 2007 Annual Review Workshop and Terasen Gas (Vancouver Island) 2007 Settlement Update Meeting. This Annual Review Workshop will be the fifth under the Company's 2004 – 2007 Multi-Year Performance Based Rate settlement agreement (the "Settlement") extended to 2008-2009. The Settlement was approved by Commission Order No. G-51-03 dated July 29, 2003, with the two-year extension approved by Order No. G-33-07.

The terms of the Settlement require Terasen Gas to submit to the Commission and interested parties advance materials on the information to be presented at the Annual Review three weeks prior to the Annual Review Workshop. The details of the Annual Review process are set out on Pages 17 to 22 of Appendix A to Commission Order No. G-51-03.

The 2007 Annual Review is a process for the Company and stakeholders to ensure that the objectives of the Settlement are being achieved and to review the cost drivers and financial forecasts for the purposes of establishing the 2008 revenue requirements.

Enclosed are twenty (20) copies of the advance information for the 2007 Annual Review. Section A of the binder includes information on the cost drivers, financial projections and forecasts necessary for setting 2008 delivery rates. Section B of the binder includes various other reports and information requirements identified in the Settlement and Commission Order No. G-51-03 and G-33-07. Terasen Gas will present information at the Annual Review Workshop on the matters addressed in the advance materials.

The 2008 revenue requirement increase identified in the enclosed materials is \$5.6 million, equivalent to a 1.1% increase in gross margin or a 0.4% increase in total revenue at existing

rates. After taking into consideration the earnings surplus incentive sharing, the revenue requirement is a decrease of \$9.4 million, equivalent to a 1.9% decrease in gross margin, or a 0.6% decrease in total revenue at existing rates.

The final rates for 2008 may be subject to further adjustments for changes in the return on equity ("ROE"). The financial calculations for 2008 in the enclosed materials have been made using an ROE of 8.37% representing the allowed Terasen Gas 2007 ROE. The difference between the 2007 allowed ROE level and the 2008 ROE, as determined in accordance with the Commission's March 2, 2006 ROE Decision, will result in corresponding changes to the final 2008 revenue requirement. At the point in time that the 2008 allowed ROE is approved by the Commission, the Company will revise its rate proposals and submit them for Commission approval. Any rate changes related to the flow-through of gas cost changes will be dealt with in a separate application to the Commission. Lastly, the 2008 revenue requirements included herein do not take into consideration the impacts of the sale of vacant land in Burnaby, which was approved by the Commission in Order No. G-116-07, dated September 21, 2007. In the Order, the Commission directed the Company to refund \$2.5 million to ratepayers over one year by a rate rider to be filed with the first quarterly gas review following the date of completion of the sale. This is discussed in more detail in the Deferred Charges portion of Section A3, on page 12.

REQUEST FOR APPROVAL

With this Annual Review Application, TGI requests Commission approval for the following:

1. The increase in Gross Margin effective January 1, 2008 as included in the Annual Review advance materials in Section A1, page 5, line 17.
2. Earnings Sharing Mechanism sharing in 2008 of \$15.0 million via a rate rider as included in the Annual Review advance materials in Section A8, page 1.3
3. The Deferral account additions and treatment as included in the Annual Review advance materials in Section A3. This includes the creation of a deferral account in the event that the Commission approves the proposed changes to the Company's Service Line Installation Fees and Service Line Cost Allowance and creation of a deferral account to account for the cost of service reductions related to the timing of the Lochburn land sale.
4. To use the reporting format for O&M as included in the Annual Review advance materials in Section A5, page 3.
5. To follow Section 3061.04 of the CICA Handbook revision that will result in a reclassification in TGI's financial statements between inventory and property, plant and equipment for pipe, valves, fittings and other items that would ultimately be used for gas plant in service, whereby these costs will be transferred to Plant Work in Process (WIP) in the financial statements, effective January 1, 2009, as included in the Annual Review advance materials in Section B6.

In its Order No. G-112-07, the Commission established the Regulatory Timetable for the Annual Review. As most parties are aware, the Company is currently experiencing labour disruptions with one of its bargaining units. The Company will do its best to meet its Annual Review requirements given this challenge.

We trust the enclosed is satisfactory. If you have any questions related to this submission please contact Tom Loski, Director of Regulatory Affairs at (604) 592-7464. To assist in the planning of the review, it would be appreciated if any party that intends to attend the Annual Review on November 13, 2007 would contact Regulatory Affairs by phone (604) 592-7664 or by email at regulatory.affairs@terasengas.com or to advise of the intended attendance.

Yours very truly,

TERASEN GAS INC.

Original signed by: Tom Loski

For: Scott Thomson

Attachment

cc (e-mail only): TGI Multi Year PBR (2004-2007 PBR & 2008-2009 Extension) Participants and
2006 Annual Review & Mid-Term Settlement Update Participants

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TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

SUMMARY OF REVENUE REQUIREMENTS FOR THE YEAR ENDING DECEMBER 31, 2008

The British Columbia Utilities Commission (the "Commission" or "BCUC") by Order No. G-51-03, approved the TGI Settlement Agreement for a 2004-2007 Performance Based Rate Plan (the "Settlement" or "PBR"), and extended the Settlement for 2008-2009 by Order No. G-33-07.

Pursuant to the provisions of the Settlement Agreement, Terasen Gas has developed the projections and forecasts needed to establish the 2008 revenue requirement. The attached costs and revenues incorporate updated data for:

- 2007 projected year-end customers,
- 2007 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,
- 2007 projected deferral account balances and amortization,
- 2007 projected formula-based utility O&M trued up for average total customers
- Other projected 2007 cost-of-service items required under the terms of the Settlement for setting 2008 rates,
- 2008 forecast cost drivers, such as customer additions, average total customers and inflation (less an adjustment factor),
- 2008 customer use rate forecasts,
- 2008 forecast volumes and revenues,
- 2008 formula-based utility O&M expenses including adjustments, as per the terms of the Settlement, for the change in forecast pension and insurance costs,
- 2008 formula-based base capital expenditures and resulting plant balances, accumulated depreciation and contributions-in-aid-of-construction,
- 2008 forecast property taxes,
- 2008 forecast working capital, deferred account balances and amortization, and
- 2008 forecast long-term debt and the associated financing costs of long-term and unfunded debt to be included in 2008 rates.

A summary of the 2008 revenue requirement decrease determined pursuant to the terms of the Settlement Agreement and the Revised Target is shown on the following financial summary pages:

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2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

Page 5 Summary of Rate Change 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 2008 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,
- 2007 Projected Results - see Section A, Tab 8.

The results of incorporating the forecast and formula-based costs and revenues in the 2008 test year show that the revenue requirement increase, before earnings sharing, is \$5.6 million, equivalent to a 1.1% increase in gross margin, or a 0.4% increase in total revenue at existing rates. After taking into consideration the earnings sharing, the revenue requirement is a decrease of \$9.4 million, equivalent to a 1.9% decrease in gross margin, or a 0.6% decrease in total revenue at existing rates.

Changes in the average residential gas use rates as experienced over the last several years, have been driven by more efficient appliances, better insulated homes and multi-family home construction. The reduction in use rates contributes \$7.8 million of the revenue requirement increase before earnings sharing. The change in use rates is offset in part by customer growth which reduces revenue requirement by \$5.4 million, but which in turn contributes to revenue requirement increases of \$2.6 million due to a higher rate base. O&M cost per customer increases as per the settlement formula are limited to 34% of CPI (BC), or 0.7%, and contributes \$4.0 million to increased revenue requirements. Other contributors to cost pressures include higher property taxes and interest expense, while changes in pension and insurance forecasts and higher income tax deductions serve to further offset revenue requirement increases. A summary of the components of the revenue requirement increase before earnings sharing is shown on Page 4.

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2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

The revenue requirement increase is offset by earnings sharing of \$12.6 million. Core market customers will experience a decrease in the revenue requirement of an average of \$0.114 per gigajoule resulting from the earnings sharing as determined in accordance with the earnings sharing mechanism. There may also be flow-through cost of gas changes as 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. Overall, residential customers can expect to see a decrease of approximately 1.02% to the annual bill when all of the changes related to the RSAM rider, the delivery rate and the earnings sharing credit are factored in.

The final rates for 2008 may be subject to further adjustments for changes in the return on equity (ROE). The financial calculations for 2008 in the enclosed materials have been made using an ROE of 8.37% representing the allowed TGI 2007 ROE with a common equity component of 35.01%. The variance between the 2007 allowed ROE level and the 2008 ROE as determined in accordance with the Commission's March 2, 2006 ROE Decision will result in corresponding changes to the final 2008 revenue requirement. Lastly, the 2008 revenue requirements included herein do not take into consideration the impacts of the sale of vacant land in Burnaby, which was approved by the Commission in Order No. G-116-07, dated September 21, 2007. In the Order the Commission directed the Company to refund \$2.5 million to ratepayers over one year by a rate rider to be filed with the first quarterly gas review following the date of completion of the sale. This is discussed in more detail in the Deferred Charges portion of Section A3, on page 12.

TERASEN GAS INC.**2007 ANNUAL REVIEW****2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN**

SUMMARY OF 2008 REVENUE REQUIREMENT DECREASE**(\$ Millions)**Volumes/Revenue Related

Customer Growth and Use Rate	\$	4.2
------------------------------	----	-----

O & M Related

Higher O&M per Formula	\$	4.0
Change in Pension and Insurance Forecast	<u>(3.4)</u>	0.6

Other Items

Higher Property Taxes	0.2	
Lower Depreciation and Amortization	(0.6)	
Lower Other Revenues	0.3	
Higher Interest Expense	2.3	
Lower Income Tax Rates	(0.5)	
Higher Income Tax Deductions	(3.6)	
Higher Rate Base due to Customer Growth	<u>2.7</u>	<u>0.8</u>

Total Revenue Increase (Section A, Tab 1, Page 5, Column 6, Line 15)		5.6
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Earnings Sharing

Customers' Share of 2007 Earnings Sharing Credit	(12.6)	
True-up of Customers' share of 2006 Earnings Sharing Credit	<u>(2.4)</u>	<u>(15.0)</u>

Net Revenue Decrease after Earnings Sharing - Annual Review	<u>\$</u>	<u>(9.4)</u>
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TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

SUMMARY OF RATE CHANGE REQUIRED
FOR THE YEAR ENDING DECEMBER 31, 2008
(\$000s)

Section A
Tab 1
Page 5

Line No.	Particulars (1)	2007 APPROVED (2)	2008			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	\$1,465,181	\$1,432,768	\$58,644	\$13,288	\$1,504,700	\$39,519
5							
6	Add - Other Revenue Related to SCP Third Party						
7	Revenue / Terasen Gas (Vancouver Island)	15,173	-	-	15,318	15,318	145
8							
9	Total Revenue	1,480,354	1,432,768	58,644	28,606	1,520,018	39,664
10							
11	Less - Cost of Gas	(966,880)	(1,019,137)	(1,517)	(1,150)	(1,021,804)	(54,924)
12							
13	Gross Margin	\$513,474	\$413,631	\$57,127	\$27,456	\$498,214	(\$15,260)
14							
15	Revenue Deficiency (Surplus)	(\$9,609)	\$4,933	\$681	\$0	\$5,614	
16							
17	Revenue Deficiency (Surplus) as a % of Gross Margin	-1.87%	1.19%	1.19%	0.00%	1.13%	
18							
19	Revenue Deficiency (Surplus) as a % of Total Revenue	-0.65%	0.34%	1.16%	0.00%	0.37%	

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

UTILITY RATE BASE
FOR THE YEAR ENDING DECEMBER 31, 2008
(\$000s)

Section A
Tab 1
Page 6

Line No.	Particulars (1)	2007 APPROVED (2)	2008		Revised Rates (5)	Change (6)	Reference (7)
			Existing Rates (3)	Adjustments (4)			
1	Plant in Service, Beginning	\$3,140,710	\$3,242,849	\$0	\$3,242,849	\$102,139	- Tab A-3, Page 8.1
2	CPCNs	8,137	10,092	-	10,092	1,955	- Tab A-3, Page 8.1
3							
4	Additions	129,717	128,111	-	128,111	(1,606)	- Tab A-3, Page 8.1
5	Disposals	(32,918)	(32,478)	-	(32,478)	440	- Tab A-3, Page 8.1
6							
7	Plant in Service, Ending	3,245,646	3,348,574	-	3,348,574	102,928	
8							
9	Add - Intangible Plant	1,614	1,614	-	1,614	(0)	
10							
11		3,247,260	3,350,188	-	3,350,188	102,928	
12							
13	Contributions In Aid of Construction	(131,162)	(148,162)	-	(148,162)	(17,000)	- Tab A-3, Page 9
14							
15	Less - Accumulated Depreciation	(744,297)	(765,334)	-	(765,334)	(21,037)	- Tab A-3, Page 15
16							
17							
18	Net Plant in Service, Ending	<u>\$2,371,801</u>	<u>\$2,436,692</u>	<u>\$0</u>	<u>\$2,436,692</u>	<u>\$64,891</u>	
19							
20							
21	Net Plant in Service, Beginning	<u>\$2,339,687</u>	<u>\$2,398,136</u>	<u>\$0</u>	<u>\$2,398,136</u>	<u>\$58,449</u>	- Tab A-3, Page 10
22							
23							
24	Net Plant in Service, Mid-Year	\$2,355,744	\$2,417,414	\$0	\$2,417,414	\$61,670	
25	Adjustment to 13-Month Average	-	-	-	-	-	
26	Construction Advances	(11)	(658)	-	(658)	(647)	
27	Work in Progress, No AFUDC	10,771	9,358	-	9,358	(1,413)	
28	Unamortized Deferred Charges	(8,222)	(27,526)	-	(27,526)	(19,304)	- Tab A-3, Page 13.1
29	Cash Working Capital	(25,197)	(28,434)	363	(28,071)	(2,874)	- Tab A-3, Page 14
30	Other Working Capital	143,982	136,843	-	136,843	(7,139)	- Tab A-3, Page 14
31	Deferred Income Tax, Mid-Year	(606)	(364)	-	(364)	242	
	Capital Efficiency Mechanism	-	-	-	-	-	
32	LIFO Benefit	(2,243)	(1,980)	-	(1,980)	263	
33	Utility Rate Base	<u>\$2,474,218</u>	<u>\$2,504,653</u>	<u>\$363</u>	<u>\$2,505,016</u>	<u>\$30,798</u>	

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

UTILITY INCOME AND EARNED RETURN
FOR THE YEAR ENDING DECEMBER 31, 2008
(\$000s)

Section A
Tab 1
Page 7

Line No.	Particulars (1)	2007 APPROVED (2)	2008 ----Revised Rates-----		Change (6)	Reference (7)
			Existing Rates (3)	Revised Revenue (4)		
				Total (5)		
1	ENERGY VOLUMES (TJ)					
2	Sales	116,776	115,223	-	115,223	(1,553) - Tab A-Tab 4, Page 14
3	Transportation	95,397	91,435	-	91,435	(3,962) - Tab A-Tab 4, Page 14
4		<u>212,173</u>	<u>206,658</u>	<u>-</u>	<u>206,658</u>	<u>(5,515)</u>
5						
6	Average Rate per GJ					
7	Sales	\$11.832	\$12.436	\$0.000	\$12.479	\$0.647
8	Transportation	\$0.775	\$0.785	\$0.000	\$0.792	\$0.017
9	Average	\$6.860	\$7.281	\$0.000	\$7.308	\$0.448
10						
11	UTILITY REVENUE					
12	Sales - Existing Rates	\$1,390,101	\$1,432,963	\$0	\$1,432,963	\$42,862 - Tab A-Tab 4, Page 15
13	- Increase / (Decrease)	(8,416)	-	4,933	4,933	13,349 - Tab A-Tab 4, Page 17
14						
15	Transportation - Existing Rates	75,080	71,737	-	71,737	(3,343) - Tab A-Tab 4, Page 15
16	- Increase / (Decrease)	(1,193)		681	681	1,874 - Tab A-Tab 4, Page 17
17	Total	<u>1,455,572</u>	<u>1,504,700</u>	<u>5,614</u>	<u>1,510,314</u>	<u>54,742</u>
18						
19	Cost of Gas Sold (Including Gas Lost)	966,880	1,021,804	-	1,021,804	54,924 - Tab A-Tab 4, Page 16.1
20						
21	Gross Margin	<u>488,692</u>	<u>482,896</u>	<u>5,614</u>	<u>488,510</u>	<u>(182)</u>
22						
23	Operation and Maintenance	169,272	169,859	-	169,859	587 - Tab A-5, Page 2
24	Vehicle Lease	1,993	1,988	-	1,988	(5)
25	Property and Sundry Taxes	44,452	44,635	-	44,635	183 - Tab A-Tab 6, Page 4
26	Depreciation and Amortization	84,771	84,142	-	84,142	(629) - Tab A-Tab 6, Page 7
27	Other Operating Revenue	(24,910)	(24,598)	-	(24,598)	312 - Tab A-Tab 4, Page 18
28		<u>275,578</u>	<u>276,026</u>	<u>-</u>	<u>276,026</u>	<u>448</u>
29	Utility Income Before Income Taxes	213,114	206,870	5,614	212,484	(630)
30						
31	Income Taxes	30,897	25,200	1,821	27,021	(3,876) - Tab A-Tab 6, Page 5
32						
33	EARNED RETURN	<u>\$182,217</u>	<u>\$181,670</u>	<u>\$3,793</u>	<u>\$185,463</u>	<u>\$3,246</u>
34						
35	UTILITY RATE BASE	<u>\$2,474,218</u>	<u>\$2,504,653</u>	<u>\$363</u>	<u>\$2,505,016</u>	<u>\$30,798</u> - Tab A-1, Page 6
36						
37	RATE OF RETURN ON UTILITY RATE BASE	<u>7.365%</u>	<u>7.250%</u>		<u>7.404%</u>	<u>0.039%</u>

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

INCOME TAXES / REVENUE DEFICIENCY
FOR THE YEAR ENDING DECEMBER 31, 2008
(\$000s)

Section A
Tab 1
Page 8

Line No.	Particulars	2007 APPROVED (2)	Existing Rates (3)	2008 ----Revised Rates-----		Change (6)	Reference (7)
				Revised Revenue (4)	Total (5)		
1	CALCULATION OF INCOME TAXES						
2	Earned Return	\$182,217	\$181,670	\$3,793	\$185,463	\$3,246	- Tab A-1, Page 7
3	Deduct - Interest on Debt	(109,714)	(112,047)	(11)	(112,058)	(2,344)	- Tab A-1, Page 9
4	Add- Non-Tax Ded. Expense (Net)	(2,290)	(2,644)	-	(2,644)	(354)	- Tab A-Tab 6, Page 6
5							
6	Accounting Income After Tax	70,213	66,979	3,782	70,761	548	
7	Add (Deduct) - Timing Differences	(7,483)	(14,641)	-	(14,641)	(7,158)	- Tab A-Tab 6, Page 6
8	Add - Large Corporation Tax	-	-	-	-	-	
9							
10	Taxable Income After Tax	<u>\$62,730</u>	<u>\$52,338</u>	<u>\$3,782</u>	<u>\$56,120</u>	<u>(\$6,610)</u>	
11							
12	Income Tax Rate (Current Tax)	33.000%	32.500%	32.500%	32.500%	-0.500%	
13	1 - Current Income Tax Rate	67.000%	67.500%	67.500%	67.500%	0.500%	
	Taxable Income Before Income Tax						
	Deferred Income Tax						
14							
15	Taxable Income (L10 / L13)	<u>\$93,626</u>	<u>\$77,538</u>	<u>\$5,603</u>	<u>\$83,141</u>	<u>(\$10,485)</u>	
16							
17							
18	Income Tax - Current (L12 x L15)	\$30,897	\$25,200	\$1,821	\$27,021	(\$3,876)	
19	- Deferred Income Tax	-	-	-	-	-	
20	- Large Corporation Tax	-	-	-	-	-	
21							
22	Total Income Tax	<u>\$30,897</u>	<u>\$25,200</u>	<u>\$1,821</u>	<u>\$27,021</u>	<u>(\$3,876)</u>	
23							
24	REVENUE DEFICIENCY						
25	Earned Return	\$182,217		\$3,793	\$185,463	\$3,246	- Tab A-1, Page 7
26	Add - Income Taxes	30,897		1,821	27,021	(3,876)	
27	Deduct - Utility Income Before Taxes,						
28	Present Rates	(222,723)		-	(206,870)	15,853	- Tab A-1, Page 7
29	Corporate Capital Tax	-		-	-	-	- Tab A-Tab 6, Page 9
30							
31	Deficiency After Corporate Capital Tax	<u>(\$9,609)</u>		<u>\$5,614</u>	<u>\$5,614</u>	<u>\$15,223</u>	

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

RETURN ON CAPITAL
FOR THE YEAR ENDING DECEMBER 31, 2008
(\$000s)

Section A
Tab 1
Page 9

Line No.	Particulars (1)	Reference (2)	----- Capitalization ----- Amount (3) (4)	% (5)	Embedded Cost (6)	Cost Component (7)	Earned Return (8)
1	2008 AT 2007 RATES						
2	Long-Term Debt		\$1,373,881	54.85%	7.231%	3.97%	
3	Unfunded Debt		253,893	10.14%	5.000%	0.51%	
4	Preference Shares		-	0.00%	0.000%	0.00%	
5	Common Equity		876,879	35.01%	7.912%	2.77%	
6							
7		- Tab A-1, Page 6	\$2,504,653	100.00%		7.25%	
8							
9	2008 REVISED RATES						
10	Long-Term Debt		\$1,373,881	54.85%	7.231%	3.97%	\$99,352
11	Unfunded Debt	\$253,893					
12	Adjustment, Revised Rates	236	254,129	10.14%	5.000%	0.51%	12,706
13	Preference Shares		-	0.00%	0.000%	0.00%	-
14	Common Equity		877,006	35.01%	8.370%	2.93%	73,405
15							
16		- Tab A-1, Page 6	\$2,505,016	100.00%		7.40%	\$185,463
17							
18	2007 APPROVED RATES						
19	Long-Term Debt		\$1,470,051	59.41%	7.018%	4.17%	\$103,162
20	Unfunded Debt	\$137,931					
21	Adjustment, Revised Rates	12	137,943	5.58%	4.750%	0.27%	6,552
22	Preference Shares		-	0.00%	0.000%	0.00%	-
23	Common Equity		866,224	35.01%	8.370%	2.93%	72,503
24							
25			\$2,474,218	100.00%		7.36%	\$182,217
26							
27	CHANGE FROM 2007 APPROVED RATES						
28	Long-Term Debt		(\$96,170)	-4.56%	0.213%	-0.20%	(\$3,810)
29	Unfunded Debt	\$115,962					
30	Adjustment, Revised Rates	224	116,186	4.56%	0.250%	0.25%	6,154
31	Preference Shares		-	0.00%	0.000%	0.00%	-
32	Common Equity		10,782	0.00%	0.000%	0.00%	902
33							
34			\$30,798	0.00%		0.05%	\$3,246

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

2008 COST DRIVERS

The table below shows the Cost Driver forecasts which are used for setting the 2008 Targets as prescribed in Commission Order No. G-51-03 and G-33-07.

	<u>2006 Actual</u>	<u>2007 Projected</u>	<u>2008 Forecast</u>	
<u>Cost Drivers</u>				
Year End Customer Counts	812,683	825,812	837,609	Note 1
Customer Additions		13,129	11,797	
Average Customer Counts	805,844	817,480	829,970	Note 2
Change in Average Customers		11,636	12,490	Note 2
Percentage of Customer Growth - Average		1.44%	1.53%	
<u>Escalators</u>				
B.C. Inflation (CPI)			2.1%	Note 3
Adjustment Factor - % of CPI			66.0%	Note 4
Adjustment Factor			-1.4%	

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

Explanatory Notes

Note 1 2007 projection and 2008 forecast year end customer counts are explained under Tab 4 – Gas Sales and Transportation Volumes. Year end customer additions are used to calculate Capital Expenditures driven by customer addition.

Note 2 The percentage growth in average customer is used to calculate the formula based O & M Expense and Other Base Capital Expenditures. O & M Expense is to be per the PBR formula.

Note 3 Pursuant to the provisions of the Settlement Agreement pursuant to Commission Order G-51-03 and extended by Order No. G-33-07, the 2008 B.C. inflation forecast will be determined as the average of the forecasts from the Conference Board of Canada, the B.C. Ministry of Finance, the RBC Financial Group, and the Toronto-Dominion Bank.

Based on this formula, the B.C. CPI forecast for 2008 is 2.1%, and represents the average of the forecasts below:

Conference Board of Canada	1.9%	(July 2007)
B.C. Ministry of Finance	2.0%	(February 2007)
RBC Financial Group	2.3%	(June 2007)
Toronto-Dominion Bank	2.0%	(Sep 2007)

(Copies of the forecasts are included as Attachment A-2)

Note 4 Pursuant to the provisions of Commission Order No. G-33-07, the adjustment factor will be 66% of CPI for 2008 equal to 1.39%.

Attachment A-2

Key Economic Indicators: British Columbia
 (forecast completed July 18, 2007)

	2006:1	2006:2	2006:3	2006:4	2007:1	2007:2	2007:3	2007:4	2008:1	2008:2	2008:3	2008:4	2006	2007	2008
GDP at market prices (current \$)	178,227 1.2	180,909 1.5	181,834 0.5	183,482 0.9	186,416 1.6	188,859 1.3	192,269 1.8	195,068 1.5	196,838 0.9	198,295 0.7	200,512 1.1	202,805 1.1	181,113 6.7	190,653 5.3	199,613 4.7
GDP at basic prices (current \$)	163,322 0.9	165,765 1.5	167,280 0.9	169,019 1.0	171,602 1.5	173,867 1.3	177,063 1.8	179,797 1.5	181,420 0.9	182,414 0.5	184,402 1.1	186,460 1.1	166,347 6.8	175,582 5.6	183,674 4.6
GDP at basic prices (constant \$ 1997)	135,669 1.6	136,013 0.3	136,270 0.2	136,832 0.4	138,663 1.3	139,304 0.5	140,134 0.6	141,148 0.7	142,718 1.1	143,871 0.8	144,974 0.8	146,064 0.8	136,196 3.6	139,812 2.7	144,407 3.3
Consumer Price Index (2002 = 1.0)	1.068 -0.1	1.084 1.5	1.087 0.3	1.086 -0.1	1.092 0.6	1.102 0.9	1.104 0.2	1.110 0.5	1.115 0.4	1.121 0.6	1.127 0.5	1.132 0.5	1.081 1.7	1.102 1.9	1.124 1.9
Implicit price deflator— GDP at basic prices (1997 = 1.0)	1.204 -0.7	1.219 1.2	1.228 0.7	1.235 0.6	1.238 0.2	1.248 0.9	1.264 1.2	1.274 0.8	1.271 -0.2	1.268 -0.3	1.272 0.3	1.277 0.4	1.221 3.1	1.256 2.8	1.272 1.3
Average weekly wages (level)	708.4 0.5	711.0 0.4	717.6 0.9	724.0 0.9	728.8 0.7	738.4 1.3	742.9 0.6	748.9 0.8	754.1 0.7	758.8 0.6	764.2 0.7	769.2 0.7	715.3 3.2	739.8 3.4	761.6 2.9
Personal income (current \$)	138,946 3.8	139,842 0.6	140,951 0.8	143,088 1.5	145,494 1.7	147,083 1.1	148,674 1.1	150,440 1.2	152,080 1.1	153,461 0.9	155,016 1.0	156,563 1.0	140,707 7.4	147,923 5.1	154,280 4.3
Personal disposable income (current \$)	107,812 4.0	108,741 0.9	109,537 0.7	111,328 1.6	113,463 1.9	115,234 1.6	116,483 1.1	117,839 1.2	119,181 1.1	120,198 0.9	121,392 1.0	122,581 1.0	109,354 7.8	115,755 5.9	120,838 4.4
Personal savings rate	-4.13	-4.77	-5.61	-4.74	-4.56	-4.86	-5.04	-5.09	-5.11	-5.20	-5.28	-5.35	-4.81	-4.89	-5.23
Population of labour force age (000s)	3,488 0.4	3,503 0.4	3,519 0.4	3,534 0.4	3,548 0.4	3,562 0.4	3,573 0.3	3,585 0.3	3,598 0.4	3,610 0.3	3,623 0.3	3,635 0.3	3,511 1.8	3,567 1.6	3,616 1.4
Labour force (000s)	2,285 0.4	2,295 0.5	2,309 0.6	2,331 0.9	2,352 0.9	2,360 0.3	2,366 0.3	2,371 0.2	2,379 0.3	2,384 0.2	2,392 0.3	2,400 0.3	2,305 1.9	2,363 2.5	2,389 1.1
Employment (000s)	2,177 0.7	2,191 0.6	2,198 0.3	2,215 0.7	2,256 1.9	2,258 0.1	2,271 0.6	2,279 0.3	2,286 0.3	2,291 0.2	2,299 0.4	2,307 0.3	2,195 3.1	2,266 3.2	2,296 1.3
Unemployment rate	4.7	4.5	4.8	5.0	4.1	4.4	4.0	3.9	3.9	3.9	3.9	3.9	4.8	4.1	3.9
Retail sales (current \$)	52,037 2.1	53,275 2.4	53,900 1.2	53,386 -1.0	54,907 2.8	55,893 1.8	56,705 1.5	57,553 1.5	58,498 1.6	59,183 1.2	59,961 1.3	60,713 1.3	53,149 6.2	56,264 5.9	59,589 5.9
Housing starts (units)	41,001 11.2	34,610 -15.6	35,077 1.3	35,084 0.0	37,654 7.3	39,000 3.6	35,645 -8.6	34,257 -3.9	34,155 -0.3	33,944 -0.6	33,725 -0.6	33,504 -0.7	36,443 5.1	36,639 0.5	33,832 -7.7

White area represents forecast data.

All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.

For each indicator, the first line is the level and the second line is the percentage change from the previous period.

Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Table 3.9.2 Components of Nominal Income and Expenditure

	2005	2006	Forecast				
			2007	2008	2009	2010	2011
Labour income ¹ (\$ million)	85,402	92,081 ^e	95,836	100,684	105,936	111,515	117,350
(% change)	6.5	7.8	4.1	5.1	5.2	5.3	5.2
Personal income (\$ million)	130,481	139,016 ^e	144,830	151,452	158,534	166,018	173,835
(% change)	5.7	6.5	4.2	4.6	4.7	4.7	4.7
Corporate profits before taxes (\$ million)	20,011	20,393 ^e	21,446	22,450	23,490	24,593	25,717
(% change)	17.6	1.9	5.2	4.7	4.6	4.7	4.6
Retail sales (\$ million)	49,915	53,125 ^e	56,006	58,910	61,986	65,283	68,739
(% change)	5.7	6.4	5.4	5.2	5.2	5.3	5.3
Housing starts	34,667	36,443	33,590	31,550	31,341	30,770	30,739
(% change)	5.3	5.1	-7.8	-6.1	-0.7	-1.8	-0.1
Residential investment ² (\$ million)	14,602	15,933 ^e	16,609	17,422	18,352	19,346	20,476
(% change)	12.7	9.1	4.2	4.9	5.3	5.4	5.8
BC consumer price index (1992 = 100)	125.3	127.5	130.1	132.7	135.5	138.4	141.3
(% change)	2.0	1.8	2.0	2.0	2.1	2.1	2.1

^e Ministry of Finance estimate.¹ Domestic basis; wages, salaries and supplementary labour income.² Includes renovations and improvements.**Table 3.9.3 Labour Market Indicators**

	2005	2006	Forecast				
			2007	2008	2009	2010	2011
Population (on July 1) (000's)	4,258	4,310	4,359	4,408	4,462	4,518	4,577
(% change)	1.3	1.2	1.1	1.1	1.2	1.3	1.3
Labour force population, 15+ Years (000's) ..	3,448	3,511	3,565	3,619	3,674	3,732	3,789
(% change)	1.7	1.8	1.5	1.5	1.5	1.6	1.5
Net in-migration							
– International ¹	38,843	36,064 ^e	30,261	32,929	33,790	33,991	34,037
– Interprovincial	4,811	6,499 ^e	9,500	11,000	14,000	17,000	19,000
– Total	43,654	42,563 ^e	39,761	43,929	47,790	50,991	53,037
Participation rate ² (%)	65.6	65.7	65.9	66.2	66.4	66.7	66.9
Labour force (000's)	2,263	2,305	2,349	2,394	2,441	2,488	2,537
(% change)	1.9	1.8	1.9	1.9	1.9	2.0	2.0
Employment (000's)	2,131	2,196	2,237	2,280	2,323	2,369	2,416
(% change)	3.3	3.1	1.9	1.9	1.9	2.0	2.0
– Goods sector employment (000's) ³	442	455	468	482	496	511	527
(% change)	3.4	2.9	2.8	3.0	2.9	3.1	3.1
– Service sector employment (000's) ³	1,688	1,740	1,769	1,798	1,827	1,858	1,889
(% change)	3.3	3.1	1.6	1.6	1.6	1.7	1.7
Unemployment rate (%)	5.9	4.8	4.8	4.8	4.8	4.8	4.8

^e BC Stats estimate.¹ International migration includes net non-permanent residents and returning emigrants less net temporary residents abroad.² Percentage of the population 15 years of age and over in the labour force.³ Components may not sum to total due to rounding.

British Columbia

		<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Gross domestic product	\$ millions	133,514	138,193	145,763	157,540	168,855	179,701	192,460	203,622
	% change	1.7	3.5	5.5	8.1	7.2	6.4	7.1	5.8
Real GDP	\$1997 millions	125,924	130,445	134,131	140,263	145,501	150,741	155,565	160,698
	% change	0.6	3.6	2.8	4.6	3.7	3.6	3.2	3.3
Employment	thousands	1,921.6	1,965.0	2,014.7	2,062.7	2,130.5	2,195.5	2,261.4	2,304.3
	% change	-0.5	2.3	2.5	2.4	3.3	3.1	3.0	1.9
Labour force	thousands	2,082.6	2,147.6	2,190.7	2,221.9	2,263.4	2,305.1	2,369.6	2,424.1
	% change	0.1	3.1	2.0	1.4	1.9	1.8	2.8	2.3
Unemployment rate	%	7.7	8.5	8.0	7.2	5.9	4.8	4.6	4.9
Personal disposable income	\$ millions	85,332	88,594	91,237	96,026	101,046	108,597	116,199	124,565
	% change	4.2	3.8	3.0	5.2	5.2	7.5	7.0	7.2
Retail sales	\$ millions	40,719	43,265	44,421	47,217	50,027	53,149	56,338	59,606
	% change	5.9	6.3	2.7	6.3	6.0	6.2	6.0	5.8
Housing starts	units	17,234	21,625	26,174	32,925	34,667	36,443	35,350	31,108
	% change	19.5	25.5	21.0	25.8	5.3	5.1	-3.0	-12.0
Consumer price index	1992=100	97.7	100.0	102.2	104.2	106.3	108.1	110.5	113.0
	% change	1.7	2.4	2.2	2.0	2.0	1.7	2.2	2.3

Alberta

		<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Gross domestic product	\$ millions	151,274	150,594	170,300	188,865	218,433	235,593	257,974	274,743
	% change	4.5	-0.4	13.1	10.9	15.7	7.9	9.5	6.5
Real GDP	\$1997 millions	123,250	125,926	129,553	136,602	142,896	152,670	159,693	166,081
	% change	1.7	2.2	2.9	5.4	4.6	6.8	4.6	4.0
Employment	thousands	1,630.9	1,670.8	1,716.7	1,757.5	1,784.4	1,870.7	1,949.3	1,988.3
	% change	3.0	2.4	2.7	2.4	1.5	4.8	4.2	2.0
Labour force	thousands	1,710.3	1,764.2	1,808.8	1,842.4	1,857.5	1,937.5	2,026.6	2,079.3
	% change	2.6	3.2	2.5	1.9	0.8	4.3	4.6	2.6
Unemployment rate	%	4.6	5.3	5.1	4.6	3.9	3.4	3.8	4.4
Personal disposable income	\$ millions	75,535	78,323	81,946	88,968	96,765	108,391	119,230	130,199
	% change	11.4	3.7	4.6	8.6	8.8	12.0	10.0	9.2
Retail sales	\$ millions	34,560	37,663	39,318	43,372	48,758	56,559	61,841	67,098
	% change	8.9	9.0	4.4	10.3	12.4	16.0	9.3	8.5
Housing starts	units	29,174	38,754	36,171	36,270	40,847	48,962	44,800	39,872
	% change	11.1	32.8	-6.7	0.3	12.6	19.9	-8.5	-11.0
Consumer price index	1992=100	96.7	100.0	104.4	105.9	108.1	112.3	118.1	122.3
	% change	2.3	3.4	4.4	1.4	2.1	3.9	5.2	3.5

REAL GROSS DOMESTIC PRODUCT (GDP)

Annual average per cent change

	97-06	2005	2006	2007F	2008F
CANADA	3.5	2.9	2.7	2.4	2.9
ex Alta	3.3	2.7	2.2	2.2	3.0
N. & L.	4.3	0.4	2.8	8.0	1.0
P.E.I.	2.3	2.1	2.0	1.6	2.3
N.S.	2.8	1.6	1.1	2.4	2.6
N.B.	2.7	0.3	2.6	2.0	2.7
Québec	2.9	2.2	1.7	1.8	3.0
Ontario	3.7	2.8	1.9	1.9	3.0
Manitoba	2.6	2.7	3.3	2.5	2.7
Sask.	2.0	3.1	0.4	4.5	2.5
Alberta	4.3	4.6	6.8	4.0	2.9
B.C.	3.1	3.7	3.6	3.0	3.3

F: Forecast by TD Economics as at May 2007

Source: Statistics Canada

RETAIL TRADE

Annual average per cent change

	97-06	2005	2006	2007F	2008F
CANADA	5.5	6.1	6.4	5.2	5.5
ex Alta	5.1	5.2	4.9	4.4	5.2
N. & L.	5.2	2.2	3.0	5.8	3.0
P.E.I.	4.5	3.0	4.1	3.2	3.3
N.S.	4.2	2.9	6.4	3.7	3.8
N.B.	4.6	5.4	5.8	3.4	4.5
Quebec	4.6	5.8	4.8	4.2	5.2
Ontario	5.2	4.7	4.1	4.0	5.3
Manitoba	5.3	6.4	6.0	5.1	4.5
Sask.	5.0	7.5	6.0	6.2	4.5
Alberta	9.1	12.1	16.1	10.1	7.5
B.C.	4.4	5.7	6.4	5.2	6.0

F: Forecast by TD Economics as at May 2007

Source: Statistics Canada

TOTAL CONSUMER PRICE INDEX

Annual average per cent change

	97-06	2005	2006	2007F	2008F
CANADA	2.1	2.2	2.0	1.8	2.2
ex Alta	2.0	2.2	1.8	1.5	2.1
N. & L.	1.9	2.6	1.8	1.2	1.8
P.E.I.	2.2	3.2	2.2	1.4	2.0
N.S.	2.3	2.8	2.1	1.8	2.1
N.B.	2.1	2.4	1.7	1.6	1.9
Québec	2.0	2.3	1.7	1.3	2.0
Ontario	2.1	2.2	1.8	1.4	2.3
Manitoba	2.0	2.7	1.9	1.8	2.2
Sask.	2.2	2.3	2.0	1.9	2.1
Alberta	2.7	2.1	3.9	3.4	2.5
B.C.	1.6	2.0	1.7	1.9	2.0

F: Forecast by TD Economics as at May 2007

Source: Statistics Canada

MEDIAN HOURLY WAGE RATE

Annual average per cent change

	98-06	2005	2006	2007F	2008F
CANADA	2.4	3.3	2.6	2.5	2.6
ex Alta*	2.2	2.9	2.0	2.3	2.5
N. & L.	2.2	2.0	1.9	2.2	2.0
P.E.I.	3.0	0.4	1.8	3.0	2.5
N.S.	2.8	1.6	3.3	3.5	2.8
N.B.	2.2	1.7	2.9	2.9	2.7
Quebec	2.1	2.4	1.9	1.8	2.4
Ontario	2.2	3.8	1.6	1.7	2.3
Manitoba	2.4	2.0	2.5	3.5	2.5
Sask.	3.3	2.5	5.1	4.4	2.8
Alberta	3.9	7.1	6.7	4.9	4.6
B.C.	1.4	1.2	1.6	3.7	3.0

*Estimate. F: Forecast by TD Economics as at May 2007

Source: Statistics Canada

EMPLOYMENT

Annual average per cent change

	97-06	2005	2006	2007F	2008F
CANADA	2.1	1.4	2.0	1.8	1.3
ex Alta	2.0	1.4	1.6	1.5	1.2
N. & L.	1.4	-0.1	0.7	1.6	0.5
P.E.I.	1.5	2.0	0.5	1.2	1.0
N.S.	1.6	0.2	-0.3	1.5	1.2
N.B.	1.5	0.1	1.4	0.9	1.5
Quebec	1.9	1.0	1.3	1.2	1.0
Ontario	2.3	1.3	1.5	1.3	1.2
Manitoba	1.3	0.6	1.2	1.4	1.1
Sask.	0.7	0.8	1.7	3.1	1.0
Alberta	2.9	1.5	4.8	3.9	2.4
B.C.	1.9	3.3	3.1	2.7	2.6

F: Forecast by TD Economics as at May 2007

Source: Statistics Canada

UNEMPLOYMENT RATE

Per cent

	97-06	2005	2006	2007F	2008F
CANADA	7.4	6.8	6.3	6.2	6.2
ex Alta	7.8	7.1	6.7	6.5	6.5
N. & L.	16.5	15.2	14.8	14.2	14.6
P.E.I.	12.4	10.9	11.1	10.7	10.9
N.S.	9.5	8.4	8.0	7.7	7.8
N.B.	10.5	9.7	8.8	8.2	8.0
Quebec	9.1	8.3	8.0	7.8	7.7
Ontario	6.8	6.6	6.3	6.5	6.5
Manitoba	5.2	4.8	4.3	4.3	4.4
Sask.	5.5	5.1	4.7	3.7	4.2
Alberta	4.9	3.9	3.4	3.5	3.9
B.C.	7.5	5.9	4.8	4.3	4.5

F: Forecast by TD Economics as at May 2007

Source: Statistics Canada

PROVINCIAL ECONOMIC SUMMARY

	BC	Alberta	Sask.	Man.	Ontario	Quebec	NB	NS	PEI	NL	Canada
Real GDP Growth (chain-weighted : y/y % chng)											
2006	3.6	6.8	0.4	3.3	1.9	1.7	2.6	1.1	2.0	2.8	2.8
2007 f	3.4	4.5	3.7	3.4	1.8	1.9	2.4	2.3	2.2	5.7	2.4
2008 f	3.6	4.0	3.3	3.0	2.3	2.5	2.0	2.2	2.1	1.1	2.8
Employment Growth (y/y % chng)											
2006	3.1	4.8	1.7	1.2	1.5	1.3	1.4	-0.3	0.5	0.7	2.0
2007 f	2.9	4.5	2.5	1.4	1.2	2.0	1.9	1.5	1.7	1.1	2.0
2008 f	1.2	1.9	1.3	1.0	0.8	1.0	1.0	0.9	0.9	0.8	1.0
Unemployment Rate (%)											
2006	4.8	3.4	4.7	4.3	6.3	8.0	8.7	7.9	11.1	14.8	6.3
2007 f	4.4	3.8	4.0	4.8	6.6	7.3	7.4	8.0	10.3	13.6	6.2
2008 f	4.5	4.2	4.3	5.2	6.9	7.2	7.2	7.9	10.2	13.3	6.3
Housing Starts (000s)											
2006	36.5	48.9	3.7	5.0	74.2	47.7	4.1	5.2	0.8	2.3	228.4
2007 f	37.1	46.0	5.6	5.4	64.0	46.8	3.5	4.1	0.6	2.1	215.0
2008 f	28.2	36.8	4.2	4.3	63.6	44.4	3.1	3.2	0.6	1.8	190.0
Consumer Prices (y/y % chng)											
2006	1.7	3.9	2.0	1.9	1.8	1.7	1.7	2.1	2.2	1.8	2.0
2007 f	2.4	5.3	2.6	2.4	2.1	2.0	1.8	2.2	1.7	1.9	2.5
2008 f	2.5	4.4	2.9	2.6	2.3	2.3	2.0	2.4	2.2	2.0	2.6

PROVINCIAL ECONOMIC INDICATORS

(3-mnth m.a. : y/y % chng)

Retail Sales

Feb 07	7.1	11.5	9.3	9.3	3.1	5.3	6.3	4.1	6.0	9.1	5.9
Mar 07	7.4	11.9	10.4	9.5	2.9	4.4	4.3	3.8	6.9	10.4	5.8
Apr 07	7.7	10.3	11.1	9.1	3.2	4.2	3.1	3.6	7.1	10.5	5.6

Manufacturing Shipments

Mar 07	-2.8	2.3	1.1	14.5	-1.6	-0.2	-4.6	1.3	20.6	30.0	-0.4
Apr 07	-0.2	3.0	-1.4	16.8	-0.8	3.0	-4.3	-0.2	22.7	36.8	1.0
May 07	0.3	4.2	-3.3	17.1	0.1	4.3	-10.5	-3.0	14.9	35.1	1.7

Exports

Mar 07	-5.0	4.8	21.6	15.0	4.9	1.7	6.5	7.7	2.6	18.0	5.4
Apr 07	0.1	11.0	25.2	18.8	6.1	2.6	6.8	16.8	3.9	11.9	7.6
May 07	2.4	14.1	18.0	26.1	7.4	3.1	6.8	9.9	7.0	12.2	8.4

Employment Growth

Apr 07	3.2	5.4	3.8	1.1	1.6	2.1	0.5	1.4	2.0	2.0	2.4
May 07	3.2	4.7	3.3	1.3	1.2	2.3	0.6	1.0	1.3	1.9	2.1
Jun 07	3.0	4.6	2.4	1.2	0.9	2.4	1.3	1.1	0.4	1.3	2.0

PROVINCIAL FISCAL SUMMARY

FY07/08 (as of July 19, 2007)

	Budget Balance (\$ mlns)	% of GDP	Gross Financing Requirements** (\$ blns)	S&P	Moody's	DBRS
British Columbia	400	0.2	4.5	AAA	Aaa	AA (high)
Alberta	2,183	0.8	2.3	AAA	Aaa	AAA
Saskatchewan	75	0.2	1.3	AA	Aa1	AA (low)
Manitoba	175	0.4	2.9	AA*	Aa1	A (high)
Ontario	(400)	(0.1)	18.8	AA	Aa1	AA
Quebec	0	0.0	14.7	A+*	Aa2	A (high)
New Brunswick	37	0.1	2.0	AA-	Aa1	A (high)
Nova Scotia	118	0.4	0.1	A+	Aa2	A
PEI	2	0.0	0.1	A	Aa2	A (low)
Nfld & Labrador	261	1.1	1.3	A	Aa2	A (low)
Total Provincial	2,852	0.2	48.0			

Source: Provinces and BMO Capital Markets () = deficit

* positive outlook ** includes provincial crown corporations

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

2008 RATE BASE

The 2008 Rate Base for TGI is forecast to be \$2.505 billion. Rate Base is composed of mid-year net gas plant in service, construction advances, work-in-progress not attracting AFUDC, unamortized deferred charges, cash working capital, other working capital, deferred income tax, LIFO benefit.

The 2008 Rate Base of TGI includes full year impacts of the 2007 projected plant activities including:

- 2007 actual CPCN Opening Additions of \$10.8 million
- Formula-Based Capital Additions of \$128.7 million
- Plant Accumulated Depreciation and CIAOC Amortization of \$83.4 million

Also, the 2008 Rate Base includes 2008 activities including:

- 2008 CPCN Opening Additions assets of \$10.1 million
- Base Capital Additions of \$128.1 million
- Plant Depreciation and CIAOC Amortization of \$87.2 million
- Various changes in deferred charges, working capital and other items decreasing rate base by a net amount of \$30.9 million.

Details of the 2007 projected plant balances and the 2008 forecasted plant balances can be found in Section A, Tab 3, Pages 8 and 8.1.

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

2008 CAPITAL EXPENDITURES

The 2008 Capital Expenditures are based on the capital expenditure formula (approved by Commission Order No. G-51-03 and G-33-07), plus forecast CPCNs. The capital expenditure formula is composed of two cost components: Customer Addition Driven Capital and Other Base Capital driven by average number of customers.

Per Commission Order No. G-51-03 and G-33-07, base capital expenditure amounts will not be rebased to actual amounts during the term. For the rate setting in subsequent years the formula base capital expenditures from the prior years will be adjusted for projected customer counts and trued up for actual customers as this information becomes known. There is no true up for actual CPI.

During the 2006 annual review, Terasen Gas had forecast 13,385 customer additions along with 820,347 average number of customers for 2007. The current projection for 2007 is 13,129 and 817,480, respectively. Accordingly, the total formula-based capital expenditures for 2007 derived from the projected customer addition numbers has decreased from \$101.570 million to \$100.763 million. It should be noted that customer additions for 2007 could be affected by labour disruptions. As per the terms of the PBR customer additions will be trued up to actual at the 2008 annual review. Supporting calculations can be found at Tab 3, Page 5.

The 2008 Capital Expenditure for TGI is calculated using the 2008 Forecast Unit Cost multiplied by customer accounts cost drivers as outlined in Tab 2, Page 1. The detail calculation is shown on Tab 3, Page 5.

- 2008 Forecast Unit Cost per Customer =
 - 2007 Unit Cost per Customer x ([1 + (CPI - Adjustment Factor)
- 2008 Capital Expenditure =
 - 2008 Forecast Unit Cost per customer x Cost Driver
 - The Cost Driver for:
 - Customer Addition Driven Capital is Number of Customer Additions
 - Other Base Capital is Average Number of Customers

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2008 PLANT ADDITIONS

The 2008 Plant Additions are comprised of TGI's 2008 formula-driven Base Capital plant costs including AFUDC, overhead capitalized for the year, and opening 2008 CPCN Additions. A reconciliation of capital expenditures to plant additions is shown on Section A, Tab 3, Page 6.

The 2008 Plant Additions allowed by the terms of the Settlement are \$138.186 million. The Plant Addition summary is shown below:

<u>2008 Plant Additions</u>	
Formula-based Base Capital	\$ 99.693 million
Overhead Capitalized	\$ 27.535 million
AFUDC and WIP adjustments	\$0.866 million
Special Projects & CPCN additions	\$10.092 million
Total 2008 Plant Additions	\$ 138.186 million

Consistent with the terms of the Settlement, the 2008 Contributions in Aid of Construction Additions ("CIAOC") are formula-based. The software tax savings are based on the software plant additions arising from the base capital additions formula. The other CIAOC consisting of main extensions, excess service line charges, billable alterations, meter & regulator equipment work, and other CIAOC have been calculated based on the PBR Formula. CIAOC is subject to the same adjustment and true-up process as base capital additions. Therefore, the CIAOC additions for 2008 have been adjusted based on projected 2007 customer counts. The 2008 CIAOC and 2007 formula updated CIAOC schedules can be found in Section A, Tab 3, Page 9.

TGI's Service Line Installation Fee ("SLIF") is calculated based on \$215 per service line for 2007 and 2008, which is treated as a CIAOC. Additionally, if the cost of a Service Line is expected to exceed the Service Line Cost Allowance ("SLCA") of \$1,100, the customer makes a

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

further contribution in the amount of the excess over the \$1,100 allowance. TGI and TGVI in its “Application for System Extension & Customer Connection Changes Review” dated July 31, 2007 is seeking to eliminate the \$215 contribution requirement and increase the SLCA to \$1,535. A decision from the Commission is not expected until the first quarter of 2008. If the Commission does approve the elimination of the \$215 charge as well as adjusting the Service Line Allowance TGI proposes to defer the value of the cost of service associated with the changes by crediting a deferral account and amortizing it in the following year. TGI requests Commission approval to create a deferral account in the event there are changes to the SLIF and SLCA.

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

Section A
Tab 3
Page 5

TERASEN GAS INC.
CAPITAL EXPENDITURES
FOR THE YEARS ENDING DECEMBER 31, 2007 and 2008

Line. No.	Particulars	PBR Settlement 2003	Approved 2004	Adjusted 2004	Actual 2004	Approved 2005	Adjusted 2005	Actual 2005	Approved 2006	Adjusted 2006	Actual 2006	Approved * 2007	Projected 2007	Forecast 2008
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1	Forecast CPI (BC)		1.70%		1.99%	2.00%		2.04%	2.20%		1.76%	2.00%	2.00%	2.10%
2	Adjustment Factor		0.85%		1.00%	1.00%		1.02%	1.45%		1.16%	1.32%	1.32%	1.39%
3														
4	CPI - Adjustment Factor		100.85%		101.00%	101.00%		101.02%	100.75%		100.60%	100.68%	100.68%	100.71%
5														
6														
7	CUSTOMER ADDITION DRIVEN CAPITAL EXPENDITURES													
8														
9	Customer Addition Driven Capital Expenditures Per Customer Addition	\$2,093.04	\$2,110.83	\$2,110.83	\$2,110.83	\$2,131.94	\$2,131.94	\$2,131.94	\$2,147.89	\$2,147.89	\$2,147.89	\$2,162.50	\$2,162.50	\$2,177.94
10														
11	Number of Customers Additions		8,604	11,412	11,504	10,144	12,676	12,345	12,692	12,726	10,194	13,385	13,129	11,797
12														
13	Target Customer Addition Driven Capital Expenditures (\$000)		\$18,162	\$24,089	\$24,283	\$21,626	\$27,024	\$26,319	\$27,261	\$27,334	\$21,896	\$28,945	\$28,391	\$25,693
14														
15														
16	OTHER BASE CAPITAL EXPENDITURES													
17														
18	Other Base Capital Expenditures Per Customer	\$85.69	\$86.42	\$86.42	\$86.42	\$87.28	\$87.28	\$87.28	\$87.93	\$87.93	\$87.93	\$88.53	\$88.53	\$89.16
19														
20	Average Number of Customers		777,779	779,498	779,461	790,385	791,647	791,593	804,316	803,686	802,778	820,347	817,480	829,970
21														
22	Target Other Base Capital Expenditures (\$000)		\$67,216	\$67,364	\$67,361	\$68,985	\$69,095	\$69,090	\$70,724	\$70,668	\$70,588	\$72,625	\$72,372	\$74,000
23														
24														
25														
26	SUMMARY CAPITAL EXPENDITURES (\$000)													
27														
28	Target Customer Addition Driven Capital Expenditures		\$18,162	\$24,089	\$24,283	\$21,626	\$27,024	\$26,319	\$27,261	\$27,334	\$21,896	\$28,945	\$28,391	\$25,693
29	Target Other Base Capital Expenditures		67,216	67,364	67,361	68,985	69,095	69,090	70,724	70,668	70,588	72,625	72,372	74,000
30														
31	Total Target Base Capital Expenditures		\$85,378	\$91,453	\$91,644	\$90,611	\$96,119	\$95,409	\$97,985	\$98,002	\$92,484	\$101,570	\$100,763	\$99,693
32														
33														
34	Total Base Capital Additions excluding Forecast CPCN Additions (\$000)		\$85,378	\$91,453	\$91,644	\$90,611	\$96,119	\$95,409	\$97,985	\$98,002	\$92,484	\$101,570	\$100,763	\$99,693

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

CAPITAL EXPENDITURES AND PLANT ADDITIONS
FOR THE YEARS ENDING DECEMBER 31, 2007-2008
(\$000)

Section A

Tab 3

Page 6

Line No.	Particulars	Approved 2007	Adjusted 2007	Forecast 2008
	(1)	(2)	(3)	(4)
1	CAPITAL EXPENDITURES			
2				
3	<u>Base Capital Expenditures</u>			
4	Customer Addition Driven Capital Expenditures	\$ 28,945	\$ 28,391	\$ 25,693
5	Other Base Capital Expenditures	72,625	72,372	74,000
6				
7	Total Base Capital Expenditures	<u>\$ 101,570</u>	<u>\$ 100,763</u>	<u>\$ 99,693</u>
8				
9	<u>Special Projects - CPCN's</u>			
10	Vancouver LP Replacement	\$ 8,706	\$ 9,836	\$ 6,358
12	Squamish Amalgamation into TGI	8,137	6,712	
13	Mission IP Pipeline System Upgrade	7,345		
14	MobileUp Replacement CPCN		2,499	2,891
15	Fraser River SBSA Rehabilitation	1,500	750	1,500
16	Castlegar to Nelson (Xings at Shoreacres, Brilliant, Upgrades)		0	3,000
17	Gateway	11,900		
18	Gateway - Transmission		0	260
19	Gateway - Distribution		94	383
20	Border Infrastructure (Transmission)		126	42
21	Border Infrastructure (Distribution)		44	0
22	Fraser Hwy/176th St., TP 18" Relocation		0	0
23	Canada Line Rapid Transit Service		0	0
24	Golden Ears Bridge - Distribution		0	0
25	Golden Ears Bridge - Transmission		0	0
26	Total CPCN's	<u>\$ 37,588</u>	<u>\$ 20,060</u>	<u>\$ 14,434</u>
27				
28				
29	TOTAL CAPITAL EXPENDITURES	<u>\$ 139,158</u>	<u>\$ 120,823</u>	<u>\$ 114,127</u>
30				
31				
32	RECONCILIATION OF CAPITAL EXPENDITURES TO PLANT ADDITIONS			
33				
34	<u>Base Capital</u>			
35	Base Capital Expenditures	\$ 101,570	\$ 100,763	\$ 99,693
36	Add - Opening WIP		11,946	12,521
37	Less - Opening WIP Adjustment			
38	Less - Closing WIP		(12,521)	(12,649)
39				
40	Add - AFUDC		982	994
41	Add - Overhead Capitalized		27,535	27,535
42				
43	TOTAL BASE CAPITAL ADDITIONS TO GAS PLANT IN SERVICE	<u>\$ 101,570</u>	<u>\$ 128,705</u>	<u>\$ 128,094</u>
44				
45	<u>Special Projects - CPCN's</u>			
46	CPCN Expenditures	\$ 37,588	\$ 20,060	\$ 14,434
51	CPCN Expenditures - TGS Amalgamation Adjustment		1,805	
47	Add - Opening WIP		2,329	13,696
48	Less - Closing WIP		(13,696)	(18,598)
49				
50	Add - AFUDC		347	560
51	INSERT LINE FOR ACC DEPN FROM PG 15 (EXCLUDING INTANGIBLES)		1,805	
52	TOTAL CPCN ADDITIONS TO OPENING GASE PLANT IN SERVICE	<u>\$ 37,588</u>	<u>\$ 10,846</u>	<u>\$ 10,092</u>
53				
54				
55	TOTAL PLANT ADDITIONS	<u>\$ 139,158</u>	<u>\$ 139,551</u>	<u>\$ 138,186</u>

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

UTILITY RATE BASE
FOR THE YEAR ENDING DECEMBER 31, 2008
(\$000s)

Section A
Tab 3
Page 7

Line No.	Particulars (1)	2007 APPROVED (2)	2008		Revised Rates (5)	Change (6)	Reference (7)
			Existing Rates (3)	Adjustments (4)			
1	Plant in Service, Beginning	\$3,140,710	\$3,242,849	\$0	\$3,242,849	\$102,139	- Tab A-3, Page 8.1
2	CPCN's	8,137	10,092	0	10,092	1,955	- Tab A-3, Page 8.1
3							
4	Additions	129,717	128,111	0	128,111	(1,606)	- Tab A-3, Page 8.1
5	Disposals	(32,918)	(32,478)	0	(32,478)	440	- Tab A-3, Page 8.1
6							
7	Plant in Service, Ending	3,245,646	3,348,574	0	3,348,574	102,928	
8							
9	Add - Intangible Plant	1,614	1,614	0	1,614	(0)	
10							
11		3,247,260	3,350,188	0	3,350,188	102,928	
12							
13	Contributions In Aid of Construction	(131,162)	(148,162)	0	(148,162)	(17,000)	- Tab A-3, Page 9
14							
15	Less - Accumulated Depreciation	(744,297)	(765,334)	0	(765,334)	(21,037)	- Tab A-3, Page 15
16							
17							
18	Net Plant in Service, Ending	<u>\$2,371,801</u>	<u>\$2,436,692</u>	<u>\$0</u>	<u>\$2,436,692</u>	<u>\$64,891</u>	
19							
20							
21	Net Plant in Service, Beginning	<u>\$2,339,687</u>	<u>\$2,398,136</u>	<u>\$0</u>	<u>\$2,398,136</u>	<u>\$58,449</u>	- Tab A-3, Page 10
22							
23							
24	Net Plant in Service, Mid-Year	\$2,355,744	\$2,417,414	\$0	\$2,417,414	\$61,670	
25	Adjustment to 13-Month Average	0	0	0	0	0	
26	Construction Advances	(11)	(658)	0	(658)	(647)	
27	Work in Progress, No AFUDC	10,771	9,358	0	9,358	(1,413)	
28	Unamortized Deferred Charges	(8,222)	(27,526)	0	(27,526)	(19,304)	- Tab A-3, Page 13.1
29	Cash Working Capital	(25,197)	(28,434)	363	(28,071)	(2,874)	- Tab A-3, Page 14
30	Other Working Capital	143,982	136,843	0	136,843	(7,139)	- Tab A-3, Page 14
31	Deferred Income Tax, Mid-Year	(606)	(364)	0	(364)	242	
	Capital Efficiency Mechanism	0	0	0	0	0	
32	LIFO Benefit	(2,243)	(1,980)	0	(1,980)	263	
33	Utility Rate Base	<u>\$2,474,218</u>	<u>\$2,504,653</u>	<u>\$363</u>	<u>\$2,505,016</u>	<u>\$30,798</u>	

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

Revised: October 15, 2007

TERASEN GAS INC.

Section A

GAS PLANT IN SERVICE CONTINUITY SCHEDULE
FOR THE YEAR ENDING DECEMBER 31, 2007 and 2008
(\$000s)

Tab 3

Page 8

Line No.	Particulars	Balance 12/31/2006	CPCN'S	2007 Additions	Retirements	Transfers/ Recovery	Balance 12/31/2007	CPCN'S	2008 Additions	Retirements	Transfers/ Recovery	Balance 12/31/2008
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	INTANGIBLE PLANT											
2	401-00 Franchise and Consents	\$99	\$0	\$0	\$0	\$0	\$99	\$0	\$0	\$0	\$0	\$99
3	402-00 Utility Plant Acquisition Adjustment	835	-	-	-	-	835	-	-	-	-	835
4	402-00 Other Intangible Plant	-	-	-	-	-	-	-	-	-	-	-
5	TOTAL INTANGIBLE PLANT	934	-	-	-	-	934	-	-	-	-	934
6												
7	MANUFACTURED GAS / LOCAL STORAGE											
8	430 Manufact'd Gas - Land	31	-	-	-	-	31	-	-	-	-	31
9	432 Manufact'd Gas - Struct. & Improvements	438	-	-	-	-	438	-	-	-	-	438
10	433 Manufact'd Gas - Equipment	139	-	-	-	-	139	-	-	-	-	139
11	434 Manufact'd Gas - Gas Holders	358	-	-	-	-	358	-	-	-	-	358
12	436 Manufact'd Gas - Compressor Equipment	53	-	-	-	-	53	-	-	-	-	53
13	437 Manufact'd Gas - Measuring & Regulating Equipment	309	-	-	-	-	309	-	-	-	-	309
14	440/441 Land in Fee Simple and Land Rights	927	-	-	-	-	927	-	-	-	-	927
15	442 Structures & Improvements	5,455	-	-	-	-	5,455	-	-	-	-	5,455
16	443 Gas Holders - Storage	18,000	-	640	-	-	18,640	-	657	-	-	19,297
17	446 Compressor Equipment	-	-	-	-	-	-	-	-	-	-	-
18	447 Measuring & Regulating Equipment	-	-	-	-	-	-	-	-	-	-	-
19	448 Purification Equipment	-	-	-	-	-	-	-	-	-	-	-
20	449 Local Storage Equipment	16,734	-	-	-	-	16,734	-	-	-	-	16,734
21	TOTAL MANUFACTURED GAS / LOCAL STORAGE	42,444	-	640	-	-	43,084	-	657	-	-	43,741
22												
23	TRANSMISSION PLANT											
24	460-00 Land in Fee Simple	7,444	-	-	-	-	7,444	-	-	-	-	7,444
25	461-00 Land Rights	42,130	-	1,356	-	-	43,486	-	1,387	-	-	44,873
26	461-10 Land Rights - Byron Creek	-	-	-	-	-	-	-	-	-	-	-
27	462-00 Compressor Structures	15,621	-	437	-	-	16,058	-	449	-	-	16,507
28	463-00 Measuring Structures	4,363	-	-	-	-	4,363	-	-	-	-	4,363
29	464-00 Other Structures & Improvements	4,881	-	-	-	-	4,881	-	-	-	-	4,881
30	465-00 Mains	707,608	(312)	3,488	(174)	-	710,610	-	3,588	(179)	-	714,019
31	465-10 Mains - Byron Creek	702	-	-	-	-	702	-	-	-	-	702
32	466-00 Compressor Equipment	103,979	(37)	52	-	-	103,994	-	54	-	-	104,048
33	467-00 Measuring & Regulating Equipment	44,115	-	5,806	-	-	49,921	-	5,966	-	-	55,887
34	467-10 Telemetering	5,995	-	-	-	-	5,995	-	-	-	-	5,995
35	467-20 Measuring & Regulating Equipment - Byron Creek	-	-	-	-	-	-	-	-	-	-	-
36	468-00 Communication Structures & Equipment	2,447	-	744	-	-	3,191	-	765	-	-	3,956
37	469-00 Other Transmission Equipment	-	-	-	-	-	-	-	-	-	-	-
38	TOTAL TRANSMISSION PLANT	939,285	(349)	11,883	(174)	-	950,645	-	12,209	(179)	-	962,675

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Revised: October 15, 2007

TERASEN GAS INC.

GAS PLANT IN SERVICE CONTINUITY SCHEDULE
FOR THE YEAR ENDING DECEMBER 31, 2007 and 2008
(\$000s)

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Line No.	Particulars (1)	Balance 12/31/2006 (2)	CPCN'S (3)	2007 Additions (4)	Retirements (5)	Transfers/ Recovery (6)	Balance 12/31/2007 (7)	CPCN'S (8)	2008 Additions (9)	Retirements (10)	Transfers/ Recovery (11)	Balance 12/31/2008 (12)
1	DISTRIBUTION PLANT											
2	470-00 Land in Fee Simple	\$3,249	\$0	\$0	\$0	\$0	\$3,249	\$0	\$0	\$0	\$0	\$3,249
3	471-00 Land Rights	678	125	-	-	-	803	-	-	-	-	803
4	471-10 Land Rights - Byron Creek	1	-	-	-	-	1	-	-	-	-	1
5	472-00 Structures & Improvements	5,798	263	401	-	-	6,462	-	412	-	-	6,874
6	472-10 Structures & Improvements - Byron Creek	2,000	-	-	-	-	2,000	-	-	-	-	2,000
7	473-00 Services	579,750	5,053	26,213	(3,932)	-	607,084	-	24,713	(3,707)	-	628,090
8	474-00 House Regulators & Meter Installations	158,124	306	10,314	(516)	-	168,228	-	10,375	(519)	-	178,084
9	475-00 Mains	794,005	4,774	35,696	(3,570)	-	830,905	10,092	35,430	(3,541)	-	872,886
10	476-00 Compressor Equipment	575	-	-	-	-	575	-	-	-	-	575
11	477-00 Measuring & Regulating Equipment	82,140	47	10,805	(540)	-	92,452	-	11,105	(555)	-	103,002
12	477-00 Telemetering	5,466	25	158	(8)	-	5,641	-	162	(8)	-	5,795
13	477-10 Measuring & Regulating Equipment - Byron Creek	-	-	-	-	-	-	-	-	-	-	-
14	478-00 Meters	214,237	256	12,101	(605)	-	225,989	-	12,073	(604)	-	237,458
15	479-00 Other Distribution Equipment	-	26	-	-	-	26	-	-	-	-	26
16	TOTAL DISTRIBUTION PLANT	1,846,023	10,875	95,688	(9,171)	-	1,943,415	10,092	94,270	(8,934)	-	2,038,843
17												
18	GENERAL PLANT & EQUIPMENT											
19	480-00 Land in Fee Simple	20,983	-	22	-	-	21,005	-	22	-	-	21,027
20	481-00 Land Rights	-	-	-	-	-	-	-	-	-	-	-
21	482-00 Structures & Improvements	-	-	-	-	-	-	-	-	-	-	-
22	- Frame Buildings	5,071	-	-	-	-	5,071	-	-	-	-	5,071
23	- Masonry Buildings	74,722	-	-	-	-	74,722	-	-	-	-	74,722
24	- Leasehold Improvement	4,733	-	664	-	-	5,397	-	679	-	-	6,076
25	483-00 Office Furniture and Equipment	-	-	-	-	-	-	-	-	-	-	-
26	- Furniture & Equipment	24,242	13	499	(39)	-	24,715	-	511	(1,219)	-	24,007
27	- Computer Hardware	30,483	57	6,864	(8,750)	-	28,654	-	7,022	(753)	-	34,923
28	- Computer Software (Infrastructure)	73,911	16	6,442	(7,624)	-	72,745	-	6,598	(14,304)	-	65,039
29	- Computer Software (Non-Infrastructure)	23,333	-	2,545	(7,208)	-	18,670	-	2,607	(4,564)	-	16,713
30	484-00 Transportation Equipment	672	107	51	-	-	830	-	52	-	-	882
31	485-00 Heavy Work Equipment	366	-	-	-	-	366	-	-	-	-	366
32	486-00 Small Tools & Equipment	31,298	101	2,281	(167)	-	33,513	-	2,333	(2,179)	-	33,667
33	487-00 Equipment on Customer's Premises	1,813	-	-	-	-	1,813	-	-	-	-	1,813
34	- VRA Compressor Installation Costs	-	-	-	-	-	-	-	-	-	-	-
35	488-00 Communications Equipment	-	-	-	-	-	-	-	-	-	-	-
36	- Telephone	10,773	19	568	(2)	-	11,358	-	581	(45)	-	11,894
37	- Radio	5,740	7	557	(545)	-	5,759	-	570	(301)	-	6,028
38	489-00 Other General Equipment	-	-	-	-	-	-	-	-	-	-	-
39	TOTAL GENERAL PLANT	308,140	320	20,493	(24,335)	-	304,618	-	20,975	(23,365)	-	302,228
40												
41	UNCLASSIFIED PLANT											
42	499 Plant Suspense	153	-	-	-	-	153	-	-	-	-	153
43	TOTAL UNCLASSIFIED PLANT	153	-	-	-	-	153	-	-	-	-	153
44												
45	TOTAL CAPITAL	\$3,136,979	\$10,846	\$128,704	(\$33,680)	\$0	\$3,242,849	\$10,092	\$128,111	(\$32,478)	\$0	\$3,348,574
46												
47												
48	TOTAL CAPITAL	\$3,136,979	\$10,846	\$128,704	(\$33,680)	\$0	\$3,242,849	\$10,092	\$128,111	(\$32,478)	\$0	\$3,348,574

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

Revised: October 15, 2007

TERASEN GAS INC.

Section A

CONTRIBUTIONS IN AID OF CONSTRUCTION
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Line No.	Particulars		Balance 12/31/2006	CPCN Adjustment	2007		Balance 12/31/2007	2008		Balance 12/31/2008
	(1)		(2)	(3)	Additions	Retirements	(6)	Additions	Retirements	(9)
1	CIAOC									
2										
3	DSEP/GEAP	211 - 06	\$12,671	\$0	\$0	\$0	\$12,671	\$0	\$0	\$12,671
4										
5	NGV Conversion Grants	211 - 07	-	-	-	-	-	-	-	-
6										
7	NGV Station Grants	211 - 08	-	-	-	-	-	-	-	-
8										
9	Furniture & Equipment	211 - 10	111	-	-	-	111	-	-	111
10										
11	Software Tax Savings - Non-Infrastructure	211 - 11	7,806	-	831	(4,380)	4,257	837	(1,242)	3,852
12	- Infrastructure/Custom	211 - 11	39,194	-	2,102	(15,842)	25,454	2,119	(150)	27,423
13										
14	Service Installation Fee	211 - 12	21,570	-	2,823	-	24,393	2,536	-	26,929
15										
16	Other	211-00 to 05	70,245	727	3,150	-	74,122	3,054	-	77,176
17										
18	TOTAL Contributions		151,597	727	8,906	(20,222)	141,008	8,546	(1,392)	148,162
19										
20										
21										
22	Amortization	211-15 to 22								
23										
24	Software Tax Savings - Non-Infrastructure		(5,734)	-	(1,561)	4,380	(2,915)	(851)	1,242	(2,524)
25	- Infrastructure/Custom		(22,752)	-	(4,899)	15,842	(11,809)	(3,182)	150	(14,841)
26										
27	Other		(23,980)	(67)	(2,317)	-	(26,364)	(2,449)	-	(28,813)
28										
29	TOTAL Amortization		(52,466)	(67)	(8,777)	20,222	(41,088)	(6,482)	1,392	(46,178)
30										
31	NET CONTRIBUTIONS		\$99,131	\$660	\$129	\$0	\$99,920	\$2,064	\$0	\$101,984

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

CONTRIBUTIONS IN AID OF CONSTRUCTION
FOR THE YEAR ENDING DECEMBER 31, 2008
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Line No.	Particulars		Balance 12/31/2007 (2)	CPCN Adjustment (3)	2008		Balance 12/31/2008 (6)
	(1)				Additions (4)	Retirements (5)	
1	DSEP/GEAP	211 - 06	\$12,671	\$0	\$0	\$0	\$12,671
2							
3	NGV Conversion Grants	211 - 07	-	-	-	-	-
4							
5	NGV Station Grants	211 - 08	-	-	-	-	-
6							
7	Furniture & Equipment	211 - 10	111	-	-	-	111
8							
9	Software Tax Savings - Non-Infrastructure	211 - 11	4,257	-	837	(1,242)	3,852
10	- Infrastructure/Custom	211 - 11	25,454	-	2,119	(150)	27,423
11							
12	Service Installation Fee	211 - 12	24,393	-	2,536	-	26,929
13							
14	Other	211-00 to 05	74,122	-	3,054	-	77,176
15							
16	TOTAL		141,008	-	8,546	(1,392)	148,162
17							
18							
19							
20	Amortization	211-15 to 22					
21							
22	- Software Tax Savings - Non-Infrastructure		(2,915)	-	(851)	1,242	(2,524)
23	- Infrastructure/Custom		(11,809)	-	(3,182)	150	(14,841)
24							
25	- Other		(26,364)	-	(2,449)	-	(28,813)
26							
27	Total Amortization		(41,088)	-	(6,482)	1,392	(46,178)
28							
29	NET		\$99,920	\$0	\$2,064	\$0	\$101,984

TERASEN GAS INC.**2007 ANNUAL REVIEW****2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN**

TERASEN GAS INC.

Section A

Tab 3

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NET GAS PLANT IN SERVICE

FOR THE YEARS ENDING DECEMBER 31, 2007 TO 2009

(\$000s)

Line No.	Particulars	PROJECTION 2007	FORECAST 2008
	(1)	(2)	(3)
1	Gas Plant in Service - December 31, Previous Year	\$3,136,979	\$3,242,849
2			
3	Add: CPCNs on January 1, Beginning of the Year	<u>10,846</u>	<u>10,092</u>
4			
5	Adjusted Opening Gas Plant in Service	3,147,825	3,252,941
6			
7	Intangible Plant	1,614	1,614
8			
9	Less: Contribution in Aid of Construction	(152,324)	(141,008)
10			
11	Less: Accumulated Depreciation and Amortization	(651,669)	(715,411)
12			
13			
14	Net Gas Plant in Service as at January 1, Beg of Year	<u>2,345,446</u>	<u>2,398,136</u>

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

DEFERRED CHARGES

The 2008 deferred charges and amortization (Section A, Tab 3, Pages 13 and 13.1) have been determined in accordance with the BCUC Decision dated February 4, 2003 on Terasen Gas' 2003 revenue requirements and the 2004-2007 PBR Plan Settlement Terms approved by Commission Order No. G-51-03 and extended by Order No. G-33-07.

With the implementation of the Commercial Commodity Unbundling Program the GCRA, effective April 1, 2004, was divided into a Commodity Cost Reconciliation Account (CCRA) and a Midstream Cost Reconciliation Account (MCRA).

CCRA is designated to capture and account for costs and recoveries associated with the baseload supply and for all of Terasen Gas' sales customers. MCRA is designated to capture and account for costs and recoveries associated with the remaining resources required to meet design peak day. The CCRA will capture the costs incurred by Terasen Gas to purchase its portion of the baseload gas requirements and the revenue collected by Terasen Gas through gas commodity rates. The MCRA will capture all the costs associated with the Midstream function and the revenue collected by Terasen Gas through midstream rates. The MCRA will also capture the costs associated with the Terasen Gas (Vancouver Island) Inc.

Future disposition of CCRA/MCRA balances will be determined based on the net-of-tax balance in accordance with Commission Order No. G-34-03.

The corporate income tax rate for 2008 reflects the elimination of the Large Corporations Tax effective January 1, 2006 as announced in the 2006 Federal Budget. As per the 2004 – 2007 PBR Settlement Agreement, the impact of the LCT rate change for calendar 2006 has been deferred and will be refunded to customers over three years beginning in 2007 as shown on Section A, Tab 3, Pages 13 and 13.2.

As stated under Section B, Tab 7 under Exogenous Factors, Terasen has been assessed provincial sales tax related to the SCP project. Terasen Gas does not agree with the reassessment and is appealing. While these reassessments are being appealed, Terasen Gas has remitted a \$10 million payment to prevent further accrual of interest, which will be refundable with interest in the event Terasen Gas is successful on appeal. A refund of \$3.584 million has been received to date and legal fees of \$44,200 were incurred in 2007. Accordingly, Terasen will continue to collect in a rate base deferral account, the net payment along with cost of the appeal since these are imposed on Terasen Gas by outside authorities over which the Company has no control. When the appeal is resolved, Terasen will seek a Commission order with respect to the disposition of the deferral account.

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

Consistent with past practice, incremental costs associated with preparing upcoming revenue requirement applications are afforded deferral treatment. Accordingly, a deferral account has been set up in Section A, Tab 3, Pages 13 and 13.3 to capture these expected costs.

Anticipated on-going costs of OSC compliance are expected to be relatively unchanged between 2007 and 2008. Costs in 2008 are estimated to be \$125,000 compared to \$121,000 included in the 2007 revenue requirements for Terasen Gas. These costs have been determined in accordance with the allocation process as directed by BCUC Order No. G-112-04.

By Order G-116-07, dated September 21, 2007, the Commission approved TGI's Application to sell 7.67 acres of vacant land that is no longer required for the provision of natural gas distribution service. Once the sale is completed \$1,136,155 will be removed from the Rate Base and \$2.5 million will be refunded to ratepayers by a rate rider. At this time the sale of the land has not been completed. While TGI is hopeful the completion of the sale of land will occur in 2007 it is uncertain if all required conditions can be met before year end. The materials in the annual review do not reflect the sale of the land. TGI proposes that the value of the cost of service from the sale of land would be credited to a deferral account and amortized in the following year reducing the amortization expense from what it would otherwise be. The cost of service reduction would be based on the reduced operating and maintenance expense, property tax and the mid-year rate base effect on earned return and income tax expense using the approved capital structure and allowed return on capital for 2008. TGI requests approval of the deferral account for the Lochburn land sale as described to account for the cost of service reductions with disposition in the following year.

BCUC levies as calculated by the O&M formula in the 2007 rates have exceeded the 2007 actual projected BCUC levies by \$434,000. Terasen Gas has deferred this amount in 2007 and will return the full amount of the excess to customers in 2008.

BCUC levies embedded in 2003 Decision	<u>\$1,345,000</u>
2007 levies as calculated with O&M formula	\$1,475,000
2007 projected BCUC Levies	<u>1,041,400</u>
Amount to return to customers in 2008	<u>(\$433,600)</u>

The schedule of 2007 projected deferred charges and amortization is found in Section A, Tab 3, Pages 13.2 and 13.3.

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

UNAMORTIZED DEFERRED CHARGES AND AMORTIZATION
FOR THE YEAR ENDING DECEMBER 31, 2008
(\$000s)

Section A

Tab 3

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Line No.	Particulars	Account	Forecast Balance 12/31/2007	Gross Additions	Less-Taxes *	Net Additions	Amortization		Balance 12/31/2008	Mid-Year Average 2008
	(1)	(2)	(3)	(4)	(5)	(6)	Expense	Other **	(9)	(10)
1	Deferred Interest	# 17904	\$95.5	\$0.0	\$0.0	\$0.0	\$226.0	\$0.0	\$321.5	\$208.5
2	Deferred Interest - funding benefits via Customer Depo	# 17904A	(95.3)	-	-	-	53.2	-	(42.1)	(68.7)
3										
4	NGV Conversion Grants	# 17977	134.5	70.0	(22.8)	47.2	(46.7)	-	135.0	134.8
5										
6	2003 Revenue Requirement	# 17989	29.2	-	-	-	(29.2)	-	-	14.6
7	2004-2007 Revenue Requirements	# 17952	25.0	-	-	-	(25.0)	-	-	12.5
8	Future Revenue Requirements	# 18160	66.2	50.0	(16.3)	33.7	-	-	99.9	83.1
9										
10	Demand Side Management	# 17916	1,473.1	1,500.0	(487.5)	1,012.5	(772.0)	-	1,713.6	1,593.4
11	DSM DRIA	# 17961	-	-	-	-	-	-	-	-
12										
13	Property Tax Deferral	# 17915	(942.2)	-	-	-	272.9	-	(669.3)	(805.8)
14										
15	M.C.R.A.	# 17926	16,055.1	(23,785.9)	7,730.8	(16,055.1)	-	-	(0.0)	8,027.6
16	C.C.R.A.	# 18137	(48,258.0)	71,493.5	(23,235.5)	48,258.0	-	-	-	(24,129.0)
17	C.C.R.A./M.C.R.A Interest	# 17973	(2,313.2)	3,427.1	(1,113.9)	2,313.2	-	-	-	(1,156.6)
18										
19	RSAM	# 17927	22,258.4	-	3,599.0	3,599.0	-	(11,073.7)	14,783.7	18,521.1
20	RSAM Interest	# 17999	550.0	(12.6)	93.0	80.4	-	(273.5)	356.9	453.5
21										
22	Revelstoke Propane Cost	# 27902	(20.3)	167.0	(10.2)	156.8	-	(136.5)	-	(10.2)
23										
24	Coastal Facilities									
25	- Extraordinary Plant Loss - Lochburn	# 17998	-	-	-	-	-	-	-	-
26										
27	2005 BC Tax Rate Reduction Deferral	# 17940	-	-	-	-	-	-	-	-
28										
29	Vehicle Lease Deferral	# 17941	358.8	-	-	-	(358.8)	-	-	179.4
30										
31	Notes: Lines 14, 15, and 18 are MCRA, CCRA, and RSAM actual activities and balances.									
32	* Taxes = 33% * (Gross Addiion + Amortization Other).									
33	** Amortization Other figures are pre-tax amounts.									

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

UNAMORTIZED DEFERRED CHARGES AND AMORTIZATION
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Line No.	Particulars	Account	Forecast Balance 12/31/2007	Gross Additions	Less-Taxes *	Net Additions	Amortization		Balance 12/31/2008	Mid-Year Average 2008
	(1)	(2)	(3)	(4)	(5)	(6)	Expense	Other **	(9)	(10)
1	ROE Hearing Costs - 2005	# 17985	\$299.4	\$0.0	\$0.0	\$0.0	(\$149.5)	\$0.0	\$149.9	\$224.7
2										
3	Earnings Sharing Mechanism	# 17982	(10,060.7)	-	(4,844.1)	(4,844.1)	-	14,904.8	-	(5,030.4)
4										
5	NGV Compression Equip. Recovery	# 17992	497.4	-	-	-	(248.6)	-	248.8	373.1
6										
7	Overheads Change - Income Tax Refund	# 17995	-	-	-	-	-	-	-	-
8	CIAOC Software Tax Savings/OH Change	# 17995	-	-	-	-	-	-	-	-
9	Bad Debt Allowance for Rates 14 & 14A	# 17949	63.4	19.3	(6.3)	13.0	-	-	76.4	69.9
10	Other Post Employment Benefits	# 17991/93	(25,187.1)	(6,074.0)	1,974.1	(4,099.9)	-	-	(29,287.0)	(27,237.1)
11										
12	Deferred 2000 SCP Cost of Service	# 17997	-	-	-	-	-	-	-	-
13										
14	SCP Net Mitigation Revenues	# 17912	(3,554.1)	(955.0)	310.4	(644.6)	631.0	-	(3,567.7)	(3,560.9)
15	SCP West to East Transmission	# 17913	(111.4)	-	-	-	42.2	-	(69.2)	(90.3)
16	SCP PG&E Contract Cancellation	# 17936	1,324.8	-	-	-	(663.2)	-	661.6	993.2
17	SCP Provincial Sales Tax Reassessment	# 18504	6,464.4	-	-	-	-	-	6,464.3	6,464.4
18										
19	CCT Deferral	# 17924	-	-	-	-	-	-	-	-
20	CCT Assessment	# 17929	36.2	-	-	-	(52.9)	-	(16.7)	9.7
21										
22	Pension Variance	# 17946	(2,131.5)	-	-	-	2,131.5	-	-	(1,065.8)
23	Insurance Variance	# 17947	(601.1)	-	-	-	601.1	-	-	(300.6)
24										
25	BCUC Levies	# 18149	(277.3)	-	-	-	277.3	-	-	(138.7)
26	OSC Certification Compliance	# 18148	(120.5)	124.7	(40.5)	84.2	121.0	-	84.7	(17.9)
27										
28	2006 LCT Elimination	# 18502	(2,069.0)	-	-	-	1,034.0	-	(1,035.0)	(1,552.0)
29										
30	TGS O&M Variance	# 18503	114.6	171.0	(55.6)	115.4	-	-	230.0	172.3
31										
32	TGS Amalgamation	# 18503A	134.0	-	-	-	-	-	134.0	134.0
33										
34	Rider 2 ROE Revenue Requirement	# 18003	-	(31.8)	-	(31.8)	-	-	(31.8)	(31.8)
35										
36	Total Deferred Charges for Rate Base		(\$45,761.7)	\$46,163.3	(\$16,125.4)	\$30,037.9	\$3,044.3	\$3,421.1	(\$9,258.5)	(\$27,526.0)

Notes:

* Taxes = 32.5% * (Gross Addition + Amortization Other).

** Amortization Other figures are pre-tax amounts.

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

UNAMORTIZED DEFERRED CHARGES AND AMORTIZATION
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Line No.	Particulars	Account	Forecast Balance 12/31/2006	Gross Additions	Less-Taxes *	Net Additions	Amortization		Balance 12/31/2007	Mid-Year Average 2007
	(1)	(2)	(3)	(4)	(5)	(6)	Expense	Other **	(9)	(10)
1	Deferred Interest	# 17904	(\$119.0)	\$185.5	(\$61.2)	\$124.3	\$90.2	\$0.0	\$95.5	(\$11.8)
2	Deferred Interest - funding benefits via Customer Depo	# 17904A	(153.0)	10.0	(3.3)	6.7	51.0	-	(95.3)	(124.2)
3										
4	NGV Conversion Grants	# 17977	144.0	70.0	(23.1)	46.9	(56.4)	-	134.5	139.3
5										
6	2003 Revenue Requirement	# 17989	78.0	-	-	-	(48.8)	-	29.2	53.6
7	2004-2007 Revenue Requirements	# 17952	50.0	-	-	-	(25.0)	-	25.0	37.5
8	Future Revenue Requirements	# 18160	16.0	75.0	(24.8)	50.2	-	-	66.2	41.1
9										
10	Demand Side Management	# 17916	1,135.0	1,500.1	(495.0)	1,005.1	(667.0)	-	1,473.1	1,304.1
11	DSM DRIA	# 17961	-	-	-	-	-	-	-	-
12										
13	Property Tax Deferral	# 17915	(463.0)	(1,009.0)	333.0	(676.0)	196.8	-	(942.2)	(702.6)
14										
15	M.C.R.A.	# 17926	25,837.1	(14,454.2)	4,818.0	(9,636.2)	-	(145.8)	16,055.1	20,946.1
16	C.C.R.A.	# 18137	(52,412.0)	6,200.0	(2,046.0)	4,154.0	-	-	(48,258.0)	(50,335.0)
17	C.C.R.A./M.C.R.A Interest	# 17973	(1,969.0)	(513.7)	169.5	(344.2)	-	-	(2,313.2)	(2,141.1)
18										
19	RSAM	# 17927	35,883.1	(3,052.9)	6,710.6	3,657.7	-	(17,282.4)	22,258.4	29,070.8
20	RSAM Interest	# 17999	613.2	(7.6)	31.2	23.6	-	(86.8)	550.0	581.6
21										
22	Revelstoke Propane Cost	# 27902	(94.0)	110.0	(36.3)	73.7	-	-	(20.3)	(57.2)
23										
24	Coastal Facilities									
25	- Extraordinary Plant Loss - Lochburn	# 17998	94.0	(94.0)		(94.0)	-	-	-	47.0
26										
27	2005 BC Tax Rate Reduction Deferral	# 17940	(21.0)	-	-	-	21.0	-	-	(10.5)
28										
29	Vehicle Lease Deferral	# 17941	717.0	-	-	-	(358.2)	-	358.8	537.9
30										
31	Notes: Lines 14, 15, and 18 are MCRA, CCRA, and RSAM actual activities and balances.									
32	* Taxes = 33% * (Gross Addiion + Amortization Other).									
33	** Amortization Other figures are pre-tax amounts.									

TERASEN GAS INC.

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Line No.	Particulars	Account	Forecast Balance 12/31/2006	Gross Additions	Less-Taxes *	Net Additions	Amortization		Balance 12/31/2007	Mid-Year Average 2007
	(1)	(2)	(3)	(4)	(5)	(6)	Expense	Other **	(9)	(10)
1	ROE Hearing Costs - 2005	# 17985	\$449.0	\$0.0	\$0.0	\$0.0	(\$149.6)	\$0.0	\$299.4	\$374.2
2										
3	Earnings Sharing Mechanism	# 17982	(8,535.0)	(15,016.0)	751.5	(14,264.5)	-	12,738.8	(10,060.7)	(9,297.9)
4										
5	NGV Compression Equip. Recovery	# 17992	746.0	-	-	-	(248.6)	-	497.4	621.7
6										
7	Overheads Change - Income Tax Refund	# 17995	(139.0)	-	-	-	139.0	-	-	(69.5)
8	CIAOC Software Tax Savings/OH Change	# 17995	(807.0)	-	-	-	807.0	-	-	(403.5)
9	Bad Debt Allowance for Rates 14 & 14A	# 17949	50.0	20.0	(6.6)	13.4	-	-	63.4	56.7
10	Other Post Employment Benefits	# 17991/93	(21,214.0)	(5,930.0)	1,956.9	(3,973.1)	-	-	(25,187.1)	(23,200.6)
11										
12	Deferred 2000 SCP Cost of Service	# 17997	62.0	-	-	-	(62.0)	-	-	31.0
13										
14	SCP Net Mitigation Revenues	# 17912	(3,810.0)	(1,152.9)	380.5	(772.4)	1,028.3	-	(3,554.1)	(3,682.1)
15	SCP West to East Transmission	# 17913	189.0	-	-	-	(300.4)	-	(111.4)	38.8
16	SCP PG&E Contract Cancellation	# 17936	1,988.0	-	-	-	(663.2)	-	1,324.8	1,656.4
17	SCP Provincial Sales Tax Reassessment	# 18504	10,029.0	(3,540.2)	(24.4)	(3,564.6)	-	-	6,464.4	8,246.7
18										
19	CCT Deferral	# 17924	(133.0)	-	-	-	133.0	-	-	(66.5)
20	CCT Assessment	# 17929	161.0	(8.8)		(8.8)	(116.0)	-	36.2	98.6
21										
22	Pension Variance	# 17946	(2,432.0)	(1,935.3)	638.6	(1,296.7)	1,597.2	-	(2,131.5)	(2,281.8)
23	Insurance Variance	# 17947	(205.0)	(882.3)	291.2	(591.1)	195.0	-	(601.1)	(403.1)
24										
25	BCUC Levies	# 18149	(226.0)	(433.6)	143.1	(290.5)	239.2	-	(277.3)	(251.7)
26	OSC Certification Compliance	# 18148	(89.0)	121.1	(40.0)	81.1	(112.6)	-	(120.5)	(104.8)
27										
28	2006 LCT Elimination	# 18502	(3,103.0)	-	-	-	1,034.0	-	(2,069.0)	(2,586.0)
29										
30	TGS O&M Variance	# 18503	-	171.0	(56.4)	114.6	-	-	114.6	57.3
31										
32	TGS Amalgamation	# 18503A	-	200.0	(66.0)	134.0	-	-	134.0	67.0
33										
34	Rider 2 ROE Revenue Requirement	# 18003	-	-	-	-	-	-	-	-
35										
36	Total Deferred Charges for Rate Base		<u>(\$17,682.6)</u>	<u>(\$39,367.8)</u>	<u>\$13,341.0</u>	<u>(\$26,026.8)</u>	<u>\$2,723.9</u>	<u>(\$4,776.2)</u>	<u>(\$45,761.7)</u>	<u>(\$31,722.5)</u>

Notes:

* Taxes = 33% * (Gross Addition + Amortization Other).

** Amortization Other figures are pre-tax amounts.

TERASEN GAS INC.

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TERASEN GAS INC.

WORKING CAPITAL ALLOWANCE
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Line No.	Particulars (1)	2007 APPROVED (2)	2008		Change (5)	Reference (6)
			Rates (3)	Revised Revenue (4)		
1	Cash Working Capital					
2	Cash Required for					
3	Operating Expenses	(\$16,403)	(\$17,738)	(\$17,375)	(\$972)	
4						
5	Customer Deposits	(3,474)	(3,474)	(3,474)	-	
6						
7	Less - Funds Available:					
8						
9	Reserve for Bad Debts	(2,904)	(4,545)	(4,545)	(1,641)	
10						
11	Withholdings From Employees	(2,416)	(2,677)	(2,677)	(261)	
12						
13	Subtotal	<u>(25,197)</u>	<u>(28,434)</u>	<u>(28,071)</u>	<u>(2,874)</u>	- Tab A-1, Page 6
14						
15	Other Working Capital Items					
16	Inventories	6,296	6,675	6,675	379	
17	Transmission Line Pack Gas	3,199	3,367	3,367	168	
18	Gas in Storage	134,437	126,801	126,801	(7,636)	
19	Miscellaneous Other	50		-	(50)	
20						
21	Subtotal	<u>143,982</u>	<u>136,843</u>	<u>136,843</u>	<u>(7,139)</u>	- Tab A-1, Page 6
22						
23	Total	<u>\$118,785</u>	<u>\$108,409</u>	<u>\$108,772</u>	<u>(\$10,013)</u>	

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

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DEPRECIATION AND AMORTIZATION
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Line No.	Particulars	PROJECTION 2007 (2)	FORECAST 2008 (3)	Reference (5)
	(1)			
1	Balance, Beginning	\$702,160	\$756,497	- Tab A-3, Page 15.4
2				
3	CIAOC Amortization Balance, Beginning	(52,533)	(41,088)	- Tab A-3, Page 9
4				
5	Gas Plant Held for Future Use			
6	Balance, Beginning	-	-	
7				
8	TGS Amalgamation	2,042	-	
9				
10	Utility Accumulated Depreciation			
11	Balance, Beginning	<u>651,669</u>	<u>715,409</u>	- Tab A-3, Page 10
12				
13				
14	Depreciation Provision	92,151	93,668	- Tab A-3, Page 15.4
15	Less - Gas Plant Held for Future Use	-	-	
16	Less Prior Year Adjustments	-	-	
17	Less - Amortization of Contributions in			
18	Aid of Construction	<u>(8,777)</u>	<u>(6,482)</u>	- Tab A-3, Page 9
19				
20		<u>83,374</u>	<u>87,186</u>	
21				
22	Plant Retirements	(33,680)	(32,478)	- Tab A-3, Page 15.4
23				
24	CIAOC Retirements	20,222	1,392	- Tab A-3, Page 9
25				
26	Removal Costs	(6,174)	(6,175)	
27				
28	Proceeds on Disposals	-	-	
29				
30		<u>(19,632)</u>	<u>(37,261)</u>	
31				
32	Balance, Ending	<u>\$715,411</u>	<u>\$765,334</u>	- Tab A-1, Page 6

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

DEPRECIATION AND AMORTIZATION CONTINUITY SCHEDULE
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Line No.	Account	Balance 12/31/2007 (2)	Annual Depreciation Rate % (3)	Provision					Accumulated	
				2008 (Cr.) (4)	Adjust- ments (5)	Retirements (6)	Retirement Costs (7)	Proceeds on Disposal (8)	12/31/2007 (9)	12/31/2008 (10)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
		Adjusted for TGS							Adjusted for TGS	
1	INTANGIBLE PLANT									
2	117-00 Utility Plant Acquisition Adjustment	\$0	1.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3	175-00 Unamortized Conversion Expense	109	1.00%	1	-	-	-	-	286	287
4	175-00 Unamortized Conversion Expense - Squamish	777	10.00%	78	-	-	-	-	78	156
5	178-00 Organization Expense	728	1.00%	7	-	-	-	-	355	362
6	179-01 Other Deferred Charges	-	1.00%	-	-	-	-	-	-	-
7	401-00 Franchise and Consents	99	1.00%	1	-	-	-	-	48	49
8	402-00 Utility Plant Acquisition Adjustment	835	1.00%	8	-	-	-	-	132	140
9	402-00 Other Intangible Plant	-	Lease Term	-	-	-	-	-	27	27
10	TOTAL INTANGIBLE PLANT	2,548		95	-	-	-	-	926	1,021
11										
12	MANUFACTURED GAS / LOCAL STORAGE									
13	430 Manufact'd Gas - Land	31	0.00%	-	-	-	-	-	-	-
14	432 Manufact'd Gas - Struct. & Improvements	438	1.50%	7	-	-	-	-	90	97
15	433 Manufact'd Gas - Equipment	139	3.00%	4	-	-	-	-	41	45
16	434 Manufact'd Gas - Gas Holders	358	2.00%	7	-	-	-	-	158	165
17	436 Manufact'd Gas - Compressor Equipment	53	3.00%	2	-	-	-	-	21	23
18	437 Manufact'd Gas - Measuring & Regulating Equipmr	309	3.00%	9	-	-	-	-	133	142
19	440/441 Land in Fee Simple and Land Rights	927	0.00%	-	-	-	-	-	1	1
20	442 Structures & Improvements	5,455	4.00%	218	-	-	-	-	2,086	2,304
21	443 Gas Holders - Storage	18,640	4.00%	746	-	-	-	-	8,588	9,334
22	446 Compressor Equipment	-	0.00%	-	-	-	-	-	-	-
23	447 Measuring & Regulating Equipment	-	0.00%	-	-	-	-	-	-	-
24	448 Purification Equipment	-	0.00%	-	-	-	-	-	-	-
25	449 Local Storage Equipment	16,734	4.00%	669	-	-	-	-	8,427	9,096
26	TOTAL MANUFACTURED GAS / LOCAL STORAGE	43,084		1,662	-	-	-	-	19,545	21,207
27										
28	TRANSMISSION PLANT									
29	460-00 Land in Fee Simple	7,444	0.00%	-	-	-	-	-	399	399
30	461-00 Land Rights	43,486	0.00%	-	-	-	-	-	(1,434)	(1,434)
31	461-10 Land Rights - Byron Creek	-	5.00%	-	-	-	\$0	\$0	\$16	\$16
32	462-00 Compressor Structures	16,058	3.00%	482	-	-	-	-	4,458	4,940
33	463-00 Measuring Structures	4,363	3.00%	131	-	-	-	-	1,167	1,298
34	464-00 Other Structures & Improvements	4,881	3.00%	146	-	-	-	-	951	1,097
35	465-00 Mains	710,610	2.00%	14,212	-	(179)	-	-	163,784	177,817
36	465-10 Mains - Byron Creek	702	5.00%	35	-	-	-	-	758	793
37	466-00 Compressor Equipment	103,994	3.00%	3,120	-	-	-	-	28,750	31,870
38	467-00 Measuring & Regulating Equipment	49,921	3.00%	1,498	-	-	-	-	7,865	9,363
39	467-10 Telemetering	5,995	10.00%	600	-	-	-	-	6,422	7,022
40	467-20 Measuring & Regulating Equipment - Byron Cr	-	10.00%	-	-	-	-	-	-	-
41	468-00 Communication Structures & Equipment	3,191	10.00%	319	-	-	-	-	628	947
42	469-00 Other Transmission Equipment	-	5.00%	-	-	-	-	-	-	-
43	TOTAL TRANSMISSION PLANT	950,645		20,543	-	(179)	-	-	213,764	234,128

TERASEN GAS INC.

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TERASEN GAS INC.

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Line No.	Account	Balance 12/31/2007 (2)	Annual Depreciation Rate % (3)	Provision					Accumulated	
				2008 (Cr.) (4)	Adjust- ments (5)	Retirements (6)	Retirement Costs (7)	Proceeds on Disposal (8)	12/31/2007 (9)	12/31/2008 (10)
		Adjusted for TGS							Adjusted for TGS	
1	<u>DISTRIBUTION PLANT</u>									
2	470 Land	\$3,249	0.00%	\$0	\$0	\$0	\$0	\$0	\$35	\$35
3	471 Land Rights	803	0.00%	-	-	-	-	-	-	-
4	471 Land Rights - Byron Creek	1	5.00%	-	-	-	-	-	3	3
5	-Frame Buildings	6,462	3.00%	194	-	-	-	-	2,177	2,371
6	-Byron Creek	2,000	5.00%	100	-	-	-	-	202	302
7	473-00 Services	607,084	2.00%	12,142	-	(3,707)	(4,675)	-	93,465	97,225
8	474-00 House Regulator & Meter Installation	168,228	3.57%	6,006	-	(519)	(600)	-	36,331	41,218
9	475-00 Mains	830,905	2.00%	16,820	-	(3,541)	(500)	-	207,516	220,295
10	-All Other	575	6.67%	38	-	-	-	-	327	365
11	477-00 Measuring & Regulating	92,452	3.00%	2,774	-	(555)	-	-	11,517	13,736
12	477-10 Telemetering	5,641	10.00%	564	-	(8)	-	-	5,388	5,944
13	477-00 Measuring & Regulating - Byron Creek	-	5.00%	-	-	-	-	-	(59)	(59)
14	478 Meters	225,989	3.57%	8,068	-	(604)	(400)	-	52,954	60,018
15	479 Other Distribution Equipment	26	4.00%	1	-	-	-	-	27	28
16		<u>1,943,415</u>		<u>46,707</u>	<u>-</u>	<u>(8,934)</u>	<u>(6,175)</u>	<u>-</u>	<u>409,883</u>	<u>441,481</u>
17										
18	<u>GENERAL PLANT & EQUIPMENT</u>									
19	480-00 Land in Fee Simple	21,005	0.00%	-	-	-	-	-	17	17
20	481-00 Land Rights	-	0.00%	-	-	-	-	-	-	-
21	482-00 Structures & Improvements	-	0.00%	-	-	-	-	-	-	-
22	- Frame Buildings	5,071	3.00%	152	-	-	-	-	(2,934)	(2,782)
23	- Masonry Buildings	74,722	1.50%	1,121	-	-	-	-	(6,576)	(5,455)
24	- Leasehold Improvement	5,397	Lease Term	540	-	-	-	-	14,256	14,796
25	483-00 Office Furniture and Equipment	-	0.00%	-	-	(5)	-	-	12,092	12,087
26	- Furniture & Equipment	24,715	5.00%	1,236	-	(1,214)	-	-	(21)	1
27	- Computer Hardware	28,654	20.00%	5,731	-	(753)	-	-	18,108	23,086
28	- Computer Software (Infrastructure)	72,745	12.50%	9,093	-	(14,304)	-	-	34,199	28,988
29	- Computer Software (Non-Infrastructure)	18,670	20.00%	3,734	-	(4,564)	-	-	18,154	17,324
30	484-00 Transportation Equipment	830	15.00%	125	-	-	-	-	2,944	3,069
31	485-00 Heavy Work Equipment	366	5.00%	18	-	-	-	-	(272)	(254)
32	486-00 Small Tools & Equipment	33,513	5.00%	1,676	-	(2,179)	-	-	13,744	13,241
33	487-00 Equipment on Customer's Premises	1,813	5.00%	91	-	-	-	-	918	1,009
34	488-00 Communications Equipment	-	5.00%	-	-	-	-	-	-	-
35	- Telephone	11,358	5.00%	568	-	(45)	-	-	3,097	3,620
36	- Radio	5,759	10.00%	576	-	(301)	-	-	3,961	4,236
37	489-00 Other General Equipment	-	5.00%	-	-	-	-	-	-	-
38	TOTAL GENERAL PLANT	<u>304,618</u>		<u>24,661</u>	<u>-</u>	<u>(23,365)</u>	<u>-</u>	<u>-</u>	<u>112,379</u>	<u>113,675</u>
39										
40	<u>UNCLASSIFIED PLANT</u>									
41	499 Plant Suspense	153	0.00%	-	-	-	-	-	-	-
42	TOTAL UNCLASSIFIED PLANT	<u>153</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
43										
44	TOTAL CAPITAL	<u>\$3,244,463</u>		<u>\$93,668</u>	<u>\$0</u>	<u>(\$32,478)</u>	<u>(\$6,175)</u>	<u>\$0</u>	<u>\$756,497</u>	<u>\$811,512</u>
45										
46										
47	TOTALS	<u>\$3,244,463</u>		<u>\$93,668</u>	<u>\$0</u>	<u>(\$32,478)</u>	<u>(\$6,175)</u>	<u>\$0</u>	<u>\$756,497</u>	<u>\$811,512</u>

TERASEN GAS INC.

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TERASEN GAS INC.

DEPRECIATION AND AMORTIZATION CONTINUITY SCHEDULE
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Line No.	Account	Balance 12/31/2006	Annual Depreciation Rate %	Provision				Accumulated	
				Adjust- ments	Retirements	Retirement Costs	Proceeds on Disposal	12/31/2006	12/31/2007
	(1)	(2)	(3)	(5)	(6)	(7)	(8)	(9)	(10)
1	INTANGIBLE PLANT								
2	117-00 Utility Plant Acquisition Adjustment	\$0	1.00%	\$0	\$0	\$0	\$0	\$0	\$0
3	175-00 Unamortized Conversion Expense	109	1.00%	237	-	-	-	48	286
4	175-00 Unamortized Conversion Expense - Squamish	-	10.00%	-	-	-	-	-	78
5	178-00 Organization Expense	728	1.00%	-	-	-	-	347	354
6	179-01 Other Deferred Charges	-	1.00%	-	-	-	-	-	-
7	401-00 Franchise and Consents	99	1.00%	-	-	-	-	47	48
8	402-00 Utility Plant Acquisition Adjustment	835	1.00%	-	-	-	-	123	131
9	402-00 Other Intangible Plant	-	Lease Term	-	-	-	-	27	27
10	TOTAL INTANGIBLE PLANT	1,771		237	-	-	-	592	924
11									
12	MANUFACTURED GAS / LOCAL STORAGE								
13	430 Manufact'd Gas - Land	31	0.00%	-	-	-	-	-	-
14	432 Manufact'd Gas - Struct. & Improvements	438	1.50%	-	-	-	-	84	91
15	433 Manufact'd Gas - Equipment	139	3.00%	-	-	-	-	37	41
16	434 Manufact'd Gas - Gas Holders	358	2.00%	-	-	-	-	151	158
17	436 Manufact'd Gas - Compressor Equipment	53	3.00%	-	-	-	-	20	22
18	437 Manufact'd Gas - Measuring & Regulating Equipment	309	3.00%	-	-	-	-	123	132
19	440/441 Land in Fee Simple and Land Rights	927	0.00%	-	-	-	-	1	1
20	442 Structures & Improvements	5,455	4.00%	-	-	-	-	1,868	2,086
21	443 Gas Holders - Storage	18,000	4.00%	-	-	-	-	7,868	8,588
22	446 Compressor Equipment	-	0.00%	-	-	-	-	-	-
23	447 Measuring & Regulating Equipment	-	0.00%	-	-	-	-	-	-
24	448 Purification Equipment	-	0.00%	-	-	-	-	-	-
25	449 Local Storage Equipment	16,734	4.00%	-	-	-	-	7,757	8,426
26	TOTAL MANUFACTURED GAS / LOCAL STORAGE	42,444		-	-	-	-	17,909	19,545
27									
28	TRANSMISSION PLANT								
29	460-00 Land in Fee Simple	7,444	0.00%	-	-	-	-	399	399
30	461-00 Land Rights	42,130	0.00%	-	-	-	-	(1,434)	(1,434)
31	461-10 Land Rights - Byron Creek	-	5.00%	-	-	-	-	16	16
32	462-00 Compressor Structures	15,621	3.00%	-	-	-	-	3,989	4,458
33	463-00 Measuring Structures	4,363	3.00%	-	-	-	-	1,036	1,167
34	464-00 Other Structures & Improvements	4,881	3.00%	-	-	-	-	804	950
35	465-00 Mains	707,608	2.00%	-	(174)	-	-	149,813	163,785
36	465-10 Mains - Byron Creek	702	5.00%	-	-	-	-	723	758
37	466-00 Compressor Equipment	103,979	3.00%	-	-	-	-	25,632	28,750
38	467-00 Measuring & Regulating Equipment	44,115	3.00%	-	-	-	-	6,542	7,865
39	467-10 Telemetering	5,995	10.00%	-	-	-	-	5,823	6,423
40	467-20 Measuring & Regulating Equipment - Byron Cr	-	10.00%	-	-	-	-	-	-
41	468-00 Communication Structures & Equipment	2,447	10.00%	-	-	-	-	383	628
42	469-00 Other Transmission Equipment	-	5.00%	-	-	-	-	-	-
43	TOTAL TRANSMISSION PLANT	939,285		-	(174)	-	-	193,726	213,765

A-3 Rate Base

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DEPRECIATION AND AMORTIZATION CONTINUITY SCHEDULE
FOR THE YEAR ENDING DECEMBER 31, 2007
(\$000s)

Section A

Tab 3

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Line No.	Account	Balance 12/31/2006 (2)	Annual Depreciation Rate % (3)	Provision					Accumulated	
				2007 (Cr.) (4)	Adjust- ments (5)	Retirements (6)	Retirement Costs (7)	Proceeds on Disposal (8)	12/31/2006 (9)	12/31/2007 (10)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	DISTRIBUTION PLANT									
2	470 Land	\$3,249	0.00%	\$0	\$0	\$0	\$0	\$0	\$35	\$35
3	471 Land Rights	678	0.00%	-	-	-	-	-	-	-
4	471 Land Rights - Byron Creek	1	5.00%	-	-	-	-	-	3	3
5	-Frame Buildings	5,798	3.00%	182	92	-	-	-	1,903	2,177
6	-Byron Creek	2,000	5.00%	100	-	-	-	-	102	202
7	473-00 Services	579,750	2.00%	11,696	314	(3,932)	(4,675)	-	90,062	93,465
8	474-00 House Regulator & Meter Installation	158,124	3.57%	5,656	102	(516)	(600)	-	31,689	36,331
9	475-00 Mains	794,005	2.00%	15,976	951	(3,570)	(499)	-	194,658	207,516
10	-All Other	575	6.67%	38	-	-	-	-	288	326
11	477-00 Measuring & Regulating	82,140	3.00%	2,466	18	(540)	-	-	9,574	11,518
12	477-10 Telemetering	5,466	10.00%	549	3	(8)	-	-	4,844	5,388
13	477-00 Measuring & Regulating - Byron Creek	-	5.00%	-	-	-	-	-	(59)	(59)
14	478 Meters	214,237	3.57%	7,657	26	(605)	(400)	-	46,276	52,954
15	479 Other Distribution Equipment	-	4.00%	1	26	-	-	-	-	27
16		<u>1,846,023</u>		<u>44,321</u>	<u>1,532</u>	<u>(9,171)</u>	<u>(6,174)</u>	<u>-</u>	<u>379,375</u>	<u>409,883</u>
17										
18	GENERAL PLANT & EQUIPMENT									
19	480-00 Land in Fee Simple	20,983	0.00%	-	-	-	-	-	17	17
20	481-00 Land Rights	-	0.00%	-	-	-	-	-	-	-
21	482-00 Structures & Improvements	-	0.00%	-	-	-	-	-	-	-
22	- Frame Buildings	5,071	3.00%	152	-	-	-	-	(3,086)	(2,934)
23	- Masonry Buildings	74,722	1.50%	1,121	-	-	-	-	(7,697)	(6,576)
24	- Leasehold Improvement	4,733	Lease Term	473	-	-	-	-	13,783	14,256
25	483-00 Office Furniture and Equipment	-	0.00%	-	1	(24)	-	-	10,903	10,880
26	- Furniture & Equipment	24,242	5.00%	1,213	4	(15)	-	-	(9)	1,193
27	- Computer Hardware	30,483	20.00%	6,108	105	(8,750)	-	-	20,645	18,108
28	- Computer Software (Infrastructure)	73,911	12.50%	9,241	16	(7,624)	-	-	32,566	34,199
29	- Computer Software (Non-Infrastructure)	23,333	20.00%	4,667	-	(7,208)	-	-	20,695	18,154
30	484-00 Transportation Equipment	672	15.00%	117	104	-	-	-	2,723	2,944
31	485-00 Heavy Work Equipment	366	5.00%	18	-	-	-	-	(291)	(273)
32	486-00 Small Tools & Equipment	31,298	5.00%	1,570	24	(167)	-	-	12,317	13,744
33	487-00 Equipment on Customer's Premises	1,813	5.00%	91	-	-	-	-	828	919
34	488-00 Communications Equipment	-	5.00%	-	-	-	-	-	-	-
35	- Telephone	10,773	5.00%	540	14	(2)	-	-	2,545	3,097
36	- Radio	5,740	10.00%	575	5	(545)	-	-	3,927	3,962
37	489-00 Other General Equipment	-	5.00%	-	-	-	-	-	-	-
38	TOTAL GENERAL PLANT	<u>308,140</u>		<u>25,886</u>	<u>273</u>	<u>(24,335)</u>	<u>-</u>	<u>-</u>	<u>110,558</u>	<u>112,382</u>
39										
40	UNCLASSIFIED PLANT									
41	499 Plant Suspense	153	0.00%	-	-	-	-	-	-	-
42	TOTAL UNCLASSIFIED PLANT	<u>153</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
43										
44	TOTAL CAPITAL	<u>\$3,137,816</u>		<u>\$92,151</u>	<u>\$2,042</u>	<u>(\$33,680)</u>	<u>(\$6,174)</u>	<u>\$0</u>	<u>\$702,160</u>	<u>\$756,499</u>
45										
46										
47	TOTALS	<u>\$3,137,816</u>		<u>\$92,151</u>	<u>\$2,042</u>	<u>(\$33,680)</u>	<u>(\$6,174)</u>	<u>\$0</u>	<u>\$702,160</u>	<u>\$756,499</u>

2008 GAS SALES AND TRANSPORTATION VOLUMES

This section addresses the forecast of gas sales and transportation volumes for 2008. Included is a review of the energy forecast methodology as well as factors influencing customer additions and use per customer. An outline of the residential, commercial and industrial margins and revenues over the forecast period is also provided.

The yearly projections and forecasts, including customer accounts and the use per customer used to derive revenues for 2008, reflect the best information available at the time of the Annual Review.

The forecast of industrial accounts and associated volumes are updated to reflect the latest industrial survey conducted during the summer of 2007. Similarly, revenue and margin forecasts reflect the most recently approved rates.

1. FORECAST METHODOLOGY

Consistent with previous years, the forecasting process is comprised of three main components:

- Customer additions forecast
- Average use per customer forecast
- Industrial forecast

The residential and commercial energy forecast consisting of Rate Classes 1, 2, 3 and 23 is driven by the respective account and use per customer forecasts, while the industrial energy forecast incorporates Rate Classes 7, 22, 25 and 27 and is based mainly on customer survey data. Rate Classes 4, 5 and 6 customer account and demand growth is modelled from market information and historical trends.

The customer additions forecast reflects prevailing macroeconomic circumstances affecting residential and commercial customers. The forecast for industrial customers assumes no net change in the number of customers over the forecast period except where specific knowledge of a change in service level has been received by Terasen Gas.

Consistent with the methodology used in prior years, the average use per customer is estimated for Rate Classes 1, 2, 3 and 23 and is multiplied by the corresponding forecast of customers in each respective rate class to derive energy consumption. The large volume industrial and

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transportation customer forecast continues to rely on historical data, sector analyses and customer-specific survey results.

Current rates are applied against the energy forecast to calculate the revenue forecast. The underlying assumptions and components of that forecast are discussed below.

2. UNDERLYING ASSUMPTIONS

The following assumptions were made about external influences when developing this forecast:

- The Province will continue to experience economic growth for the balance of 2007 and into 2008;
- Provincial population growth continues, with significant contributions from international immigration and inter-provincial migration;
- Natural gas commodity prices will remain relatively stable, but may experience mild upward pressure;
- Energy efficiency will continue to improve driven by appliance renewal and continuing conservation efforts; and
- Industrial and transportation sectors will be challenged to maintain their position in the face of a declining U.S. currency and a slowing economy in that country.

3. ECONOMIC OUTLOOK FOR BRITISH COLUMBIA

The prospects for the province remain encouraging for the end of 2007 and into 2008. The consensus among leading economists¹ is that the country will continue to experience positive growth with British Colombia being among the leading provinces. The tightening of credit conditions in the U.S. has the potential to intensify the housing correction there and restrain economic growth in general, but the U.S. Federal Reserve's recent rate cut should help to stabilize conditions.

The B.C. Ministry of Finance is projecting economic growth at 3.0% in 2007 and 2.9% in 2008 for the province. The weakness in the lumber and natural gas industries, along with lower

¹ **BMO Financial Group** – Provincial Monitor, summer 2007; **Conference Board of Canada** - Provincial Outlook, Summer 2007; **RBC Financial Group** - Provincial Outlook, June 2007; Provincial Current Trends, August 2007; **TD Bank Financial Group** – TD Quarterly Economic Forecast, June 2007

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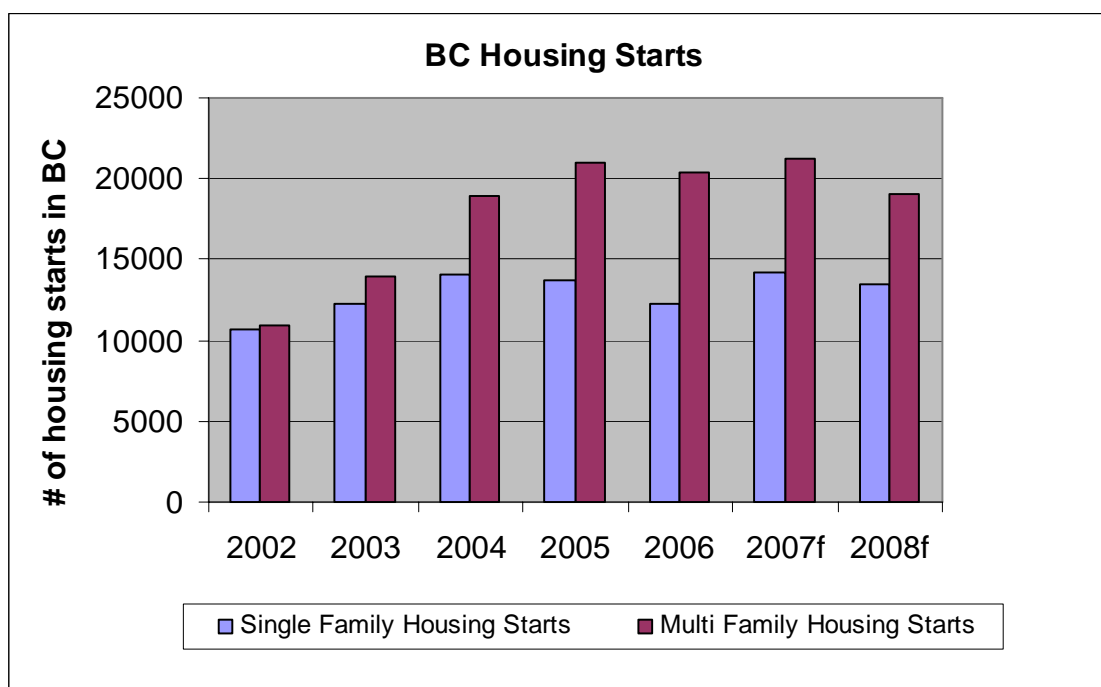
2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

economic growth south of the border, is recognized by the Government, but strong domestic demand and steady employment gains are expected to maintain B.C.'s robust economic growth.

Housing Market

Growth in incomes combined with a tight labour market and high levels of consumer confidence will help to counteract rising mortgage carrying costs for new homes in B.C. Multi-family housing starts are forecast to reach a 13-year peak in 2007 but then decline slightly in 2008. B.C. will continue to see a net migration to the province which will add close to 100,000 people to the province's population over the next two years which will in turn boost housing demand. According to the Canada Mortgage and Housing Corporation (CMHC), the provincial housing sector will continue to benefit from above-average economic growth this year and next.

As of July 2007, single detached housing starts dropped 19 per cent to 5,999 units, compared to July 2006. Multiple home starts rose 4 per cent to 12,791 units, compared to July last year.



2006 Actual (CMHC - BC Housing Statistics)

2007f and 2008f (CMHC Housing Market Outlook - Canada - Third Quarter 2007)

The latest CMHC housing starts forecast for BC published in the third quarter of 2007 projects 35,525 housing starts for 2007 (a 2.5% decrease from 2006) and 32,500 for 2008 (a 8.5% decrease from 2007). Single-family dwelling starts are expected to reach 14,250 in 2007 and

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decline slightly to 13,500 in 2008. Multi-family dwelling starts are forecasted at 21,275 units in 2007 and 19,000 in 2008. Apartment condominium starts will continue to dominate this category reflecting rising land costs.

Customer Additions Forecast

The forecast of residential account additions is based on household formation data which is statistically linked with actual account additions to model annual account growth on a service area basis. The forecast of household formations is then applied to obtain the expected number of additions and adjusted for actual customer counts to date (June 2007). The BC Statistics 2007 Household Formation forecast was used as the primary predictor variable to estimate household formations by area over the forecast period, with the near-term forecast validated by current housing start and service request information. Provincial housing forecasts from CMHC are also reviewed to identify recent trends as these quarterly forecasts can better identify changes in the market than the household formation forecast which is only updated on a yearly basis.

The table below provides a summary of the residential, commercial and industrial and transportation customer additions for the last 3 years and a projection for the years 2007 and forecast for 2008. Yearly information on housing starts and population growth is also provided.

TGI Customer Growth¹

	2004	2005	2006	2007	2008
	Actuals	Actuals	Actuals	Projected	Forecast
Residential ²	10,716	11,427	9,595	12,764	11,098
Commercial ³	756	1,002	656	382	704
Industrial & Transportation ⁴	32	(9)	(70)	(17)	(5)
Total	11,504	12,420	10,181	13,129	11,797
Year-Ending Customers	786,958	799,378	812,683 ⁶	825,812	837,609
Housing Starts ⁵	32,925	34,667	36,443	35,525	32,500

Notes

1. Includes Lower Mainland, Inland, Columbia and Revelstoke service regions only.
2. Rate 1
3. Rates 2, 3 & 23
4. Rates 4, 5, 6, 7, 22, 25 & 27
5. Source: CMHC
6. Includes 3,124 additional customers due to amalgamation of Squamish customers

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Natural gas prices have been decreasing over 2007 and the outlook is for prices to remain relatively stable or only increase marginally provided there are no significant events that threaten supply. As a result, net account additions for 2008 should continue at a steady pace as customers grow accustomed to more stable natural gas prices.

4. USE PER CUSTOMER FORECAST

Individual use per customer projections are developed for each service area and rate class by considering the following factors:

Recent historical normalized use per account

- Efficiency improvements - appliance and insulation upgrades
- Customer migration between rate classes

The decline in residential use rates experienced over the last several years is expected to continue over the long-term. Though the use rate for 2007 is projected to increase slightly, the familiar drivers of 1) more efficient appliances 2) better insulated homes and 3) multi-family home construction results in an average residential use rate that is forecast to be approximately 1% lower in 2008 than 2007. Commercial use rates have been exhibiting more of a mixed pattern with some rates increasing while other showing a small decline.

A summary of historic and forecasted use per customer rates are set out below and have been used in the preparation of the 2008 forecast.

Historic and Forecast Usage - Rates 1, 2, 3 & 23 (GJ)

	Normal 2004	Normal 2005	Normal 2006	Projected 2007	Forecast 2008
Rate 1	102.6	97.4	96.8	97.1	96.1
Rate 2	313.8	305.8	314.3	319.9	321.9
Rate 3	3,500.9	3,387.6	3314.1	3,445.4	3,429.0
Rate 23	5,112.6	4,714.3	4,685.7	4,916.3	4,850.0

5. ENERGY FORECAST

a. Residential and Commercial

The residential and commercial energy forecast is calculated by multiplying the use per customer rate by the total number of customers. Compared with the projection for 2007, the total residential energy consumption is expected to decline from 73.8 PJs to 72.0 PJs in 2008 while commercial consumption is forecast to remain relatively stable at 46.1 PJs in 2008 as compared to 46.9 PJs in 2007. Lower projected consumption for 2008 - with respect to 2007 - primarily reflects the impact of colder than normal weather experienced over the first six months of this year and declining residential use rates. The forecast for each year is provided in the summary table at the end of this section.

b. Firm Sales and Industrial

As with previous years, the primary source of information for the industrial energy forecast was the industrial survey which was conducted over the summer of 2007. Surveys were faxed to each customer in Rate Classes 7, 22, 25 and 27. Customers were asked to what extent they expected their firm's natural gas consumption to change from the previous year and to estimate their consumption over the forecast period. The industrial energy forecast was then updated to include these demand estimates and other pertinent feedback.

A total of 368 surveys were completed, representing a response rate of 80% (based on 2006 energy consumption) and 49% (based on the number of accounts). Surveys were gathered from customers across every service region, rate class and industry.

Rate Classes 4, 5 and 6 forecasted volumes are estimated based on the most recent 12 months (July 2006 – June 2007) of metered consumption data. Where appropriate, the forecast consumption for Rate Class 5 is adjusted to reflect a normal weather year.

Total firm sales and industrial energy consumption (excluding Burrard Thermal and TGVI) is expected to decrease from 60.6 PJs in 2007 to 53.6 PJs in 2008. Though natural gas commodity costs have moderated, the increase in the Canadian currency has caused some customers in the forestry sector to curtail their production or even cease operations.

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The following table sets out the energy forecast by residential, commercial, firm sales and industrial customers.

Historic and Forecast Energy (PJ)

	Normal 2004	Normal 2005	Normal 2006	Projected 2007	Forecast 2008
Residential ¹	72.0	69.3	70.0	73.4	72.0
Commercial ²	45.2	43.9	44.1	46.8	46.1
Firm Sales ³	5.3	4.7	4.1	3.9	3.7
Industrial ⁴	58.3	58.6	54.2	56.7	49.9
Total	180.8	176.5	172.4	180.8	171.7

Notes

1. Rate 1
2. Rates 2, 3 & 23
3. Rates 4, 5 & 6
4. Rates 7, 22, 25 & 27 (does not include Burrard Thermal & TGVl)

6. REVENUE FORECAST

A revenue forecast for each customer rate class is developed from the total energy forecasts and the applicable rates. The revenue forecast below does not include Burrard Thermal and TGVl.

The table below summarizes historical and forecast revenues for 2004 to 2008 by customer category.

Historic and Forecast Revenue (\$ million)

	Normal 2004	Normal 2005	Normal 2006	Projected 2007	Forecast 2008
Residential ¹	815.0	864.5	931.2	928.2	933.0
Commercial ²	421.1	446.9	478.4	486.0	478.1
Firm Sales ³	47.6	46.7	44.5	39.4	37.8
Industrial ⁴	47.1	49.6	50.7	49.0	45.8
Total	1,330.8	1,407.7	1,504.8	1,502.6	1,494.7

Notes

1. Rate 1
2. Rates 2, 3 & 23
3. Rates 4, 5 & 6
4. Rates 7, 22, 25 & 27 (does not include Burrard Thermal & TGVl)

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7. MARGIN FORECAST

In 2008, total margin is expected to moderate from the value projected for 2007 due to decreasing industrial volumes - particularly in the forest industry. Also, the 2007 projection incorporates 6 months of actual data during which the weather was colder than normal. The table below sets out the forecast for residential, commercial, firm sales and industrial customers.

Historic and Forecast Margin (\$ million)

	Normal 2004	Normal 2005	Normal 2006	Projected 2007	Forecast 2008
Residential ¹	284.2	277.0	292.2	296.4	294.0
Commercial ²	123.4	120.4	126.4	129.7	128.2
Firm Sales ³	10.9	9.4	8.3	7.6	7.4
Industrial ⁴	45.4	48.5	49.0	46.5	44.0
Total	463.9	455.3	475.9	480.2	473.6

Notes

1. Rate 1

2. Rates 2, 3 & 23

3. Rates 4, 5 & 6

4. Rates 7, 22, 25 & 27 (does not include Burrard Thermal & TGVl)

8. SOUTHERN CROSSING PIPELINE (SCP) THIRD PARTY REVENUES

For 2008, SCP Third Party firm revenues are forecasted to be \$11.1 million, relatively unchanged from 2007. The revenue forecast for SCP is detailed in the table below.

2008 SCP Revenues

Northwest Natural Gas Co.	\$ 7,317,094
PG&E Termination	\$ (825,000)
MCRA	\$ 3,600,000
Net Mitigation	\$ 1,000,000
Total SCP Revenues	\$ 11,092,094

Debits from the Midstream Cost Reconciliation Account (MCRA) are expected to continue until November 1, 2010. PG&E Termination fees to PG&E are planned to decrease in 2010 to

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\$145,000 per year and cease at the end of 2018. Net mitigation revenues continue to be forecasted at \$1 million per year.

9. MISCELLANEOUS REVENUE

Revenue from service work remains at \$85 for customer additions and \$25 for account transfers. Late Payment Charges are calculated using the O&M formula methodology as set out in the 2004–2007 Negotiated Settlement document. Annual NSF cheques are estimated at approximately 0.5% of the beginning of year's account base at a rate of \$20 per cheque.

Other miscellaneous revenue is estimated at approximately \$59,000 comprising of Non-Regulated Businesses (NRB) recoveries.

10. BURRARD THERMAL REVENUE

Revenues for the Bypass Transportation Agreement between the Company and BC Hydro to serve Burrard Thermal, are forecast to provide \$10.0 million in revenues in 2008. The transportation charge is adjusted from year to year based on inflation, and is fixed for the year independent of energy consumption.

11. TERASEN GAS (VANCOUVER ISLAND) INC. REVENUE

Revenue from wheeling demand charges and odorant cost recovery remains at approximately \$4.3 million for 2008.

12. FORECAST RISKS

The Canadian economy in 2008 is expected to moderate from the level experienced over the past few years. Canada and B.C. in particular are underpinned with strong economic fundamentals, but there are external factors which could impact the province and have an effect on the forecast. These risks include but are not limited to:

- Continued appreciation of the Canadian dollar against the U.S. currency resulting in a decrease in the competitiveness of exports from B.C. to the U.S.;

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- Recession in the U.S. which results in a slowdown in the Canadian and B.C. economies;
- Possibility of increase in interest rates and a resulting slowdown in new home construction;
- Natural gas price increases impacting its competitive position.

13. SUMMARY

This Gas Sales and Transportation Volumes forecast reflects the best information currently available and incorporates the following:

- Revenues adjusted to reflect current rates approved for 2007;
- Customer counts and use per customer rates adjusted to reflect actual results to June 2007;
- Industrial demand and revenues adjusted to reflect current agreements.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

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GAS SALES AND TRANSPORTATION VOLUMES
FOR THE YEAR ENDING DECEMBER 31, 2008

Section A

Tab 4

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Line No.	Particulars (1)	2007 APPROVED (2)	2008 Terajoules		Change (6)	Reference (7)
			Core and Non-Core (3)	Bypass and Special Rates (4)		
				Total (5)		
1	SALES					
2	Schedule 1 - Residential	73,750.1	72,022.7	0.0	72,022.7	(1,727.4)
3	Schedule 2 - Small Commercial	23,223.2	24,004.2		24,004.2	781.0
4	Schedule 3 - Large Commercial	15,617.2	15,454.2		15,454.2	(163.0)
5						
6	Schedules 1, 2 and 3	112,590.5	111,481.1	0.0	111,481.1	(1,109.4)
7						
8	Schedule 4 - Seasonal	161.3	161.3		161.3	0.0
9	Schedule 5 - General Firm	3,805.0	3,461.8		3,461.8	(343.2)
10						
11	Industrials					
12	Schedule 7 - Interruptible	53.4	19.3		19.3	(34.1)
13						
14		53.4	19.3	0.0	19.3	(34.1)
15						
16	Schedule 6 - N G V Fuel - Stations	166.2	99.6		99.6	(66.6)
17						
18	Total Sales - TGI	116,776.4	115,223.1	0.0	115,223.1	(1,553.3)
19						- Tab 1, Page 7
20	TRANSPORTATION SERVICE					
21	Schedule 22 - Firm Service	21,089.3	8,438.0	10,145.4	18,583.4	(2,505.9)
22	- Interruptible Service	13,542.1	10,303.0	260.1	10,563.1	(2,979.0)
23	Byron Creek (aka Fording Coal Mountain)	119.4		471.8	471.8	352.4
24	Burrard Thermal - Firm	1,073.7		2,493.0	2,493.0	1,419.3
25	TGVI - Firm	32,385.9		32,493.2	32,493.2	107.3
26	Schedule 23 - Large Commercial	5,672.4	6,613.3		6,613.3	940.9
27	Schedule 25 - Firm Service	15,947.9	13,489.9	1,403.3	14,893.2	(1,054.7)
28	Schedule 27 - Interruptible Service	5,566.2	5,323.5		5,323.5	(242.7)
29						
30	Total Transportation Service	95,396.9	44,167.7	47,266.8	91,434.5	(3,962.4)
31						- Tab 1, Page 7
32	TOTAL SALES AND TRANSPORTATION SERVICES	212,173.3	159,390.8	47,266.8	206,657.6	(5,515.7)

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TERASEN GAS INC.

REVENUE
FOR THE YEAR ENDING DECEMBER 31, 2008
(\$000s)

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Line No.	Particulars	2008 Gas Sales Revenue At Existing Rates				Change	Reference
		2007 APPROVED	Core and Non-Core	Bypass and Special Rates	Total		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Core and Non-Core Sales						
2	Schedule 1 - Residential	\$913,478	\$932,996	\$0	\$932,996	\$19,518	
3	Schedule 2 - Small Commercial	267,730	290,331		290,331	22,601	
4	Schedule 3 - Large Commercial	166,586	171,601		171,601	5,015	
5	Schedules 1, 2 and 3	1,347,794	1,394,928	-	1,394,928	47,134	
6							
7	Schedule 4 - Seasonal	1,520	1,541	-	1,541	21	
8	Schedule 5 - General Firm	38,401	35,174		35,174	(3,227)	
9		39,921	36,715	-	36,715	(3,206)	
10	Industrials						
11	Interruptible - Schedule 7	519	195	-	195	(324)	
12							
13		519	195	-	195	(324)	
14							
15	N G V Fuel - Stations - Schedule 6	1,867	1,125		1,125	(742)	
16							
17	Total NGV	1,867	1,125	-	1,125	(742)	
18							
19	Total Core and Non-Core Sales	1,390,101	1,432,963	-	1,432,963	42,862	- Tab A-1, Page 7
20							
21	Core and Non-Core Transportation Service						
	Schedule 22 - Firm Service	2,379	1,168	2,325	3,493	1,114	
	- Interruptible Service	10,604	6,790	75	6,865	(3,739)	
	Schedule 22A - Firm Service	4,620	4,345	-	4,345	(275)	
	- Interruptible Service	438	216	-	216	(222)	
	Schedule 22B - Firm Service	1,517	1,068	-	1,068	(449)	
	- Interruptible Service	19	25	-	25	6	
22	Schedule 22 - Firm Service	8,516	6,581	2,325	8,906	390	
23	- Interruptible Service	11,061	7,031	75	7,106	(3,955)	
24	Byron Creek (aka Fording Coal Mountain)	50		136	136	86	
25	Burrard Thermal - Firm	9,800		9,950	9,950	150	
26	TGVI - Firm	-		-	-	-	
27	Schedule 23 - Large Commercial	14,127	16,168	-	16,168	2,041	
28	Schedule 25 - Firm Service	25,308	22,788	802	23,590	(1,718)	
29	Schedule 27 - Interruptible Service	6,218	5,881	-	5,881	(337)	
30	Total Core and Non-Core T-Service	75,080	58,449	13,288	71,737	(3,343)	- Tab A-1, Page 7
31							
	TOTAL SALES AND TRANSPORTATION SERVICE - TGI	\$1,465,181	\$1,491,412	\$13,288	\$1,504,700	\$39,519	
		-	-	-	-	-	
32	TOTAL SALES AND TRANSPORTATION SERVICE	\$1,465,181	\$1,491,412	\$13,288	\$1,504,700	\$39,519	

TERASEN GAS INC.

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TERASEN GAS INC.

COST OF GAS BY RATE SCHEDULE - Summary by Service Area (Non-Bypass)
FOR THE YEAR ENDING DECEMBER 31, 2008

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Line No.	Particulars	Lower Mainland			Inland Including Revelstoke			Columbia			Total	Total Vol.
		Energy TJ	Unit Cost \$/GJ	Cost of Gas (\$000s)	Energy TJ	Unit Cost \$/GJ	Cost of Gas (\$000s)	Energy TJ	Unit Cost \$/GJ	Cost of Gas (\$000s)	Cost of Gas (\$000s)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
1	Non-Bypass CORE AND NON-CORE											
2	Core and Non-Core Sales											
3	Schedule 1 - Residential	53,827.0	\$8.869	\$477,392	16,507.5	\$8.880	\$146,579	1,688.2	\$8.900	\$15,025	\$638,996	72,022.7
4	Schedule 2 - Small Commercial	17,364.3	8.969	155,741	5,921.2	8.932	52,889	718.7	9.021	6,483	215,113	24,004.2
5	Schedule 3 - Large Commercial	13,018.2	8.700	113,260	2,213.8	8.747	19,364	222.2	8.726	1,939	134,563	15,454.2
6	Schedules 1, 2 and 3	84,209.5		746,393	24,642.5		218,832	2,629.1		23,447	988,672	111,481.1
7												
8	Schedule 4 - Seasonal	80.0	8.188	655	81.3	8.192	666	-	-	-	1,321	161.3
9	Schedule 5 - General Firm	2,939.2	8.189	24,070	470.6	8.187	3,853	52.0	8.250	429	28,352	3,461.8
10												
11	Industrials											
12	Interruptible - Schedule 7	10.9	8.257	90	8.4	8.214	69	-	-	-	159	19.3
13											-	-
14	Total Industrials	10.9		90	8.4		69	-		-	159	19.3
15												
16	N G V Fuel - Stations - Schedule 6	86.4	7.917	684	13.2	8.182	108	-	-	-	792	99.6
17											-	-
18	Total NGV	86.4		684	13.2		108	-		-	792	99.6
19												
20	Total Core and Non-Core Sales	87,326.0		771,892	25,216.0		223,528	2,681.1		23,876	1,019,296	115,223.1
21												
22	Core and Non-Core Transportation Service											
23	Schedule 22 - Firm Service	105.1	-	-	6,632.6	0.033	221	1,700.3	0.114	194	415	8,438.0
24	- Interruptible Service	10,029.1	0.024	244	249.2	-	-	24.7	-	-	244	10,303.0
25	Schedule 23 - Large Commercial	5,340.9	0.024	129	1,191.3	0.032	38	81.1	0.111	9	176	6,613.3
26	Schedule 25 - Firm Service	9,583.4	0.024	231	3,510.1	0.032	113	396.4	0.114	45	389	13,489.9
27	Schedule 27 - Interruptible Service	4,629.6	0.024	112	693.9	0.032	22	-	-	-	134	5,323.5
28	Total Core and Non-Core T-Service	29,688.1		716	12,277.1		394	2,202.5		248	1,358	44,167.7
29	Total Non-Bypass Sales and Transportation Service											
30	Cost of Gas Sold	117,014.1		\$772,608	37,493.1		\$223,922	4,883.6		\$24,124	\$1,020,654	159,390.8

control checks:	LMNBPvolume	LMNBPcog	INDNBPvolume	INDNBPcog	COLNBPvolume	COLNBPcog	TGINBPcog	TGINBPvolume
[Computed_FIS] non-bypass	117,014.1	772,608	37,493.1	223,922	4,883.6	24,124	1,020,654	159,390.8
Difference - over/(under)	-	-	-	-	-	-	-	-
[margin]	117,014.1		37,493.1		4,883.6			159,390.8
Difference - over/(under)	-		-		-			-

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

COST OF GAS BY RATE SCHEDULE - Summary by Service Area (Bypass)
FOR THE YEAR ENDING DECEMBER 31, 2008

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Line No.	Particulars	Lower Mainland			Inland Including Revelstoke			Columbia			Total	Total Vol.
		Energy TJ	Unit Cost \$/GJ	Cost of Gas (\$000s)	Energy TJ	Unit Cost \$/GJ	Cost of Gas (\$000s)	Energy TJ	Unit Cost \$/GJ	Cost of Gas (\$000s)	Cost of Gas (\$000s)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
1	BYPASS AND SPECIAL RATES											
2	Bypass and Special Rates Transportation Service											
3	Schedule 22 - Firm Service	1,755.2	0.024	42	8,274.9	0.032	266	115.3	0.364	42	350	10,145.4
4	- Interruptible Service	-	-	-	-	-	-	260.1	-	-	-	260.1
5	Byron Creek (aka Fording Coal Mountain)	-	-	-	-	-	-	471.8	0.112	53	53	471.8
6	Burrard Thermal - Firm	2,493.0	0.020	50	-	-	-	-	-	-	50	2,493.0
7	TGVI - Firm	32,493.2	0.020	652	-	-	-	-	-	-	652	32,493.2
8	Schedule 23 - Large Commercial	-	-	-	-	-	-	-	-	-	-	-
9	Schedule 25 - Firm Service	-	-	-	1,403.3	0.032	45	-	-	-	45	1,403.3
10	Schedule 27 - Interruptible Service	-	-	-	-	-	-	-	-	-	-	-
11	Total Bypass and Spec. Rates T-Svc	36,741.4		744	9,678.2		311	847.2		95	1,150	47,266.8
12												
13												
14	Total Bypass and Special Rates Sales and Transportation Service											
15	Cost of Gas Sold	36,741.4		744	9,678.2		311	847.2		95	1,150	47,266.8
16												
17	Total Non-Bypass and Bypass Sales and Transportation Service											
18	Cost of Gas Sold	153,755.5		\$773,352	47,171.3		\$224,233	5,730.8		\$24,219	\$1,021,804	206,657.6

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

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REVENUE UNDER PROPOSED 2006 RATES AND REVISED RATES (Non-Bypass)

FOR THE YEAR ENDING DECEMBER 31, 2008

(\$000s)

Line No.	Particulars	Terajoules (2)	Revenue -- At Existing Rates --		Gross Margin -- At Existing Rates --		Increase / (Decrease) 1.19% of Margin		Average Number of Customers (9)	Revenue ---- Revised Rates ----	
			Average \$/GJ (3)	Revenue (\$000s) (4)	Average \$/GJ (5)	Margin (\$000s) (6)	\$/GJ (7)	Revenue (\$000s) (8)		Average \$/GJ (10)	Revenue (\$000s) (11)
1	NON-BYPASS										
2	Core and Non-Core Sales										
3	Schedule 1 - Residential	72,022.7	\$12.954	\$932,996	\$4.082	\$294,000	\$0.049	\$3,507	748,595	\$13.003	\$936,503
4	Schedule 2 - Small Commercial	24,004.2	12.095	290,331	3.134	75,218	0.037	897	74,407	12.132	291,228
5	Schedule 3 - Large Commercial	15,454.2	11.104	171,601	2.397	37,038	0.029	441	4,505	11.133	172,042
6	Total Schedules 1 , 2 and 3	111,481.1		1,394,928		406,256		4,845	827,507		1,399,773
7											
8	Schedule 4 - Seasonal Service	161.3	9.554	1,541	1.364	220	0.019	3	21	9.573	1,544
9	Schedule 5 - General Firm Service	3,461.8	10.161	35,174	1.971	6,822	0.023	81	316	10.184	35,255
10											
11	Industrials										
12	Schedule 7 - Interruptible	19.3	10.104	195	1.865	36	-	0	2	10.104	195
13											
14	Total Industrials	19.3		195		36		-	2		195
15											
16	Schedule 6 - N G V Fuel - Stations	99.6	11.295	1,125	3.343	333	0.040	4	30	11.335	1,129
17											
18	Total Industrials	99.6		1,125		333		4	30		1,129
19											
20	Total Core and Non-Core Sales	115,223.1		1,432,963		413,667		4,933	827,876		1,437,896
21											
22	Core and Non-Core Transportation Service										
23	Schedule 22 - Firm Service	8,438.0	0.780	6,581	0.731	6,166	0.009	73	15	0.789	6,654
24	- Interruptible Service	10,303.0	0.682	7,031	0.659	6,787	0.008	81	22	0.690	7,112
25	Schedule 23 - Large Commercial	6,613.3	2.445	16,168	2.418	15,992	0.029	191	1,346	2.474	16,359
26	Schedule 25 - Firm Service	13,489.9	1.689	22,788	1.660	22,399	0.020	267	596	1.709	23,055
27	Schedule 27 - Interruptible Service	5,323.5	1.105	5,881	1.080	5,747	0.013	69	95	1.118	5,950
28											
29	Total Core and Non-Core T-Service	44,167.7		58,449		57,091		681	2,074		59,130
30											
31	Total Captive Sales & Transportation Service	159,390.8		\$1,491,412		\$470,758		\$5,614	829,950		\$1,497,026

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Tab 4

REVENUE UNDER PROPOSED 2006 RATES AND REVISED RATES (Bypass)

FOR THE YEAR ENDING DECEMBER 31, 2008

(\$000s)

Page 17.1

Line No.	Particulars	Terajoules (2)	Revenue -- At Existing Rates --		Gross Margin -- At Existing Rates --		Increase / (Decrease) 1.19% of Margin		Average Number of Customers (9)	Revenue ---- Revised Rates ----	
			Average \$/GJ (3)	Revenue (\$000) (4)	Average \$/GJ (5)	Margin (\$000s) (6)	\$/GJ (7)	Revenue (\$000) (8)		Average \$/GJ (10)	Revenue (\$000) (11)
	c	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	BYPASS AND SPECIAL RATES										
2	Bypass and Special Rates Transportation Service										
3	Schedule 22 - Firm Service	10,145.4	0.229	2,325	0.195	1,975	-	-	9	0.229	2,325
4	- Interruptible Service	260.1	0.288	75	0.288	75	-	-	1	0.288	75
5	Byron Creek (aka Fording Coal Mountain)	471.8	0.288	136	0.176	83	-	-	1	0.288	136
6	Burrard Thermal - Firm	2,493.0	3.991	9,950	3.971	9,900	-	-	1		9,950
7	TGVI - Firm	32,493.2	-	-	-	-	-	-	1	-	-
8	Schedule 23 - Large Commercial	-		-		-		-	-	-	-
9	Schedule 25 - Firm Service	1,403.3	0.572	802	0.539	757	-	-	7	0.572	802
10	Schedule 27 - Interruptible Service	-		-		-		-	-	-	-
11	Total Bypass and Spec. Rates T-Svc	47,266.8		13,288		12,790		-	20		13,288
12											
13	Total Non-Captive Sales and										
14	Transportation Service	47,266.8		13,288		12,790		-	20		13,288
15											
16	TOTAL CAPTIVE AND NON-CAPTIVE SALES AND										
17	TRANSPORTATION SERVICE	206,657.6		\$1,504,700		\$483,548		\$5,614	829,970		\$1,510,314

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

Section A

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OTHER OPERATING REVENUE

FOR THE YEAR ENDING DECEMBER 31, 2008

(\$000s)

Line No.	Particulars (1)	2007 APPROVED (2)	2008 (3)	Change (4)	Reference (5)
1	Other Utility Revenue				
2					
3	Late Payment Charge	\$5,130	\$5,369	\$239	
4					
5	Connection Charge	4,330	3,770	(560)	
6					
7	NSF Returned Cheque Charges		82	82	
8					
9	Other Recoveries	218	59	(159)	
10					
11	Total Other Utility Revenue	9,678	9,280	(398)	
12					
13	Miscellaneous Revenue				
15	TGVI Wheeling Charge	4,087	4,266	179	
16					
17	SCP Third Party Revenue	11,072	11,052	(20)	
18					
19					
20	Total Miscellaneous	15,159	15,318	159	
21					
22	Total Other Operating Revenue	\$24,837	\$24,598	(\$239)	- Tab A-1, Page 7

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

2008 OPERATING AND MAINTENANCE EXPENSE FOR THE YEAR ENDING DECEMBER 31, 2008

In accordance with the 2008-2009 Extension of the PBR settlement, the 2008 operating and maintenance costs are determined on a formula-based approach that starts from a base of the 2003 Decision O&M, escalated by growth in customers and inflation less an adjustment factor of 66% of CPI (BC). The forecast of 2008 inflation based on CPI (BC) is 2.1% as discussed under Section A, Tab 2.

For the purpose of 2008 rates setting, 2007 formula-based O&M expense has been adjusted based on updated 2007 customer accounts. Per Commission Order No. G-51-03, a true-up does not occur on CPI. Further, a customer count-related true-up for 2007 overhead capitalization does not occur. The detail calculation of adjusted 2007 O&M base is shown on Page 2 of this Tab.

A rate base deferral account has been established to record the difference between the O&M that TGS would have been allowed in 2007 in its cost of service, had it not amalgamated with TGI and the O&M expenses that, under the PBR, are allowed to amalgamated TGI in 2007. An amount of \$114,600 after tax has been deferred in 2007 as shown in Tab 3, Page 13.1.

For 2008, the annual operating and maintenance expenses are based on the following formula:

$$\text{Gross O\&M} = \text{2007 Adjusted O\&M} \times [(1 + \text{customer growth}) \times (1 + \text{CPI} - \text{adjustment factor})] + \text{Pension \& Insurance Variance}$$

Gross 2008 O&M	\$ 200.118 million
Capitalized Overhead	(27.552) million
Fort Nelson O&M and Vehicle Lease	(2.707) million
Net 2008 O&M	\$ 169.859 million

Details in support of the above calculation can be found on Page 2 of this Tab.

As per Commission Order No. G-51-03, variances between PBR formula based pension and insurance costs and forecast cost of service based have also been included as 2008 O&M expenses. Based on the calculation shown on Page 3 of this tab, an amount of \$4,575,000 is included as a reduction to 2008 O&M expenses. Forecast 2007 cost of service variances are trued up and captured in deferral accounts under Section A, Tab 3, Page 13.3.

Consistent with the 2003 Decision and the terms of the Settlement, the Company has kept the overheads capitalized rate at 16% for the 2008 year.

TERASEN GAS INC.

2007 ANNUAL REVIEW
2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

Section A
Tab 5
Page 2

FORMULA CALCULATION OF
OPERATING AND MAINTENANCE EXPENSE
FOR THE YEARS ENDING DECEMBER 31
(\$000) - Except where noted

Line No.	Description	2003 Decision Adjusted for TPIP	Change	Approved 2004	Customer Base Adjustment 2003	Change	Adjusted Base 2004	Change	Approved 2005	Customer Base Adjustment 2004	Change	Adjusted Base 2005	Change	Approved 2006	Customer Base Adjustment 2005	Change	Adjusted Base 2006	Change	Approved 2007	Customer Base Adjustment 2006	Change	Adjusted Base 2007	Change	Forecast 2008
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
1	Average Number of Customers - Forecast	770,368	7,411	777,779				10,887	790,385				12,669	804,316				13,587	820,347			12,490	829,970	
2	Percentage Growth in Average Customers		0.96%					1.40%					1.60%					1.68%				1.53%		
3																								
4	Average Number of Customers - True up (Actual/Projection)				770,624	8,874	779,498			779,461	12,186	791,647			791,593	15,167	806,760		805,844	11,636	817,480			
5	Percentage Growth in Average Customers					1.15%					1.56%					1.92%				1.44%				
6																								
7	Annual Inflation Rate - CPI		1.70%			1.70%		2.00%			2.00%		2.20%			2.20%		2.00%		2.00%		2.10%		
8	Adjustment Factor		0.85%			0.85%		1.00%			1.00%		1.45%			1.45%		1.32%		1.32%		1.39%		
9			83																					
10	Total Gross O & M Expense before TPIP	\$176,915																						
11	TPIP	5,505																						
12	Total Gross O & M Expense	182,420	3,320	185,740		3,669	186,089	4,486	190,575		4,799	190,888	4,506	195,394		5,113	196,001	4,656	200,657		4,182	200,183	4,510	204,693
13	Pension & Insurance Variance		2,144	2,144		2,144	2,144	(2,134)	11		(2,134)	11	1,515	1,525		1,515	1,525	(2,721)	(1,195)		(2,721)	(1,195)	(3,380)	(4,575)
14	Adjusted Total Gross O&M Expense			187884.4702			188,233	J22 - H22 (not	190,586			190,899		196,919			197,526		199,462			198,988		200,118
15																								
16	Less: Adjustments for Overhead Capitalized Purpose																							
17	Fort Nelson	(\$581)																						
18	Vehicle Lease	(1,833)																						
19	DRIA	(1,652)																						
20	OPEB	(6,329)																						
21	Capital-related Portion - CustomerWorks	(8,978)																						
22	Total Items Not Subject to Overheads	(\$19,373)	(19,373)	(19,726)			(19,763)		(20,239)			(20,273)		(20,752)			(20,816)		(21,311)			(21,260)		(21,739)
23	Less: TPIP Not Subject to Overhead		(5,505)	(5,605)			(5,616)		(5,751)			(5,761)		(5,897)			(5,915)		(6,056)			(6,041)		(6,177)
24	Total O&M Subject to Capitalized Overhead		157,542	162,553		5,312	162,854	1,741	164,596		2,010	164,865	5,406	170,270		5,931	170,795	1,299	172,095		891	171,687	515	172,202
25																								
26	Capitalized Overhead at 16%		25,207	26,010			26,010		26,335			26,335		27,243			27,243		27,535			27,535		27,552
27	Gross O&M Less Capitalized Overhead		157,213	161,875		5,011	162,224	2,026	164,250		2,339	164,563	5,113	169,676		5,720	170,283	1,644	171,927		1,170	171,453	1,113	172,566
28																								
29	Less: Fort Nelson		(581)	(592)		(12)	(593)	(14)	(607)		(15)	(608)	(14)	(622)		(16)	(624)	(15)	(639)		(13)	(637)	(14)	(651)
30	Vehicle Lease		(1,833)	(1,866)		(37)	(1,870)	(45)	(1,915)		(48)	(1,918)	(45)	(1,963)		(51)	(1,969)	(47)	(2,016)		(42)	(2,011)	(45)	(2,056)
31	Total Utility O&M		\$154,799	\$159,417		\$4,962	\$159,761	\$1,967	\$161,728		\$2,276	\$162,037	\$5,054	\$167,091		\$5,653	\$167,690	\$1,582	\$169,272		\$1,115	\$168,805	\$1,054	\$169,859
32																								
Late Payment Charges Formula		2003 Decision Adjusted for TPIP	Change	Approved 2004	Customer Base Adjustment 2003	Change	Adjusted Base 2004	Change	Approved 2005	Customer Base Adjustment 2004	Change	Adjusted Base 2005	Change	Approved 2006	Customer Base Adjustment 2005	Change	Adjusted Base 2006	Change	Forecast 2007	Customer Base Adjustment 2006	Change	Adjusted Base 2007	Change	Forecast 2008
	Lower Mainland	3,327					3,394		3,476			3,481		3,563			3,574		3,659			3,650		3,732
	Inland	1,306					1,332		1,364			1,367		1,399			1,404		1,437			1,434		1,466
	Columbia	156					159		163			163		167			167		171			171		175
	Total 3 Divisions	4,789					4,885		5,003		126	5,011	118	5,129		134	5,145	122	5,267		110	5,255	118	5,373

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

FORMULA CALCULATION OF O & M EXPENSE
PENSION AND INSURANCE VARIANCE

(\$000) - Except where noted

Section A
Tab 5
Page 3

2003																
Line No.	Particulars	Adjusted for 2003	Change	Approved 2004	Adjusted Base 2004	Change	Approved 2005	Adjusted Base 2005	Change	Approved 2006	Adjusted Base 2006	Change	Approved 2007	Adjusted Base 2007	Change	Forecast 2008
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
1	<u>Formula Based</u>															
2	Pension	\$5,543	\$101	\$5,644	\$5,654	\$147	\$5,791	\$5,800	\$137	\$5,937	\$5,956	\$141	\$6,097	\$6,083	\$137	\$6,220
3	Insurance	3,661	67	3,728	3,735	97	3,825	3,831	90	3,921	3,934	93	4,027	4,017	91	4,108
4	Total	\$9,204	\$168	\$9,372	\$9,389	\$244	\$9,615	\$9,631	\$227	\$9,859	\$9,889	\$235	\$10,124	\$10,100	\$228	\$10,328
5																
6	<u>Cost of Service Based</u>															
7	Pension			\$5,616			\$4,626			\$6,299			\$3,862			\$1,103
8	Insurance			5,900			5,000			5,085			5,067			4,650
9	Total			<u>\$11,516</u>			<u>\$9,626</u>			<u>\$11,384</u>			<u>\$8,929</u>			<u>\$5,753</u>
10																
11	<u>Pension & Insurance Variance</u>															
12	Pension			(\$28)			(\$1,165)			\$362			(\$2,235)			(\$5,117)
13	Insurance			2,172			1,175			1,164			1,040			542
14	Total Pension and Insurance Variance			<u>\$2,144</u>			<u>\$11</u>			<u>\$1,525</u>			<u>(\$1,195)</u>			<u>(\$4,575)</u>

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

A TGI, TGW, TGVI and Commission staff working group was established in 2006 to review the appropriate reporting requirements for O&M. The purpose of the working group was to review appropriate reporting requirements for the Annual Report to the Commission. The BCUC Uniform System of Accounts for O&M provide a number of qualities for reporting that are standardized, consistent, comparable, replicable, measurable, transparent, understandable, known in advance, and unbiased. These are desirable goals that a new reporting structure should attempt to achieve. The group met on several occasions in 2006 and 2007. The working group has agreed on a reporting format, for which the Company is seeking approval from the Commission as part of this Annual Review. On September 20, 2007, the Commission issued a letter detailing the progress and proposed reporting format (included as Attachment A5 to this filing) wherein the Commission requested Intervenor comments on the working group findings and results by September 27, 2007. As of October 5, 2007, the Company is not aware of any submissions made by Intervenors. The proposed format for O&M for 2007 would be as follows:

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.
ANNUAL REVIEW - 2007
OPERATING AND MAINTENANCE EXPENSES
By BCUC Account

BCUC No.	Particulars	Approved 2007	Adjusted Base 2007	Forecast 2008
	Operating			
100-11	Distribution Supervision	10,392	10,184	9,513
100-10	Distribution - Supervision	10,392	10,184	9,513
100-21	Operation Centre - Distribution	7,187	7,028	7,113
100-22	Asset Management - Distribution	1,040	1,051	1,094
100-23	Preventative Maintenance - Distribution	1,676	1,693	2,239
100-24	Distribution Operations - General	4,487	4,758	4,528
100-25	Meter Exchanges	1,892	1,911	2,037
100-26	Emergency Management	6,083	7,106	5,986
100-20	Distribution - Operation	22,364	23,547	22,996
100-31	Distribution Corrective - Meters	977	1,083	1,132
100-32	Distribution Corrective - Propane	6	6	5
100-33	Distribution Corrective - Leak Repair	588	594	925
100-34	Distribution Corrective - Stations	457	462	479
100-35	Distribution Corrective - General	389	393	504
100-30	Distribution - Maintenance	2,417	2,537	3,045
100	DISTRIBUTION	35,173	36,268	35,554
200-11	Transmission Supervision	2,172	2,255	2,144
200-10	Transmission - Supervision	2,172	2,255	2,144
200-21	Pipeline Operation	2,002	2,123	2,062
200-22	Right of Way	1,288	1,405	1,439
200-23	Compression	1,729	1,747	1,733
200-24	Gas Control	2,572	2,271	2,363
200-25	Transmission Pipeline Integrity Project (TPIP)	5,682	3,270	5,663
200-20	Transmission - Operation	13,274	10,816	13,260
200-31	Pipeline - Maintenance	217	219	226
200-32	Compression - Maintenance	163	165	171
200-33	TPIP - Maintenance	380	384	382
200-30	Transmission - Maintenance	760	768	780
200	TRANSMISSION	16,207	13,839	16,183
300-11	LNG Plant Operations	679	686	688
300-10	LNG - Plant Operation	679	686	688
300-21	LNG Plant Maintenance	382	386	382
300-20	LNG - Plant Maintenance	382	386	382
300	LNG Plant Operations	1,061	1,072	1,070
400-11	Measurement Operations	3,931	3,971	3,856
400-10	Measurement - Operation	3,931	3,971	3,856
400-21	Measurement Maintenance	-	-	-
400-20	Measurement - Maintenance	-	-	-
400	MEASUREMENT	3,931	3,971	3,856
500-10	Facilities Management	5,546	5,602	5,504
500-20	Shops & Stores	3,761	3,799	3,856
500-30	Operations Engineering	5,475	5,530	5,472
500-40	Property Services	996	1,006	1,129
500-50	System Integrity	1,901	1,920	1,951
500-60	Environmental Health & Safety	1,478	1,422	1,366
500-70	Operations Governance	1,626	1,588	1,373
500	GENERAL OPERATION	20,783	20,868	20,652
		-	-	-
	Total Operating	77,154	76,018	77,315

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

General & Administration				
600-10	Energy Efficiency	1,752	1,770	1,733
600-20	Marketing - Supervision	668	675	540
600-30	Corporate & Marketing Communications	2,066	2,087	2,308
600-40	Marketing Planning & Development	752	759	870
600	MARKETING	5,238	5,291	5,450
700-10	Customer Care - Supervision	1,014	893	1,021
700-20	Customer Contact - ABSU contract	49,339	49,724	50,022
700-30	Bad Debt Management and Administration	6,206	5,530	6,316
700-40	Customer Management & Sales	2,730	3,303	2,910
700	CUSTOMER CARE	59,290	59,450	60,270
800-10	Business & IT Services - Supervision	1,179	1,191	1,010
800-20	Application Management	8,203	8,286	8,486
800-30	Infrastructure Management	6,426	6,491	6,144
800-40	Procurement Services	810	818	773
800	BUSINESS & INFORMATION TECH SERVICES	16,618	16,786	16,413
900-11	Administration & General	4,666	6,083	4,669
900-12	Insurance	5,479	5,534	4,975
900-13	Finance and Regulatory Affairs	8,985	9,122	9,718
900-14	Shared Services Agreement	4,315	4,359	3,909
900-10	Corporate Administration	23,444	25,098	23,271
900-20	Forecasting	1,462	1,200	1,067
900-31	Community Relations	1,397	1,411	1,455
900-30	Public Affairs	1,397	1,411	1,455
900-40	Business Development	1,437	1,332	1,524
900-50	Human Resource	4,561	4,700	5,044
900-60	Other Post Employment Benefits	8,860	8,950	8,621
900	ADMINISTRATION & GENERAL	41,162	42,691	40,982
TOTAL GENERAL AND ADMINISTRATION		122,308	124,219	123,116
TOTAL OPERATING & GENERAL ADMINISTRATION		199,462	200,237	200,431
Less : Stock Related Compensation				
		0	(1,249)	(313)
Total Formula Gross O&M (including Fort Nelson)		199,462	198,988	200,118
Less:				
	Capitalized Overhead	(27,535)	(27,535)	(27,552)
66105 CC2	Vehicle Lease	(2,016)	(2,011)	(2,056)
	Fort Nelson	(639)	(637)	(651)
Total Formula Utility O&M		169,272	168,805	169,859

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

OPERATING AND MAINTENANCE EXPENSES

Resource View

Cost Element	Approved 2007	Adjusted Base 2007	Forecast 2008
M&E Expenses	45,594	46,864	45,215
COPE Expenses	25,508	25,438	25,997
IBEW Expenses	20,541	21,502	21,873
Total Labour Expenses	91,643	93,803	93,085
Vehicle Expenses	5,183	5,279	4,949
Employee Expenses	3,934	3,949	4,028
Materials	5,198	5,142	5,371
Office Furnishing & Equipment	118	119	124
Computer Expenses	8,152	8,235	8,099
Fees & Admin, Promotion & Advertising	29,877	29,286	28,808
Contractors Expenses	59,396	58,832	61,326
Facilities	12,357	12,155	11,713
Recoveries & Revenue	(14,094)	(14,237)	(14,726)
Less: Transfer to Manual GL	(2,302)	(2,325)	(2,346)
Total Non-Labour Expenses	107,819	106,435	107,346
Less: Stock Related Compensation	-	(1,249)	(313)
Total Formula Gross O&M Expenses	199,462	198,988	200,118
Less:			
Vehicle Lease Reclass	(27,535)	(27,535)	(27,552)
Capitalized Overhead	(2,016)	(2,011)	(2,056)
Fort Nelson	(639)	(637)	(651)
Formula Utility O&M Expenses (excl Fort Nelson)	169,272	168,805	169,859

Attachment A-5



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Via E-mail

September 20, 2007

To: Terasen Gas (Vancouver Island) Inc.
2006/2007 Revenue Requirements-Registered Intervenors (*TGVI_2006-07RR-RI*)

Re: Terasen Gas (Vancouver Island) Inc.
2006/2007 Negotiated Settlement Agreement
Departure from Uniform System of Accounts for O&M

Terasen Gas (Vancouver Island) Inc. ("TGVI") proposed in its 2006 and 2007 Revenue Requirements Application dated July 20, 2005 to depart from using a portion of the Uniform System of Accounts for recording its O&M in Accounts 600 to 999, commencing on January 1, 2006. The Negotiated Settlement Agreement for TGVI stated on page 11 of Appendix A to Commission Order No. G-126-05:

"A TGVI and Commission staff working group will be established to review appropriate reporting requirements and submit its findings for review at the 2006 Settlement Update Meeting."

The purpose of the working group was to review appropriate reporting requirements for the Annual Report to the Commission. The BCUC Uniform System of Accounts for O&M provide a number of qualities for reporting that are standardized, consistent, comparable, replicable, measurable, transparent, understandable, known in advance, and unbiased. These are desirable goals that a new reporting structure should attempt to achieve.

On October 23, 2006, TGVI filed its 2006 Settlement Update. On Section 9, page 5 of the filing it indicated that the status was 'In Progress'. It outlined the proposed activity view and the complementary resource view reports. TGVI stated that the proposed reporting allows costs to be easily compared year over year regardless of organization structure and that once approved TGVI, Terasen Gas (Whistler) Inc. ("TGW") and Terasen Gas Inc. ("TGI") (collectively the "Terasen Utilities") will report their O&M in this consistent manner going forward.

On December 7, 2006, TGW requested approval to depart from using the Uniform System of Accounts for recording of its O&M expenses. By Order No. G-172-06, the Commission denied TGW's requested departure from using the Uniform System of Accounts and asked TGW to consider participating in the TGVI and Commission staff Working Group.

On February 28 and March 15, 2007, the TGVI, TGW, TGI and Commission staff Working Group (the "Working Group") reviewed the "Operation and Maintenance Code of Accounts", with the goal of developing a revised code of accounts ("New Code of Accounts"). The New Code of Accounts would

allow reporting for both an activity-based view and a resource-based view and relationship mapping to the Commission's Uniform System of Accounts. The information presented does not mirror exactly the BCUC Uniform System of Accounts but does attempt to provide relevant and consistent information for both annual reporting and revenue requirements. Since the New Code of Accounts is based on how the Terasen Utilities are currently internally planning, recording and reporting their costs, the New Code of Accounts may in the future need to be adapted to meet changes in operational activities. An example of potential future changes could be the reporting, coding and recording of CustomerWorks charges or Shared Services Agreement charges. The reporting requirements do not limit the detailed information that should be kept by the utility. The utility should be able to provide a detailed "drill-down" of amounts that are reported in the code of accounts.

In April 2007, TGI, TGVI and TGW filed its Annual Reports to the Commission for the year ended December 31, 2006. Most of the Terasen Utilities prepared the reports using the New Code of Accounts, providing both a resource-based view and an activity-view. Unlike British Columbia Transmission Corporation ("BCTC") no mapping of the accounts to the BCUC Uniform System of Accounts were provided in the TGI and TGVI Annual Reports.

The Working Group is now reporting its results to the participants in the TGVI 2007 Settlement Update Meeting that was originally contemplated for the 2006 Settlement Update Meeting. The documents included for your review are:

- Appendix A: Terasen Gas O&M Code of Accounts;
- Appendix B: The relevant Annual Report pages filed in the Terasen Utilities 2006 Annual Reports to the Commission; and
- Appendix C: The relevant BCTC Annual Report pages including the mapping of the accounts provided by BCTC in its 2006 Annual Report to the Commission.

Registered Intervenors are requested to provide their comments on the Working Group findings and results by September 27, 2007 to Commission staff and Terasen Gas. TGI and TGVI will include a copy of this letter and the Registered Intervenors' comments in its 2007 Annual Review and Settlement Update materials.

Yours truly,

Original signed by:

Philip Nakoneshny
Director, Rates and Finance

PN/dlf
Enclosures



Operation and Maintenance

Code of Accounts



ACTIVITY-BASED VIEW

100 DISTRIBUTION

100-10 DISTRIBUTION - SUPERVISION

100-11 Supervision - Supervision

100-20 DISTRIBUTION OPERATION

100-21 Operations Centre - Distribution
100-22 Asset Management - Distribution
100-23 Preventative Maintenance - Distribution
100-24 Distribution Operations - General
100-25 Emergency Management

100-30 DISTRIBUTION MAINTENANCE

100-31 Corrective Maintenance - Meters
100-32 Corrective Maintenance - Propane
100-33 Corrective Maintenance - Leak Repair
100-34 Corrective Maintenance - Stations
100-35 Corrective Maintenance - General

200 TRANSMISSION

200-10 TRANSMISSION - SUPERVISION

200-11 Transmission - Supervision

200-20 TRANSMISSION OPERATION

200-21 Pipeline Operation
200-22 Right of Way
200-23 Compression
200-24 Gas Control
200-25 Transmission Pipeline Integrity Program ("TPIP")

200-30 TRANSMISSION MAINTENANCE

200-31 Pipeline Operation
200-32 Compression
200-33 TPIP Maintenance

300 LNG OPERATION

300-10 LNG PLANT OPERATION

300-11 LNG Plant Operation

300-20 LNG MAINTENANCE

300-21 LNG Maintenance

Code of Accounts

400 MEASUREMENT

400-10 MEASUREMENT OPERATION

400-11 Measurement Operation

400-20 MEASUREMENT MAINTENANCE

400-21 Measurement Maintenance

500 GENERAL OPERATION

500-10 Facilities Management

500-20 Shops and Stores

500-30 Operations Engineering

500-40 Property Services

500-50 System Integrity

500-60 Environmental Health and Safety

500-70 Operations Governance

600 MARKETING

600-10 Marketing – Supervision

600-20 Energy Efficiency

600-30 Corporate and Marketing Communications

700 CUSTOMER CARE

700-10 Customer Care - Supervision

700-20 Customer Contact

700-30 Bad Debt Management and Administration

700-40 Customer Management & Sales

Code of Accounts

800 BUSINESS and INFORMATION TECHNOLOGY SERVICES

800-10 Business & Information Technology Services - Supervision

800-20 Application Management

800-30 Infrastructure Management

800-40 Procurement Services

900 ADMINISTRATIVE AND GENERAL

900-10 CORPORATE ADMINISTRATION

900-11 Administration and general

900-12 Insurance

900-13 Finance and Regulatory Affairs

900-14 Corporate centre and shared services fees

900-20 MARKETING PLANNING & FORECASTING

900-30 PUBLIC AFFAIRS

900-31 Community Relations

900-40 BUSINESS DEVELOPMENT

900-50 HUMAN RESOURCES

900-60 OTHER POST EMPLOYMENT BENEFITS

RESOURCE-BASED VIEW

1000	COMPENSATION CHARGED TO O&M
1100	EMPLOYEE EXPENSES
1200	VEHICLES
1300	MATERIALS AND SUPPLIES
1400	FEES AND ADMINISTRATION COSTS
1500	FACILITIES
1600	CONTRACTOR COSTS
1700	COMPUTER COSTS
1800	RECOVERIES AND REVENUES

ACTIVITY BASED VIEW

100 DISTRIBUTION

100-10 DISTRIBUTION – SUPERVISION

100-11 Supervision - Distribution

Cost of labour, vehicles, travel, supplies and other expenses incurred in the general supervision and direction of distribution facility operations. Includes expenses associated with:

- Regional Managers
- Field Managers
- Field Operations Assistants
- Clerical staff in regional locations

This account also includes third party costs to conduct customer satisfaction surveys, risk assessments and environmental audits.

100-20 DISTRIBUTION - OPERATIONS

100-21 Operations Centre – Distribution

Salaries, vehicles, supplies and other expenses for:

- Operations Centre managers
- Closing and Administration group
- Installation Coordinators
- Surveyors
- Centralized dispatch
- 24-hour emergency response group
- Appointment setting group
- Environmental audits.

100-22 Asset Management – Distribution

Salaries, supplies and other expenses for the distribution asset management group. This group is responsible for the systems and processes used to manage the distribution assets. A key responsibility is determining the frequency of preventative maintenance.

100-23 Preventative Maintenance – Distribution

Costs associated with scheduled or routine operational work and minor repairs as they relate to:

- individual meter sets that require less than 30 minutes for single run sets and less than 60 minutes for double run sets
- propane equipment
- stations including testing, calibration and minor housekeeping that require less than 30 minutes for single run sets and less than 60 minutes for double run sets, as well as scheduled heater overhauls.

100-24 Distribution Operations – General

Costs incurred for:

- leak surveys of mains and services (including intermediate pressure)
- audits
- land slippage
- any survey in advance of local municipal improvements including paving and repaving and any survey by request
- inspecting the meters for ice or snow
- transmission pressure laterals (included in distribution plant) surveys
- filling of bulk odorant facilities
- inspection of odorizer facilities including measurement of product in storage, minor adjustments calibrations or repairs requiring less than 15 minutes that can be completed during the inspection, and odorant surveys
- identification, recommendation or urgent action necessary to prevent activities which could endanger the pipeline
- activities to identify maintenance or system integrity concerns
- replacing line markers and warning signs
- attending/monitoring low pressure problems (i.e. water in the lines)
- winter valve configuration and survey recorder operations
- inspection of facilities where leaks are suspected or gas odour has been detected
- recording pressures and changing charts

Code of Accounts

100-25 Emergency Management

Costs associated with:

- responding to gas odour calls
- responding to carbon monoxide investigation calls
- responding to fire, explosions and other customer safety calls
- responding to industrial premise calls
- first response standby time
- restoring full service to customers and restoring normal business functions

100-30 DISTRIBUTION MAINTENANCE

100-31 Distribution Corrective Maintenance – Meters

Meter sets

Costs related to:

- inches, instrument drives, and OFM meter set overhauls which are determined during operational checks
- miscellaneous meter maintenance such as: raise, code violations, inspecting and testing meter sets and alterations to bypass assemblies
- relighting a residential meter set after maintenance work completed (incurred only when an additional call is required for relight)

Meter devices

Costs related to:

- duties performed to make repairs to the automatic meter reading devices and electronic/control equipment
- troubleshooting and repairs on portable instruments used to evaluate or test system operations
- repairs and repair contracts for SCADA (Supervisory Control and Data Acquisition) - system that Gas Control uses to monitor, control and manage the transmission system

100-32 Distribution Corrective Maintenance – Propane

This account includes costs related to the unscheduled repair of propane transfer, storage, regulation and vaporization equipment.

Code of Accounts

100-33 Distribution Corrective Maintenance – Leak Repairs

Costs incurred in pinpointing and repairing a gas leak, including:

- leaking valves, where the leak is on a TP (transmission pressure), IP (intermediate pressure), DP (distribution pressure) or LP (low pressure) main
- leaks on a service
- leaks that are not repaired by cutting off and abandoning a section of unused main or by carrying out a renewal of main over 6 meters.

100-34 Distribution Corrective Maintenance – Stations

This account includes cost of overhauls, determined at time of operational checks, as well as repairs to buildings, structures, regulators, reliefs, valves, piping and associated equipment.

100-35 Distribution Corrective Maintenance – General

Includes costs incurred in:

- resetting or replacing valve boxes
- replacement of stem packing, o-rings, valve stops and road box height adjustment
- paving repair
- main clearing operations
- maintaining main ditches, bell holes and other street cuts

This account also includes other general maintenance related to the distribution system not specifically described in accounts 100-31 through 100-34.

Code of Accounts

200 TRANSMISSION

200-10 TRANSMISSION SUPERVISION

200-11 Supervision - Transmission

Cost of labour, vehicles, travel, supplies and other expenses for the Vice President, Gas Supply and Transmission and all transmission management personnel.

200-20 TRANSMISSION OPERATION

200-21 Pipeline Operation

Costs incurred to manage planned maintenance of the lower mainland and interior pipeline transmission lines.

200-22 Right of Way

Costs to manage all rights of way associated with transmission lines to ensure that all transmission lines are clear of vegetation and are available for easy access.

200-23 Compression

Costs incurred to manage planned maintenance of all compressor stations. Compressor stations in the interior include Savona, Armstrong, Kingsvale, Hedley, Midway, Warfield and Kitchener A and B compressor stations. The Langley compressor station is the only station in the lower mainland.

200-24 Gas Control

Costs associated with planned maintenance around monitoring and/or controlling:

- the flow of gas in the system
- the odorization system
- the operation of the compressor, regulator and valve stations in the system
- the operation of the line heaters in the system
- pressure in the system
- flow imbalances

Includes costs related to monitoring the security system, responding to alarm conditions, preparing gas load requirements, maintaining the SCADA system and adding and deleting points to SCADA.

Code of Accounts

Includes the cost of company own-use gas as well as electricity expenses for the Hedley Station.

200-25 Transmission Pipeline Integrity Program

Cost of planned maintenance activities, for mainline transmission operating plant assets including:

- development and maintenance of an integrity management plan
- asset assessments (data collection for in-line inspections, above-ground electrical surveys, natural hazards inspections, class location surveys, pipeline digs) to demonstrate and ensure asset integrity and for development of future asset assessment plans and/or asset improvement plans.

200-30 TRANSMISSION MAINTENANCE

200-31 Pipeline Operation

This account collects the costs to manage the corrective maintenance of the lower mainland and interior pipeline transmission lines.

This account also includes the costs associated with corrective maintenance around gas control including:

- repairing faults with communication systems
- repairing faults with SCADA system
- modifying SCADA screen displays

200-32 Compression

This account includes the purchase of materials and cost of labour associated with the compressors, engines, and ancillary equipment such as valves, transmitters, switches and other such items that require repair or replacement.

200-33 TPIP Maintenance

This account includes all work done when a TP or IP pipeline is excavated for repair as a result of defect indications found during inspections (note 1) but excludes excavations where defects were neither indicated nor found (note 2).

Notes:

1. Would include off-target digs where a subsequent dig located the indicated defect.
2. These “control digs” are required by the inspection protocol in the absence of defect indications and if confirmed “defect-free” are to be charged to the original inspection in account 200-25.

Code of Accounts

300 LNG OPERATION

300-10 LNG PLANT OPERATION

300-11 LNG Plant Operation

This account includes salaries and expenses for planned maintenance of the LNG plant in Delta.

300-20 LNG MAINTENANCE

300-21 LNG Maintenance

This account includes salaries and expenses for unplanned corrective maintenance of the LNG plant in Delta.

400 MEASUREMENT OPERATION

400-10 MEASUREMENT OPERATION

400-11 Measurement Operation

This account includes costs associated with:

- oversight of training programs
- research and development for any work related to modifying existing equipment, procedures or changing environmental or regulatory requirements
- passport to Safety Program which rewards active participants in safety initiatives to prevent workplace accidents
- Operational support provided for meter set design and equipment issues
- Purchases of non-inventoried meter parts for service work

Costs incurred by the meter shop related to planned maintenance, including:

- travel, office supplies and administrative labour
- parts and labour associated with the repair of rotary, turbine and diaphragm meters 800 cu ft/hr and larger
- meter sampling program
- preventative maintenance and labour costs involved in the ongoing upkeep of the meter fleet, as well as general meter shop maintenance

Costs related to instrumentation and communication services, and data acquisition such as:

- annual and recurring field maintenance checks performed for lower mainland measurement customers (primarily for Automated Meter Reading ("AMR") customers - rates 5, 7, 22, 25 and 27), lower mainland line-breaks and stations, the Tilbury LNG facility, lower mainland SCADA and the telemetry and mobile radio systems
- scheduled calibration checks on industrial measurement equipment and AMR equipment
- processing the consumption data from AMR customers
- planned portable instrument maintenance activities (calibration checks)

400-20 MEASUREMENT MAINTENANCE

400-21 Measurement Maintenance

This account includes costs related to corrective maintenance, including:

- unscheduled corrective maintenance of prover system and the equipment used to repair the meters
- general troubleshooting to resolve meter or prover issues not directly related to a specific meter or device
- unscheduled field repairs associated with the Lower Mainland measurement customers (primarily AMR customers)
- manually reading the meters located at our lower mainland AMR customers
- repairing industrial measurement equipment and AMR equipment
- repairing the hardware and software used to collect and process data from our AMR customers
- responding to and resolving trouble calls at lower mainland line-break and stations, Tilbury LNG facility, muster stations, lower mainland SCADA, telemetry and mobile radio stations
- repairing portable instrumentation that has come in earlier than the planned maintenance date
- Meter Management System ("MMS" - a module of SAP) repairs

500 GENERAL OPERATIONS**500-10 FACILITIES MANAGEMENT**

Costs for the management of various facilities, including:

- maintenance of coastal buildings
- renting, operating and maintaining interior buildings
- labour and other expenses incurred in the general supervision and direction of the Facilities group
- telecommunications management
- rental and storage of office furniture and files
- maintenance of office equipment (lower mainland and interior offices)
- mailroom/reception
- printer consumables – toners/papers
- courier and postage costs
- centralized office supplies in the Surrey mailroom

500-20 SHOPS AND STORES

Cost of labour for the Shops, Stores and Warehousing Manager as well as the expenses for the overall business unit manager and any inventory adjustments arising out of cycle counts. Shops and Stores encompasses manufacturing services, trucking and warehousing.

Manufacturing Services

Manufacturing Services is comprised of three separate shops, being the Machine Shop, Weld Shop and Prefabrication Shop:

1. The Machine Shop is responsible for the maintenance and manufacturing of specialized tools used by Terasen crews or contractors for the installation of mains and service lines and by Customer Service Technicians.
2. The Weld Shop is responsible for the welding of various components and sub assemblies that form the basic meter set configurations used for residential, commercial and industrial applications as well as welds on mains construction in the field.
3. Prefabrication Shop is responsible for the final painting and assembly of the components made by the Weld Shop.

Code of Accounts

Trucking

Trucking is responsible for the delivery of all materials either to musters or directly to job sites using company owned trucks or contracted delivery services.

Warehousing

Warehousing is responsible for the management of material inventories stored at the central warehouse, local musters, packing and shipping of materials to their final destinations as well as handling new and recall meter shipments around the province. Warehousing is also responsible for ensuring that materials being ordered into inventory meet required quality controls and specifications.

500-30 OPERATIONS ENGINEERING

Cost of labour and other expenses for the department managers and system planning engineers. The departments include:

- Property Services
- Engineering Services
- System Capacity Planning
- Drafting Services
- GIS & Data Management
- System Integrity

Department managers are responsible for project management and professional services to meet the requirements of asset managers throughout the project lifecycle including:

- Front End Engineering and Design (FEED)
- project justification
- design and construction
- operation and maintenance.

500-40 PROPERTY SERVICES

Costs related to managing all land rights and land tenure issues, including property taxation, acquisition and disposal, leases, right of way agreements, environmental reviews and First Nations negotiations. Property services is responsible for the maintenance and security of all pipeline rights of way; this includes third party crossing permits and inspections, sub-division approvals, vegetation management, right of way patrol, public awareness and encroachment removal.

500-50 SYSTEM INTEGRITY

Costs incurred for developing and maintaining a comprehensive integrity management plan for the gas distribution and transmission operating plant assets. The system integrity group provides risk-based integrity management services related to operating plant and surrounding natural hazards, principally focused on material defect, corrosion, geotechnical and hydro-technical risks.

Includes costs incurred to:

- inspect, monitor, repair and replace cathodic protection systems on an ongoing basis
- provide or assist with corrosion control drawings and specifications
- repair and troubleshoot the cathodic protection system for TP (transmission pressure), IP (intermediate pressure) and DP (distribution pressure)

500-60 ENVIRONMENTAL HEALTH AND SAFETY

Cost of labour and other expenses incurred in providing environmental and occupational health and safety governance; carrying out public and corporate safety activities; and emergency planning.

Includes costs related to:

- monitoring Workers' Compensation Board ("WCB") regulatory changes and potential impacts on Terasen Gas
- providing guidance and direction to the organization on WCB regulatory requirements including, inspections, reports and issues of compliance
- liaising with industry associations and other health and safety stakeholder groups on behalf of Terasen Gas
- overseeing health monitoring requirements and providing exposure monitoring services for all employee
- maintaining health and safety information system to record and track all employee accidents and injury information
- providing Occupational Health and Safety (OHS) reports to meet internal and external reporting requirements
- conducting incident investigations when required
- acting as an OHS resource to all field personnel
- ensuring there is public awareness with regard to public safety issues
- liaising with agencies and the community to increase awareness with regard to public safety
- public safety communication and initiatives

Code of Accounts

- planning and preparing for and recovering from emergencies
- security issues, software development and supplies
- ensuring business groups maintain and practice emergency plans and that the corporate plan is maintained
- designing and managing emergency exercises and ensuring corrective action plans are developed
- liaising with and developing relationships with government, agencies and related organizations
- ensuring mutual aid agreements are in place and maintained

500-70 OPERATIONS GOVERNANCE

Cost of labour and expenses of the Vice President Human Resources and Operations Governance and his/her direct reports.

Includes costs associated with:

- Engineer in Training program which includes a labour component as well as a variety of governance related activities such as participating on committees and investigation teams, working on standards and other technical governance related projects as they come up
- the Governance Engineer role which is responsible for administration of the internal Standards Maintenance process, monitoring the external Regulations and Legislation as they apply to the technical side of the business (not including environment, health and safety), coordinating and participating on investigation teams, and other technical governance related activities as they arise.

600 MARKETING

600-10 MARKETING - SUPERVISION

Cost of labour, telecommunication and other expenses incurred in the general supervision and direction of marketing activities.

600-20 ENERGY EFFICIENCY

Costs incurred for Demand Side Management ("DSM") program development, launch, administration and review but excluding incentives and rebates which are charged to deferral accounts. Program examples include Efficient Boiler, High Efficient Furnace, New Construction Heating and Fireplace Upgrades.

Costs incurred for communications of DSM programs, including:

- "Connections" and "Gasline" newsletters
- "At Home" Guide reprints and distribution
- customer bill inserts, brochures and info sheets
- "Gas by Design" reprints and toolkits.

600-30 CORPORATE AND MARKETING COMMUNICATION

Cost of labour and expenses incurred for:

- media monitoring
- Terasen Gas logo stationery
- web communication and research
- lifestyle campaigns
- directory listings
- advertising design and production
- managers' forums
- Focus and customer newsletters
- writing and editing services
- crisis communication.

700 CUSTOMER CARE

700-10 CUSTOMER CARE - SUPERVISION

Cost of salaries and expenses for:

- Accenture Business Services Utilities (ABSU) contract administration, negotiation and review/audit
- bad debt administration, credit and collections, review and audit costs
- customer communication including: “Get Comfortable” newsletters, Equal Payment Plan, heating season and rate change advertising.

Costs include non-capitalized portion of Customer Contact Centre labour (CAFÉ front end).

700-20 CUSTOMER CONTACT

Customer care services are outsourced to CustomerWorks LP which has contracted ABSU to provide these services. The contract is comprised of the following services:

- Schedule A - Customer Contact - consists of contact services related to emergency service call handling, billing inquiries, payment/billing program inquiries, customer move orders, customer complaints, customer education, gas service line and meter requests, key account handling and interactive voice response for mass market customers.
- Schedule B - Billing Support - includes the services related to billing, payment processing, customer accounting, data interpretation and information requests, and systems support for mass market customers.
- Schedule C - Meter Services - includes the services related to meter reading, meter reading route management, meter order processing, high bill investigations, and meter identification for mass market customers.
- Schedule D - Credit and Collections - includes collection management, credit approval, credit monitoring, security deposit administration, and administration of non-cash security for mass market customers.
- Schedule E - Industrial and Off System Sales - consists of account management and billing, payment processing, inquiry handling, customer accounting and early stage collections and systems support for TGI industrial and large volume customers.

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- Schedule F - Commercial Unbundling Operational Services - includes the services required to handle customer inquiries related to billing, enrolments and educational material, data capture and transfer of data related to market participation, financial reporting of marketer billings, marketer tariff set up and maintenance, and summary reporting related to the program.
- Schedule G - Stable Rate Program Operational Services includes the services required to handle customer inquiries, customer enrolments, enrolment verification, tariff set up and administration, and summary reporting related to the program.

Note: if this function ceases to be outsourced, the company will provide more detail for customer care costs.

700-30 BAD DEBT MANAGEMENT AND ADMINISTRATION

Costs associated with Rate 1-3 bad debt provision expense, recoveries and collection agency commissions.

Includes costs incurred, net of recoveries, in conducting lock offs for arrears, vacant premises, seasonal, final reads and disconnect diversions to prevent unauthorized consumption, as well as "Cap and Plug" activities as per instruction from Gas Safety Branch or other agencies.

Includes costs incurred to:

- remove locks from locked off meters, vacant premises, seasonal, final reads and relighting appliances, during and after work hours
- investigate complaints due to high bills
- identify/verify meter numbers corresponding to correct address and usage
- investigate customer calls relating to a switch, stopped, non-registering or noisy meter.

700-40 CUSTOMER MANAGEMENT AND SALES

Cost of labour and expenses related to Rate 14 account management and recovery fees, one-on-one management and liaison of large key account customers, energy use consultation, new tariff code development. This account also includes the bad debt provision and credit and collection for Rate 4 customers and above.

This account also includes the cost of labour and expenses incurred to provide:

- individual key account management/liaison (including credit and collections)
- representation of Terasen Gas at various trade shows and energy conferences

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- print, supply/distribute technical literature, data sheets, brochures and newsletters
- energy use case studies and site visits
- annual transportation contracts
- residential sales (Multiple and Single Family) including builder, development or industry liaison
- technical advice to account managers and customers as well as the costs incurred researching new gas technology.

800 BUSINESS & INFORMATION TECHNOLOGY SERVICES

800-10 BUSINESS & INFORMATION TECHNOLOGY SERVICES - SUPERVISION

Cost of labour, travel, office supplies, and other expenses incurred in the general supervision and direction of business and information technology services operations.

800-20 APPLICATION MANAGEMENT

Costs for the overall data and application architecture for Terasen Gas, including:

- SAP application
- Click scheduling application
- CAFÉ (Customer Attachment Front-End) application. CAFÉ includes process enhancements from customer attraction through order completion to collect, sort, prioritize, assign and measure company performance in closing leads and enable improved customer order processing currently handled in SAP.
- measurement related applications such as MACS (Measurement Application Computer System) which supports the Meter Shop business processes primarily capturing measurement equipment data that is interfaced to SAP.
- AM/FM (Automated Mapping / Facilities Management) and DCRS (Digitized Construction Records System)
- Forecasting Information System
- WIN Gas Connect – “Web Interface Nomination” System
- middleware, a toolset that facilitates the integration of data between applications
- Business Intelligence applications such as Business Warehouse (BW)
- Intranet and Internet.

800-30 INFRASTRUCTURE MANAGEMENT

Cost of managing the overall technology environment and infrastructure architecture including:

- maintaining communication sites and overseeing radio site rentals
- security and virus protection
- network costs
- LAN (local area network) and WAN (wide area network)
- server services

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- server hardware costs
- maintenance of peripheral devices (desktops, laptops and printers)
- application services such as e-mail and Citrix.

800-40 PROCUREMENT SERVICES

Cost of labour and expenses related to the purchasing of goods and services including tender development, contract maintenance, purchase order processing, inventory and supplier management, training and general administration.

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900 CORPORATE ADMINISTRATION

900-10 CORPORATE ADMINISTRATION

900-11 Administration and General

The expenses in this account include:

- salary, travel and other expenses for the President's cost centre
- organizational costs such as Canadian Gas Association membership dues
- other administrative/general costs not otherwise defined in the code of accounts

900-12 Insurance costs

Cost of insurance coverage.

900-13 Finance and Regulatory Affairs

Cost of labour, travel, supplies and other expenses incurred by the Finance and Regulatory Affairs department in providing the following services:

- financial accounting and reporting
- asset accounting
- accounts payable
- regulatory reporting
- regulatory application preparation and filing
- budgeting and planning

This account also includes items such as BCUC assessment fees and external audit fees.

900-14 Corporate Centre and Shares Services Fees

This account includes:

- management fees paid for services provided by Terasen Inc. or any of the Terasen Gas utilities
- management fee received from any of the Terasen Gas utilities for services provided by the affiliated utility

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900-20 MARKETING PLANNING & FORECASTING

Cost of labour and expenses incurred in forecasting gas load, customer additions, revenue and margin.

900-30 PUBLIC AFFAIRS**900-31 Community Relations**

Cost of labour and expenses incurred for community, municipal, government and aboriginal relations/liaison.

Costs include corporate donations and sponsorships related to the environment, education and community development.

900-40 BUSINESS DEVELOPMENT

Cost of labour and expenses for identifying and developing new business opportunities.

900-50 HUMAN RESOURCES

Cost of labour and other expenses for human resource governance, administering payroll and benefits, providing advisory services, recruiting and temporary staffing.

900-60 OTHER POST EMPLOYMENT BENEFITS

Actuarial cost of providing other post employment benefits to retirees.

RESOURCE VIEW

1000 COMPENSATION CHARGED TO OPERATIONS AND MAINTENANCE (“O&M”)

This account includes the O&M component of the cost of labour and benefits for all three affiliations (M&E, COPE and IBEW), including other post employment benefits as defined in account 900-60.

2000 EMPLOYEE EXPENSES

This account includes cost such as:

- course fees
- travel and meals and entertainment (training and non-training related)
- mileage allowance
- employee hiring and relocation costs

3000 VEHICLES

This account includes the costs associated with vehicles and other types of equipment including:

- vehicle and equipment rentals
- lease charges and operating costs
- license fees
- fuel expense
- repairs and maintenance

4000 MATERIALS AND SUPPLIES

This account includes costs related to:

- personal supplies (e.g. purchase and cleaning of uniforms, shoes, gloves, hard hats, etc.)
- costs associated with the purchase, rent, and lease of office furniture as well as any required repairs and maintenance
- office supplies
- miscellaneous field, shop, road, surfacing and backfill materials (used in O&M work)

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- inventory write-downs/revaluations, shrinkage/adjustments and other material adjustments
- freight charges

5000 FEES AND ADMINISTRATION COSTS

This account includes costs such as:

- government fees
- membership dues
- BCUC assessments
- external auditor fees
- legal fees and retainers including land acquisition fees
- continuing/shared services
- charitable donations, political contributions and corporate sponsorships
- easement and rights-of-way fees and costs
- communications – investor, public relations and employees
- advertising – e.g. media, printed matter
- administration – e.g. postage, couriers, contracts and outside services
- damages and injury costs
- insurance
- bad debt expense
- bank charges

6000 FACILITIES

This account includes costs related to:

- communication
- heat and light
- company own-use gas
- electrical maintenance on buildings, exterior lighting
- heating, ventilation and air conditioning (HVAC)
- janitorial services
- landscaping
- plumbing
- garbage removal and recycling
- security
- snow removal
- window cleaning

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- yard maintenance
- building maintenance.

7000 CONTRACTOR COSTS

This account includes costs related to:

- consulting fees
- contractors
- customer care services (ABSU)

8000 COMPUTER COSTS

This account includes costs related to:

- computer consulting
- outsourced computer services
- hardware and software not meeting capitalization criteria

9000 RECOVERIES AND REVENUES

This account includes the following recoveries/revenues:

- recovery of bad debt previously written off
- amounts received as recoveries from salvaged materials
- recoveries of O&M costs - miscellaneous recoveries not undertaken with an expectation of profit (e.g. lease recoveries, sales of miscellaneous O&M materials at cost)
- recovery of direct costs and overhead incurred on behalf of non-regulated businesses
- management fees received (as described in account 900-14)

UNIFORM CODE OF ACCOUNT MAPPING

TERASEN GAS ACTIVITY- BASED CODE OF ACCOUNTS				UNIFORM CODE OF ACCOUNT MAPPING	RANGE (in millions of dollars)
100 - DISTRIBUTION					
100-10 DISTRIBUTION - SUPERVISION					
		100-11 Distribution - Supervision		670 - Distribution - Operation - Supervision	\$6 - 8
100-20 DISTRIBUTION OPERATION					
		100-21 Operations Centre - Distribution		670 - Distribution - Operation - Supervision 685 - System Operation & Engineering	\$6 - 8
		100-22 Asset Management - Distribution		670 - Distribution - Operation - Supervision	\$1 - 2
		100-23 Preventative Maintenance - Distribution		673 - Removing and Resetting Meters and House Regulators 630 - Manufactured Gas Production - Supervision 677 - Measuring and Regulating	\$1 - 2
		100-24 Distribution Operations - General		675 - Mains and Services 677 - Measuring and Regulating	\$3 - 5
		100-25 Emergency Management		670 - Dist Ops - Supervision 674 - Service on Customers' Premises 875 - Mains and Services (Maintenance) 878 - Meters (Maintenance)	\$4 - 7
100-30 DISTRIBUTION MAINTENANCE					\$2 - 4
		100-31 Distribution Corrective - Meters		878-001/003 Meters	
		100-32 Distribution Corrective - Propane		839-001 Other Manufactured Gas Production Maintenance	
		100-33 Distribution Corrective - Leak Repair		875-051 Mains and Services	
		100-34 Distribution Corrective - Stations		877-090 Measuring and Regulating	
		100-35 Distribution Corrective - General		875-050/054 Mains and Services	

Code of Accounts

TERASEN GAS ACTIVITY- BASED CODE OF ACCOUNTS				UNIFORM CODE OF ACCOUNT MAPPING	RANGE (in millions of dollars)
200 TRANSMISSION					
200-10 TRANSMISSION - SUPERVISION					
		200-11 Transmission - Supervision		660 - Transmission Operation - Supervision	\$1 - 3
200-20 TRANSMISSION OPERATION					
		200-21 Pipeline Operation		665 - Pipelines	\$1 - 3
		200-22 Right of Way		665 - Pipelines	\$1 - 3
		200-23 Compression		666 - Compressor	\$1 - 3
		200-24 Gas Control		669 - Other Transmission Operation	\$2 - 4
		200-25 Transmission Pipeline Integrity Program (TPIP)		665 - Pipelines	\$5 - 7
200-30 TRANSMISSION MAINTENANCE					
		200-31 Pipeline Operation		865 - Pipe Lines	currently not breaking out (included in Transmission Operation)
		200-32 Compression		866 - Compressor	currently not breaking out (included in Transmission Operation)
		200-33 TPIP Maintenance		865 - Pipe Lines	currently not breaking out (included in Transmission Operation)
300 LNG OPERATION					
300-10 LNG PLANT OPERATION					
		300-11 LNG Plant Operation		649 - Other Local Storage - Operation	\$1 - 2
300-20 LNG MAINTENANCE					
		300-21 LNG Maintenance		849 - Other Local Storage Maintenance	currently not breaking out (included in LNG Operation)
400 MEASUREMENT					
400-10 MEASUREMENT OPERATION					
		400-11 Measurement Operation		667/677 - Measuring and Regulating (Transmission/Distribution)	\$3 - 5
400-20 MEASUREMENT MAINTENANCE					
		400-21 Measurement Maintenance		867/877 - Measuring and Regulating (Transmission/Distribution) 673 - Removing and Resetting Meter and house Regulators	\$2 - 4

Code of Accounts

TERASEN GAS ACTIVITY- BASED CODE OF ACCOUNTS				UNIFORM CODE OF ACCOUNT MAPPING	RANGE (in millions of dollars)
500 GENERAL OPERATION					
	500-10 Facilities Management			685 - System Operation and Engineering 888 - General Operations - maintenance	\$4 - 6
	500-20 Shops and Stores			721-927 Stores Operation 721-928 Materials Quality	\$2 - 4
	500-30 Operations Engineering			685 - System Operation and Engineering	\$5 - 7
	500-40 Property Services			685 - System Operation and Engineering-Lands Management 721 - Corporate Administration - Property Services	\$1 - 2
	500-50 System Integrity			685 - System Operation and Engineering	\$1 - 3
	500-60 Environmental Health and Safety			685 - System Operation and Engineering 721-980 - Environmental Programs 721-981 Safety	\$1 - 2
	500-70 Operations Governance			685 - System Operation and Engineering	\$1 - 2
600 MARKETING					
	600-10 Marketing - Supervision			700 - Marketing Administration	\$0.5 - 1
	600-20 Energy Efficiency			705 - DSM Programs	\$1.6
	600-30 Corporate and Marketing Communications			701-001 Marketing Advertising 721-922 Media Relations & Employee Communications 728 - 003 Corporate Advertising	\$1.5 - 2.5
700 CUSTOMER CARE					
	700-10 Customer Care - Supervision			710 - Customer Accounting - Supervision	\$1 - 1.5
	700-20 Customer Contact - ABSU contract			710 - Supervision 711 - Contracts and Orders 712 - Meter Reading 713 - Billing & Accounting 714 - Credit & Collections	~ \$45
	700-30 Bad Debt Management and Administration			718 - Customer Accounting	\$6 - 8
	700-40 Large Commercial & Industrial Customer Management			719 - Customer Accounting - Other Operating	\$2 - 3

Code of Accounts

TERASEN GAS ACTIVITY- BASED CODE OF ACCOUNTS				UNIFORM CODE OF ACCOUNT MAPPING	RANGE (in millions of dollars)
800 BUSINESS and INFORMATION TECHNOLOGY SERVICES					
	800-10 Business & Information Technology Services - Supervision			721-960 Information Systems General 721-961 Information Systems Operations 721-962 Information Systems Planning	\$1 - 1.5
	800-20 Application Management			721-960 Information Systems General 721-961 Information Systems Operations	\$7 - 8
	800-30 Infrastructure Management			721-960 Information Systems General 721-961 Information Systems Operations	\$5 - 7
	800-40 Procurement Services			721-926 Purchasing General	~\$1
900 ADMINISTRATIVE AND GENERAL					
900-10 CORPORATE ADMINISTRATION					
	900-11 Administration and general			721-909 Administration & General 722 Special Services	\$6 - 7
	900-12 Insurance			723 Insurance - General	\$5 - 6
	900-13 Finance and Regulatory Affairs			721-914 - Regulatory Affairs 721-950 - Accounting 721-941 Planning 721-955 Capital Expenditure Accounting	\$7 - 8
	900-14 Corporate centre and shared services fees			721-918 Management Fees Subsidiaries & Associated Companies	\$4 - 5
900-20 MARKET PLANNING AND FORECASTING				700 - Marketing Administration 701-001 Marketing Advertising	\$2 - 3
900-30 PUBLIC AFFAIRS					
	900-31 Community Relations			721-920 Government Relations & Communications 721-921 Community Relations 721-925 Public Affairs Supervision 728-005 Charitable Donations	\$1 - 2
900-40 BUSINESS DEVELOPMENT				721 Corporate Administration	\$1 - 2
900-50 HUMAN RESOURCES				721-970 Human Resources General 721-973 Employee Recruitment & Activities	\$3 - 5
900-60 OTHER POST EMPLOYMENT BENEFITS				721 Corporate Administration	\$ 8 - 10

TERASEN GAS (VANCOUVER ISLAND) INC.
ANNUAL REPORT - 2006
OPERATING & MAINTENANCE EXPENSES - SUMMARY

5.0.0

Line No.	Particulars	2006	2005 *	Increase (Decrease)
1	Operating			
2	Distribution	4,998,675	5,149,789	(\$151,114)
3	Transmission	1,834,315	2,049,987	(215,672)
4	Measurement	465,334	613,301	(147,966)
5	General Operation	1,801,754	2,048,810	(247,056)
		<u>\$9,100,078</u>	<u>\$9,861,887</u>	<u>(\$761,809)</u>
6	Maintenance			
7	Distribution	312,555	632,804	(\$320,249)
8	Transmission	1,567,031	1,193,640	373,391
9	Measurement	504,573	584,186	(79,614)
10	General Operation	-	-	-
		<u>\$2,384,159</u>	<u>\$2,410,630</u>	<u>(\$26,471)</u>
11	Administration & General			
12	Marketing	687,443	832,454	(\$145,011)
13	Customer Care	5,886,666	6,496,388	(609,722)
14	Business & Information Tech Services	492,512	599,381	(106,869)
15	Administration & General	7,201,525	8,216,584	(1,015,059)
		<u>\$14,268,145</u>	<u>\$16,144,807</u>	<u>(\$1,876,662)</u>
16	Total Gross O&M Expenses	<u>\$25,752,383</u>	<u>\$28,417,324</u>	<u>(\$2,664,942)</u>
17	Difference from Allowed O&M Expenses	<u>(3,593,617)</u>	<u>(4,204,675)</u>	<u>611,058</u>
18	TOTAL GROSS O&M EXPENSES ALLOWED	<u>\$29,346,000</u>	<u>\$32,622,000</u>	<u>(\$3,275,999)</u>
19	Capitalization Allowed	<u>(4,695,000)</u>	<u>(4,626,492)</u>	<u>(68,508)</u>
20	TOTAL NET O&M EXPENSES	<u>\$24,651,000</u>	<u>\$27,995,508</u>	<u>(\$3,344,507)</u>
	Allowed Shared Service Allocation and Direct Charges			
21	Whistler	(228,310)	(\$224,700)	(\$3,610)
22	Shared Service Allocation to Terasen Gas (Whistler)	<u>(\$228,310)</u>	<u>(\$224,700)</u>	<u>(\$3,610)</u>
23	TOTAL NET DIRECT O&M EXPENSES	<u>\$24,422,690</u>	<u>\$27,770,808</u>	<u>(\$3,348,117)</u>
24	Average Full Time Employee Count	118.93	155.24	(36.31)
RECONCILIATION OF FINANCIAL STATEMENT O&M EXPENSE				
25	TOTAL NET DIRECT O&M EXPENSES (as per above line 23)	\$24,422,690	\$27,770,808	
26	Compressor Lease (non-O&M)	1,747,923	1,747,923	
27	Difference from Allowed O&M Expenses (as per above line 17)	(3,593,617)	(4,204,675)	
27	Compressor Fired Hour O&M adjustment reported in 2005	4,632	(4,632)	
28	Non-regulated audit and legal expenses	145,284	0	
29	TOTAL O&M EXPENSE per Financial Statements	<u>\$22,726,912</u>	<u>\$25,309,424</u>	

* The classification of Operation and Maintenance Expenses has been restated to conform with the 2006 presentation.

BCUC No.	Particulars	2006	2005	Increase (Decrease)
	Operating			
100-10	Distribution - Supervision	2,107,237	2,763,419	(656,182)
100-20	Distribution - Operation	2,891,438	2,386,370	505,068
100-30	Distribution - Maintenance	312,555	632,804	(320,249)
100	DISTRIBUTION	5,311,230	5,782,593	(471,363)
200-20	Transmission - Operation	1,834,315	2,049,987	(215,672)
200-30	Transmission - Maintenance	1,567,031	1,193,640	373,391
200	TRANSMISSION	3,401,346	3,243,627	157,719
400-10	Measurement - Operation	465,334	613,301	(147,966)
400-20	Measurement - Maintenance	504,573	584,186	(79,614)
400	MEASUREMENT	969,907	1,197,487	(227,580)
500-10	Facilities Management	1,442,167	1,525,150	(82,983)
500-30	Operations Engineering	282,587	385,116	(102,528)
500-50	System Integrity	76,999	138,544	(61,546)
500	GENERAL OPERATION	1,801,754	2,048,810	(247,056)
	General & Administration			
600-30	Corporate & Marketing Communications	687,443	832,454	(145,012)
600	MARKETING	687,443	832,454	(145,011)
700-10	Customer Care - Supervision	262	4,863	(4,601)
700-20	Customer Contact - ABSU contract	4,868,096	5,408,890	(540,793)
700-30	Bad Debt Management and Administration	105,200	345,852	(240,652)
700-40	Customer Management & Sales	913,107	736,784	176,324
700	CUSTOMER CARE	5,886,666	6,496,388	(609,722)
800-20	Application Management	492,512	599,381	(106,868)
800	BUSINESS & INFORMATION TECH SERVICES	492,512	599,381	(106,869)
900-11	Administration & General - inc insurance	769,600	2,638,690	(1,869,090)
900-12	Insurance	649,024	655,361	(6,337)
900-13	Finance and Regulatory Affairs	254,303	359,063	(104,760)
900-14	Shared Services	4,744,771	3,661,069	1,083,702
900-10	Corporate Administration	6,417,698	7,314,183	(896,485)
900-31	Community Relations	108,524	135,393	(26,870)
900-30	Public Affairs	108,524	135,393	(26,870)
900-50	Human Resources	13,303	25,053	(11,750)
900-60	Other Post Employment Benefits	662,000	741,955	(79,955)
900	ADMINISTRATION & GENERAL	7,201,525	8,216,584	(1,015,059)
TOTAL GROSS O&M EXPENSE		25,752,382	28,417,324	(2,664,942)

TERASEN GAS (VANCOUVER ISLAND) INC.
ANNUAL REPORT - 2006
OPERATING AND MAINTENANCE EXPENSES (Resource View)

Particulars	2006	2005	Increase (Decrease)
M&E Costs	3,082,552	3,747,800	(665,248)
COPE Costs	135,516	392,404	(256,888)
IBEW Costs	5,483,004	8,474,375	(2,991,371)
Labour Costs in O&M	8,701,072	12,614,579	(3,913,507)
Vehicle costs	570,515	618,857	(48,342)
Employee Expenses	413,779	362,976	50,803
Materials	758,410	1,368,045	(609,635)
Office Furnishing & Equipment	47,115	54,022	(6,907)
Computer Costs	824,618	925,197	(100,579)
Fees and Administration Costs	8,199,255	7,191,307	1,007,948
Contractors costs	5,251,124	3,760,366	1,490,758
Facilities	2,285,807	2,427,663	(141,856)
Recoveries & Revenue	(1,299,313)	(905,689)	(393,624)
Non-Labour Costs	17,051,310	15,802,745	1,248,565
Total Gross O&M Expense	25,752,382	28,417,324	(2,664,942)

TERASEN GAS INC
OPERATION & MAINTENANCE EXPENSES - RESOURCE VIEW
(\$000)

Line No.	Particulars	2006			2005	Increase (Decrease)
		Total O&M	Less Ft Nelson	Utility O&M (excl FN)		
	(1)	(2)	(3)	(4)	(5)	(6)
1	M&E Costs	\$ 37,167	\$ 172	\$ 36,995	\$ 30,927	\$ 6,068
2	COPE Costs	22,456	74	22,382	23,109	(728)
3	IBEW Costs	18,762	203	18,559	20,399	(1,840)
4						
5	Labour Costs	78,385	449	77,936	74,436	3,500
6						
7	Vehicle Costs	4,265	39	4,226	4,889	(663)
8	Employee Expenses	3,408	31	3,378	3,194	183
9	Materials and Supplies	4,248	25	4,223	4,533	(310)
10	Computer Costs	8,118	33	8,086	7,265	821
11	Fees and Administration Costs	33,992	108	33,884	27,163	6,721
12	Contractor Costs	52,457	159	52,298	53,885	(1,587)
13	Facilities	10,046	34	10,012	9,859	153
14	Recoveries & Revenue	(14,894)	(58)	(14,836)	(14,392)	(444)
15						
16	Non-Labour Costs	101,640	370	101,270	96,397	4,873
17						
18						
19	Total Gross O&M Expenses	180,026	820	179,206	170,833	8,373
20						
21	Less: Vehicle Lease Reclass	(1,872)		(1,872)	(1,911)	39
22	Less: Capitalized Overhead	(27,243)	(132)	(27,111)	(26,212)	(899)
23						
24	Total O&M Expenses	\$ 150,911	\$ 688	\$ 150,223	\$ 142,710	\$ 7,513

TERASEN GAS INC
OPERATION & MAINTENANCE EXPENSES - ACTIVITY VIEW
(\$000)

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APPENDIX B
Page 5 of 7

Line No.	Particulars	Reference	2006	2005	Increase (Decrease)
	(1)	(2)	(3)	(4)	(5)
1	Distribution Supervision	100-11	\$ 7,631	\$ 7,489	\$ 142
2	Distribution Supervision Total	100-10	7,631	7,489	142
3	Operation Centre - Distribution	100-21	6,293	5,480	813
4	Asset Management - Distribution	100-22	1,382	1,437	(56)
5	Preventative Maintenance - Distribution	100-23	1,536	1,515	20
6	Distribution Operations - General	100-24	3,657	3,656	1
7	Emergency Management	100-25	5,452	5,490	(38)
8	Distribution Operations Total	100-20	18,319	17,579	740
9	Distribution Corrective - Meters	100-31	925	1,022	(97)
10	Distribution Corrective - Propane	100-32	3	24	(21)
11	Distribution Corrective - Leak Repair	100-33	837	740	97
12	Distribution Corrective - Stations	100-34	421	487	(66)
13	Distribution Corrective - General	100-35	397	509	(112)
14	Distribution Maintenance Total	100-30	2,584	2,783	(199)
15	Distribution Total	100	28,634	27,851	683
16					
17	Transmission Supervision	200-11	1,889	1,857	32
18	Transmission Supervision Total	200-10	1,889	1,857	32
19	Pipeline Operation	200-21	962	1,002	(39)
20	Right of Way	200-22	1,677	1,700	(23)
21	Compression	200-23	1,585	1,689	(104)
22	Gas Control	200-24	1,939	1,548	391
23	Transmission Pipeline Integrity Project (TPIP)	200-25	4,065	4,147	(82)
24	Transmission Operations Total	200-20	10,228	10,085	143
25	Pipeline - Maintenance	200-31	211	220	(9)
26	Compression - Maintenance	200-32	157	167	(10)
27	TPIP - Maintenance	200-33	435	1,731	(1,296)
28	Transmission Maintenance Total	200-30	803	2,118	(1,315)
29	Transmission Total	200	12,920	14,060	(1,140)
30					
31	LNG Plant Operations	300-11	524	575	(51)
32	LNG Plant Operations Total	300-10	524	575	(51)
33	LNG Plant Maintenance	300-21	291	363	(72)
34	LNG Plant Maintenance Total	300-20	291	363	(72)
35	LNG Plant Total	300	815	938	(123)
36					
37	Measurement Operations	400-11	3,159	3,172	(13)
38	Measurement Operations Total	400-10	3,159	3,172	(13)
39	Measurement Maintenance	400-21	2,899	4,104	(1,205)
40	Measurement Maintenance Total	400-20	2,899	4,104	(1,205)
41	Measurement Total	400	6,059	7,276	(1,218)
42					
43	Facilities Management	500-10	5,074	4,820	254
44	Shops & Stores	500-20	2,807	2,906	(99)
45	Operations Engineering	500-30	5,118	5,210	(92)
46	Property Services	500-40	881	568	313
47	System Integrity	500-50	1,904	1,718	186
48	Environmental Health & Safety	500-60	1,162	1,312	(150)
49	Operations Governance	500-70	1,159	1,011	149
50	General Operations Total	500	18,106	17,644	562

TERASEN GAS INC
OPERATION & MAINTENANCE EXPENSES - ACTIVITY VIEW (CONT'D)
(\$000)

Line No.	Particulars	Reference	2006	2005	Increase (Decrease)
	(1)	(2)	(3)	(4)	(5)
1	Energy Efficiency	600-10	\$ 1,556	\$ 1,043	\$ 513
2	Marketing - Supervision	600-20	562	473	88
3	Corporate & Marketing Communications	600-30	2,853	2,993	(141)
4	Marketing Planning & Development	600-40	686	692	(6)
5	Marketing Total	600	5,656	5,201	455
6					
7	Customer Care - Supervision	700-10	735	645	89
8	Customer Contact - ABSU contract	700-20	44,168	43,554	614
9	Bad Debt Management and Administration	700-30	10,743	4,336	6,407
10	Customer Management & Sales	700-40	2,361	1,891	470
11	Customer Care Total	700	58,007	50,427	7,581
12					
13	Business & IT Services - Supervision	800-10	1,858	1,858	(0)
14	Application Management	800-20	6,183	6,212	(29)
15	Infrastructure Management	800-30	5,472	4,947	525
16	Procurement Services	800-40	674	583	91
17	Business & IT Services Total	800	14,188	13,601	587
18					
19	Administration & General	900-11	2,564	1,833	730
20	Insurance	900-12	5,085	5,083	2
21	Finance and Regulatory Affairs	900-13	7,265	7,352	(87)
22	Shared Services Agreement	900-14	4,035	4,870	(835)
23	Corporate Administration Total	900-10	18,949	19,138	(189)
24	Forecasting	900-20	1,184	1,102	82
25	Public Affairs	900-30	1,359	1,477	(118)
26	Business Development	900-40	1,194	1,195	(1)
27	Human Resources	900-50	4,027	3,538	489
28	Other Post Employment Benefits (OPEB)	900-60	8,208	7,485	723
29	Administration & General Total	900	34,921	33,935	986
30					
31	Total Gross O&M Expenses		179,206	170,833	8,373
32					
33	Less: Vehicle Lease Reclass		(1,872)	(1,911)	39
34	Less: Capitalized Overhead		(27,111)	(26,212)	(899)
35					
36	Total O&M Expenses		\$ 150,223	\$ 142,710	\$ 7,513

TERASEN GAS (WHISTLER) INC.

ANNUAL REPORT - 2006

OPERATING & MAINTENANCE EXPENSES - SUMMARY

Line No.	Particulars	2006	2005 *	Increase (Decrease)
1	Operating & Maintenance			
2	Distribution	537,674	549,788	(\$12,114)
3	Measurement	8,627	6,315	\$2,313
4	Customer Care	27,837	43,631	(\$15,794)
5	Administration & General	18,490	15,090	\$3,400
6	TOTAL GROSS O & M EXPENSES	<u>\$592,628</u>	<u>\$614,824</u>	<u>(\$22,196)</u>
7	Capitalization	(96,000)	(91,800)	(4,200)
8	TOTAL NET DIRECT O & M EXPENSES	<u>\$496,628</u>	<u>\$523,024</u>	<u>(\$26,396)</u>
9	Shared Service Allocation Allowed	228,310	224,700	3,610
10	TOTAL NET O & M EXPENSES	<u><u>\$724,938</u></u>	<u><u>\$747,724</u></u>	<u><u>(\$22,786)</u></u>
11	Average Employee Count	2.00	2.00	0.00

* The classification of Operation and Maintenance Expenses has been restated to conform with the 2006 presentation.

British Columbia Transmission Corporation
Annual Report to BCUC - F2007
Electric Operation and Maintenance Expenses

Schedule 4.0

Line #	No.	Account (in \$000)	As at 31 March 2007 (b)	As at March 31, 2006 (c)	Increase or (Decrease) from Prior Year (d=b-c)
		(a)			
		Other Power Supply Expenses			
1	556	System Control and Load Dispatching	\$ 1,115	\$ 1,113	\$ 2
2		Total Other Power Supply Expenses	\$ 1,115	\$ 1,113	\$ 2
		Transmission Expenses - Operation			
3	560	Operation Supervision and Engineering	\$ 8,552	\$ 7,520	\$ 1,032
4	561	Load Dispatching	19,818	16,880	2,938
5	566	Other Transmission Expenses	6,437	6,348	89
6		Total Transmission Expenses - Operation (Note 1)	\$ 34,807	\$ 30,748	\$ 4,059
		Transmission Expenses - Maintenance			
7	568	Maintenance Supervision and Engineering	\$ 15,288	\$ 12,213	\$ 3,075
8	570	Maintenance of Station Equipment	27,681	28,171	(490)
9	571+572	Maintenance of Overhead & Underground Lines	39,135	40,663	(1,528)
10	573	Maintenance of Other Transmission Plant	4,006	2,548	1,458
11		Total Transmission Expenses - Maintenance (Note 2)	\$ 86,110	\$ 83,595	\$ 2,515
		Distribution Expenses - Maintenance			
12	592	Maintenance of Station Equipment (Note 2)	\$ 13,699	\$ 11,314	\$ 2,385
		Distribution Expenses - Operation			
13	581	Load Dispatching	\$ 6,666	\$ 6,091	\$ 575
		Administrative and General - Operation			
14	920	Administrative and General Salaries	\$ 6,521	\$ 5,829	\$ 692
15	923	Special Services	339	489	(150)
16	924	Insurance	1,477	1,325	152
17	926	Employee Benefits	1,915	1,553	362
18	930.2	Other Administrative and General Expenses	15,570	15,223	347
19		Total Administrative and General - Operation (Note 3)	\$ 25,822	\$ 24,419	\$ 1,403
20		Total Electric Operation and Maintenance Expenses	\$ 168,219	\$ 157,280	\$ 10,939
21		Total Operation	\$ 68,410	\$ 62,371	\$ 6,039
22		Total Maintenance	99,809	94,909	4,900
23		Total Operation & Maintenance Expenses	\$ 168,219	\$ 157,280	\$ 10,939

Note 1: Increase of \$4.1 million due to higher activity relating to interconnection studies, wage rate increases, higher Western Electricity Coordinating Council (WECC) fees, organization and business process design for new System Control Centre, and planning work for CPCN projects.

Note 2: Increases due to emergency maintenance costs from wind storms of winter 2006/7, higher substation security costs, and labour cost increases.

Note 3: Increase of \$1.4 million due to higher labour costs for 39 additional employees, and a province-wide advertising campaign, partially offset by increased capitalized overhead.

Appendix 1

Mapping of Accounts Between BCTC Chart of Accounts

and

BCUC Uniform System of Accounts

for

F2007 Statement of Operations, Statement of Retained Earnings, and

Balance Sheet

F2007 STATEMENT OF OPERATIONS

BCTC Annual Report	BCUC A/C #	BCUC Account Description	BCTC Account Mapping
Revenue			
Tariff	400	Operating Revenue	Account 41110 - 41850 & 46003
Asset management and maintenance	400	Operating Revenue	Account 46320
Service fees and other	400	Operating Revenue	Account 46001 - 46002, 46004 - 46211, 46330 - 46360, 48210 - 48310 & 48510
Investment Income	419	Income From Investments	Account 48010 - 48110 & 48311 - 48410
Expenses			
Cost of market	426	Other Income Deductions	Account 61100 - 61200 (A portion of these accounts are allocated to deferral accounts)
Operations, maintenance and administration	401	Operating Expense	Account 65100 (Portions of this account are allocated between Operating and Maintenance expense accounts and deferral accounts)
	402	Maintenance Expense	
Taxes and grants	408	Municipal and Other Taxes	Account 71200 - 71300
Depreciation and amortization	403	Depreciation	Account 73100 - 73400 & 77300
Finance charges	427	Interest on Long Term Debt	Account 75100 - 75500 & 77400 - 77600 (Portion of these accounts are allocated to: Interest on Long-Term Debt, Amortization of Debt Discount, Premium & Expense and Other Interest Expense)
	428	Amortization of Debt Discount, Premium & Expense	
	431	Other Interest Expense	
Amortization of Debt Discount (included in Finance Charges)	428	Amortization of Debt Discount , Premium & Expense	(Included in Account 75300)
Income before Deferral Account Transfers			
Deferral Accounts	426	Other Income Deductions	Account 80100, 61100 - 61200 & 65100 (A portion of these accounts are allocated to deferral accounts for F/S presentation purposes)
Net Income			

F2007 STATEMENT OF RETAINED EARNINGS

Retained Earnings, beginning of year	216	Retained Earnings - Balance Beginning of Year	Account 39210
Net income	435	Retained Earnings - Balance Transferred from Net Income	
Prior Period Adjustment	439	Adjustments to Retained Earnings	Account 39510
Retained Earnings, end of year	216	Retained Earnings - Balance End of Year	

F2007 BALANCE SHEET

BCTC Annual Report	BCUC A/C #	BCUC Account Description	BCTC Account Mapping
ASSETS			
Current Assets			
Cash and cash equivalents	131	Cash	Account 11100 - 11700
Short term investments	136	Temporary Cash Investments	Account - 11700 (A portion of 11700 is allocated to cash for F/S presentation purposes)
Accounts receivable	142	Accounts Receivable - Trade	Account 12100 - 12544 (Portions of these accounts are reclassified for F/S presentation purposes)
Prepaid expenses	166	Prepayments	Account 13100 - 13400 & 15150
Deferral accounts	186	Other Deferred Credits	Account 17110 - 17500
Other Receivables	143	Accounts Receivable - Other	Account 15100 - 15110, 15200 & 16100
Prepaid Expense - Long Term	166	Prepayments	Account 15150 (A portion of 15150 is allocated to current prepaids for F/S presentation purposes)
Property, Plant and Equipment	101	Plant in Service	Account 18100 - 18300, 18553 - 18940 (These accounts are grouped into the BCUC, Plant in Service, Plant Under Construction and Accumulated Depreciation - Plant accounts).
	107	Plant Under Construction	
	108	Accumulated Depreciation - Plant	
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current Liabilities			
Current portion of obligations under capital lease	239	Long Term Debt Due Within One Year	Account 24600
Accounts payable and accrued liabilities	232	Accounts Payable and Accrued	Account 21100 - 22080, 22140 - 22900, 23010 - 23310 & 25310 (Portions of these accounts are reclassified for F/S presentation purposes)
Accrued interest	237	Interest Payable and Accrued	Account 23005
Deferred revenue	253	Other Deferred Credits	Account 24800 (This Heading includes portions of other accounts reclassified for F/S presentation purposes)
Deferred leasehold inducements	253	Other Deferred Credits	Account 18500 & 18940
Due from BC Hydro	234	Accounts Receivable - Affiliated Co.'s	Account 15901 & 24010 - 24020 (This Heading includes portions of other accounts reclassified for F/S presentation purposes)
Accrued Employee Benefits	263	Welfare and Pension Reserve	Account 22100 & 25190 - 25303
Asset Retirement Obligation	265	Other Reserves	Account 25100
Long Term Debt	221	Long Term Debt	Account 28100 - 28200
Obligations Under Capital Lease	224	Other Long Term Debt	Account 25600
Shareholder's Equity			
Share capital	201	Common Stock (Share Capital)	Account 39110
Retained earnings	216	Retained Earnings - End of Year	

F2007 BCTC Chart of Accounts

Appendix 1

APPENDIX C

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Category	Account Name	Classification	Control Acct #	Acct #
Cash & Short Term Investments			11000	
	BMO CDN General #8357	Balance Sheet		11100
	BMO USD General #6528	Balance Sheet		11101
	BMO Payroll #8349	Balance Sheet		11200
	BMO CDN OATT #1207	Balance Sheet		11300
	BMO USD OATT #6173	Balance Sheet		11301
	BMO CDN BCH TRUST #4933	Balance Sheet		11400
	BMO US BCH TRUST #6755	Balance Sheet		11401
	Bank Clearing	Balance Sheet		11500
	Petty Cash	Balance Sheet		11600
	Temporary Investments - CDN	Balance Sheet		11700
	Temporary Investments - USD	Balance Sheet		11800
Accounts/ Sundry Receivables			12000	
	Accounts Receivable - CDN	Balance Sheet		12100
	Accounts Receivable - USD	Balance Sheet		12110
	Sundry Receivable - CDN	Balance Sheet		12120
	Sundry Receivable - USD	Balance Sheet		12130
	Written Off Accts Receivable	Balance Sheet		12200
	Provision For Bad Debt Accounts	Balance Sheet		12210
	Refund Clearing	Balance Sheet		12220
	Unapplied Receipts	Balance Sheet		12230
Various Payroll Receivables			12300	
	Overpaid salaries/wages	Balance Sheet		12320
	Employee Pay Advances	Balance Sheet		12340
	Employee WCB Advances	Balance Sheet		12360
	Employee Advances - Income Continuance	Balance Sheet		12380
	Employee Advances - Relocation	Balance Sheet		12410
	Employee Benefit Plan Premium Receivable	Balance Sheet		12420
Unbilled Labour/ expenses			12500	
	Unbilled Labour	Balance Sheet		12510
	Unbilled Exp - TLoB Capital	Balance Sheet		12520
	Unbilled Exp - BCH Other	Balance Sheet		12530
	Unbilled Exp - Non BCH	Balance Sheet		12540
	Unbilled Claims - damage to plant	Balance Sheet		12542
	Unbilled Exp - TLoB asset relocation	Balance Sheet		12544
Prepays			13000	
	Prepaid Expenses	Balance Sheet		13100
	Prepaid Expenses - Core & Rwwl	Balance Sheet		13200
	Prepaid Grants & School Taxes	Balance Sheet		13300
	Prepaid VISA Clearing	Balance Sheet		13400
Other Current Assets			14000	
	Spares Inventory	Balance Sheet		14100
	Prepaid Expenses - Long Term	Balance Sheet		14200
Non Current Receivables			15000	
	Mortgage Receivable	Balance Sheet		15100
	Mortgage Payment Clearing	Balance Sheet		15110
	Prepaid Expense - Long Term	Balance Sheet		15150
	Long term receivable - USD	Balance Sheet		15200
	Long term receivable - CDN	Balance Sheet		15201
	TLoB Interco - BCTC	Balance Sheet		15901
	TLoB Interco - Other	Balance Sheet		15902
	Tlob Inter Business Unit AR	Balance Sheet		15903

F2007 BCTC Chart of Accounts

Appendix 1

APPENDIX C

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Category	Account Name	Classification	Control Acct #	Acct #
Deferred Charges			16000	
	Deferred Debt Costs	Balance Sheet		16100
BCUC Deferrals			17000	
	Revenue Deferral (BCUC)	Balance Sheet		17100
	Emergency Mtce Deferral (BCUC)	Balance Sheet		17200
	Cost of Market Deferral (BCUC)	Balance Sheet		17300
	Regulatory Exp Deferral (BCUC)	Balance Sheet		17400
	Grid West Exp Deferral (BCUC)	Balance Sheet		17500
Capital Assets			18000	
	Fixed Assets - In Service	Balance Sheet		18100
	Fixed Assets - Capital Lease	Balance Sheet		18110
	Fixed Asset-Leasehold Improvements	Balance Sheet		18120
	Contribution in Aid of Construction - Assets In Service	Balance Sheet		18140
	Recurring Capital	Balance Sheet		18180
	Recurring Capital - Contra	Balance Sheet		18190
*	Site Survey & Investigation Costs	Balance Sheet		18200
	Site Survey & Investigation Costs - Contra	Balance Sheet		18210
*	Deferred Capital	Balance Sheet		18250
	Asset Retirement Obligation Cost	Balance Sheet		18300
	Tenant Inducement	Balance Sheet		18500
	Tlob Power Smart Accum. Amortization	Balance Sheet		18551
	Tlob Def PWS	Balance Sheet		18552
	Tlob Sp PI OH - Opening Balance	Balance Sheet		18553
	Tlob Re PI OH - Opening Balance	Balance Sheet		18554
*	Unfinished Construction	Balance Sheet		18600
	Unfinished Construction - WIP Contra	Balance Sheet		18660
	Project Clearing	Balance Sheet		18665
	Contribution in Aid - WIP	Balance Sheet		18700
	Contribution in Aid - WIP Contra	Balance Sheet		18750
	Accumulated Depreciation - In Service	Balance Sheet		18900
	Accumulated Amortization - Capital Lease	Balance Sheet		18910
	Accum.Depreciation-Asset Retirement Cost	Balance Sheet		18930
	CIA-Accumulatd Depreciation	Balance Sheet		18940
	Accum. Deprec. - Site Survey & Invest Costs	Balance Sheet		18950
	Accumulated Depreciation - Tenant Inducement	Balance Sheet		18970
Accounts Payable			21000	
	Accounts Payable - CDN	Balance Sheet		21100
	Autoinvoice Clearing	Balance Sheet		21150
	Accounts Payable - USD	Balance Sheet		21200
Various Payroll Deductions/ GST Payable			22000	
	Accident Dismemb Insurance	Balance Sheet		22010
	Adj Employees Paid Loa	Balance Sheet		22020
	Canada Savings Bond	Balance Sheet		22030
	Contrib To Fellow Empl	Balance Sheet		22060
	CPP Employee Contributions	Balance Sheet		22080
	Current Pension - Employer	Balance Sheet		22100
	Ehc Liability	Balance Sheet		22120
	EI Premiums	Balance Sheet		22140
	Employee Donation Deduction	Balance Sheet		22160
	Employee Garnishees	Balance Sheet		22180
	Employee Rent	Balance Sheet		22200
	Employee/Employer Benefit Pay	Balance Sheet		22220

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Category	Account Name	Classification	Control Acct #	Acct #
	Enhanced Pension Liability	Balance Sheet		22240
	Fitness Center	Balance Sheet		22260
	Group Insurance - Voluntary	Balance Sheet		22280
	Group Insurance Liability	Balance Sheet		22300
	Group RRSP Deductions	Balance Sheet		22320
	Hydreco Tickets	Balance Sheet		22340
	IBEW Union Dues	Balance Sheet		22360
	Income Tax Deductions	Balance Sheet		22380
	COPE Dental Plan	Balance Sheet		22400
	COPE Union Dues	Balance Sheet		22420
	Pension Employee Contrib	Balance Sheet		22440
	Pensionable Bonus Plan	Balance Sheet		22460
	Private Health Services Plan	Balance Sheet		22480
	Provision Long-Term Disability	Balance Sheet		22500
	Sundry Pay Deductions	Balance Sheet		22520
	Temp Elec-Emp Benefits	Balance Sheet		22540
	Transit Pass Deductions	Balance Sheet		22560
	Gst Input Tax Credit	Balance Sheet		22700
	Gst Payable	Balance Sheet		22720
	Gst-Equal Pay/Advance Billing	Balance Sheet		22740
	Provincial Sales Tax	Balance Sheet		22800
	Payroll Clearing	Balance Sheet		22900
Various Accrued Liabilities			23000	
	Interest Payable	Balance Sheet		23005
	Accrued Liabilities	Balance Sheet		23010
	Accrued Liability - Capital	Balance Sheet		23011
	Accruals on Receipt of Goods	Balance Sheet		23020
	Accrued Liability - Visa	Balance Sheet		23030
	Grants And School Tax Payable	Balance Sheet		23040
	Gainsharing Liability	Balance Sheet		23110
	Retiree Dental Plan	Balance Sheet		23160
	Retirement Leave Bank - Bcpc	Balance Sheet		23180
	Severance Pay	Balance Sheet		23220
	EI Premium Refund	Balance Sheet		23240
	Unpaid Wages Liability	Balance Sheet		23260
	Workers' Compensation	Balance Sheet		23310
Short Term Loans			23500	
	Short Term Borrowing - Cdn	Balance Sheet		23510
	Short Term Borrowing - US	Balance Sheet		23610
Due to BCH			24000	
	BCH Payable	Balance Sheet		24010
	BCH Clearing (WTS)	Balance Sheet		24020
	Intercompany Clearing	Balance Sheet		24100
Current Deferred Credits			24300	
	Deferred Revenue-BCH	Balance Sheet		24310
	Deferred Revenue -Other	Balance Sheet		24320
Other Current Liabilities			24500	
	B.C. Corp. Capital Tax Payable	Balance Sheet		24510
	Non-Res Tax Withheld	Balance Sheet		24520
	Obligation under Capital Lease - Current	Balance Sheet		24600
*	Dismantling Costs - Fixed Assets	Balance Sheet		24720
	Dismantling Costs - Contra	Balance Sheet		24721

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Category	Account Name	Classification	Control Acct #	Acct #
	Refundable CIA	Balance Sheet		24740
	Energy Purchased Liability	Balance Sheet		24780
	Customer Deposits	Balance Sheet		24800
	Holdbacks Payable	Balance Sheet		24850
Other Non-Current Liabilities			25000	
	Asset Retirement Obligation Liability	Balance Sheet		25100
	Supplemental Pension Plan	Balance Sheet		25190
	Post Retirement Benefit Costs	Balance Sheet		25200
	Vacation And RWWL Liability	Balance Sheet		25300
	Q/V Bank Liability	Balance Sheet		25301
	V/O Bank Liab lbew	Balance Sheet		25302
	COPE Overtime Bank Liability	Balance Sheet		25303
	Sabbatical Leave Plan Liab.	Balance Sheet		25310
	Environmental Exposure Provision	Balance Sheet		25400
	Obligation under Capital Lease - Long Term	Balance Sheet		25600
Long Term Debts			28000	
	Debenture Payable	Balance Sheet		28100
	Premium on Debentures Payable	Balance Sheet		28200
Other Liabilities			29000	
	Translation Adjustment	Balance Sheet		29310
Equity			39000	
	Capital Stock	Balance Sheet		39110
	Retained Earnings	Balance Sheet		39210
	Dividends	Balance Sheet		39310
	TLoB Contribution in Aid of Construction	Balance Sheet		39410
	TLoB CIA-Accumulatd Depreciation	Balance Sheet		39420
	Prior Period Adjustment	Balance Sheet		39510
Tariff Revenue			41000	
	Network Integration Trans. Rev	Profit and Loss		41110
*	Firm PTP Trans Rev	Profit and Loss		41120
*	Non-Firm PTP Trans Rev	Profit and Loss		41130
	Sched, Syst Control & Dispatch Rev	Profit and Loss		41210
	Reactive Supply & Voltage Control Rev	Profit and Loss		41211
	Regulation & Frequency Response Rev	Profit and Loss		41212
	Energy Imbalance Rev	Profit and Loss		41213
	Spinning Reserve - OR Rev	Profit and Loss		41214
	Supplemental Reserve - OR Rev	Profit and Loss		41215
	Loss Compensation Trans Rev	Profit and Loss		41216
	Real Power Losses Rev	Profit and Loss		41217
	Minimum Transaction Charge Rev	Profit and Loss		41218
	Asset Management Maintenance Rev	Profit and Loss		41300
*	OATT Revenue - Deferral (BCUC)	Profit and Loss		41350
	BCTC OATT Revenue Clearing	Profit and Loss		41850
	BCH OATT Revenue Offset	Profit and Loss		41900
	TLoB Secondary Revenue	Profit and Loss		48900
Non - Tariff Revenue			46000	
	GRTA Revenue	Profit and Loss		46001
	SDA Revenue	Profit and Loss		46002
	Grandfathered Wheeling Agreement Revenue (GWA)	Profit and Loss		46003
	NWPP Reserve Sharing Revenue	Profit and Loss		46004
	Tlob Capital Revenue	Profit and Loss		46010
	BCH Other Revenue	Profit and Loss		46110

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Category	Account Name	Classification	Control Acct #	Acct #
	Non BCH Revenue	Profit and Loss		46210
	Billed Expense Recoveries	Profit and Loss		46211
	BCTC Scheduling, System Control & Dispatch Revenue	Profit and Loss		46300
	Asset Management Maintenance Revenue	Profit and Loss		46320
	Distribution Operations Revenue	Profit and Loss		46330
	Generation Dispatch Revenue	Profit and Loss		46340
	Generation Dispatch Revenue - External	Profit and Loss		46340
	Telecom Revenue	Profit and Loss		46360
Miscellaneous Revenues			48000	
	Investment Income	Profit and Loss		48010
	Mortgage Interest Income	Profit and Loss		48110
	Rental Income - BCH	Profit and Loss		48210
	Unallocated Revenue	Profit and Loss		48310
	Royalty Revenue	Profit and Loss		48311
	Finance Charge Levied	Profit and Loss		48410
	Miscellaneous Income	Profit and Loss		48510
	Tlob Secondary Revenue	Profit and Loss		48900
Cost of Service			61000	
	Congestions Management Expense	Profit and Loss		61100
	Ancillary Service Expense	Profit and Loss		61200
	Cost of Energy	Profit and Loss		61600
OMA			65000	
*	OMA			65100
Taxes & Grants			71000	
	BC corporation tax	Profit and Loss		71100
	Grants	Profit and Loss		71200
	Property tax	Profit and Loss		71300
Depreciation & Amortization			73000	
	Depreciation	Profit and Loss		73100
	Amortization expense - Power Smart	Profit and Loss		73150
	Amortization expense - Asset Under Capital Lease	Profit and Loss		73200
	Depreciation - CIA	Profit and Loss		73300
	Depreciation - Tenant Inducement	Profit and Loss		73350
	Depreciation - Asset Retirement Obligation	Profit and Loss		73400
*	Dismantling Costs	Profit and Loss		73500
Finance Charges			75000	
	Bank Service Charges	Profit and Loss		75100
	Finance Charges - Short Term	Profit and Loss		75200
	Finance Charges - Long Term	Profit and Loss		75300
	Interest Charges - Capital Lease	Profit and Loss		75400
	IDC - During Construction	Profit and Loss		75500
Other			77000	
	Business Sustaining	Profit and Loss		77100
	Gains/Losses on Dispositions of Fixed Assets	Profit and Loss		77200
	Write-off of Abandoned Projects	Profit and Loss		77300
	Realized Gains/Losses	Profit and Loss		77400
	Unrealized Gains/Losses	Profit and Loss		77500
	Cross Currency Rounding	Profit and Loss		77600
	PO Rate Variance Gain	Profit and Loss		77700
	Suspense Account	Profit and Loss		77999
Deferrals			80000	
	RDA Variance	Profit and Loss		80100

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Category	Account Name	Classification	Control Acct #	Acct #
	EMEDA Variance	Profit and Loss		80200
	COMDA Variance	Profit and Loss		80300
	REDA Variance	Profit and Loss		80400
	Grid West Exp Variance	Profit and Loss		80500
*	Resource Allocation			

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

2008 TAXES AND OTHER EXPENSES FOR THE YEAR ENDING DECEMBER 31, 2008

1. PROPERTY TAX EXPENSE

Under the PBR, property taxes will be forecast each year for the Annual Review process. The Property Tax deferral account will collect all variances from the forecast amount included in rates.

The projected 2007 property tax is expected to be lower than previous forecast by \$1,009,000. Under the terms of the Settlement, forecast variances are afforded deferral treatment. For 2008, the forecast property tax is \$44,635,000. Details in support of this amount can be found on Page 4 of this tab.

Property taxes are levied under legislation against the Company by Provincial, Municipal and other local governments.

1% Tax

The 1% tax in lieu of general municipal taxes ("1% tax") is calculated based on the amount of revenues collected for gas consumed within municipal boundaries multiplied by 1% (1.25% for the City of Vancouver). Payments of the 1% tax to municipalities are lagged relative to increases and decreases in revenues due to provisions in the applicable legislation and agreements. 2008 budget payments are based on actual 2006 revenues, except for Vancouver which will be based on 2007 revenues.

General, School and Other

Property taxes include general, school and other property taxes as well as Oil and Gas Commission fees. Assessed values for land and improvements are estimated using 2007 actual assessments and applying various market adjustments. The 2008 forecast includes:

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

- a) An adjustment of 3% to office improvements and 0% to other improvements except for pipe.
- b) An adjustment of 10% to fee-owned land for offices, and 5% for all other fee lands to cover expected increases in land prices.
- c) An average increase of 10% to transmission pipeline, based on projected increases in labour, material and other costs.
- d) An increase of 5% in distribution pipelines for increased costs such as Polyethylene Pipe, Steel Pipe, Fuel, and labour.
- e) Net additions to distribution pipeline are estimated at \$21,149,000.

It is expected that Mill rates will generally decrease as a result of rising assessment values. Mill rates used in calculating taxes payable are forecast to change as follows:

- a) First Nations: 0.5%
- b) General Municipal Rate: - 1.0%
- c) General Vancouver Rate: -0.5%
- d) General Rural Rates: - 1.5%
- e) General University Endowment Land Rate: -15.0%
- f) School Rates: -1.5%
- g) Other Rates: -1.5%

Beyond the changes mentioned above and revenue-driven changes in the 1% tax, no additional property tax increases are included. As indicated in the Application section, Terasen Gas seeks continuation of the deferral account treatment for variances in property taxes from forecast.

2. LARGE CORPORATIONS TAX (LCT)

The LCT was eliminated in 2006, therefore no provision for LCT expense has been made for 2008. The LCT which was included in 2006 rates has been deferred in accordance with the terms of the 2004-2007 PBR, and is being amortized over three years (2007 through 2009). The amortization expense for each year, 2007 and 2008, is credited \$1,034,000.

3. INCOME TAX EXPENSE

Income tax expense is determined based on taxable earnings calculated on the basis of revenues and costs in accordance with the applicable provisions of the *Income Tax Act*, multiplied by the combined provincial and federal income tax rates. For regulatory purposes, income tax expense is calculated following the taxes payable method of accounting for income taxes. For 2007 and 2008, the corporate income tax rate is set at 33.00% and 32.50% respectively.

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PROPERTY AND SUNDRY TAXES
FOR THE YEAR ENDING DECEMBER 31,
(\$000)

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Line No.	Particulars	B.C.U.C. Account Number	2007 Approved	2008		Change	Reference
				Total Expenses	Revised Revenue, Total Expenses		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Property Taxes	305-010					
2							
3	1% in Lieu of General Municipal Tax		14,356	\$14,821	\$14,821	\$ 465	
4							
5	General, School and Other		<u>30,096</u>	<u>29,851</u>	<u>29,851</u>	<u>(245)</u>	
6							
7			44,452	\$44,672	\$44,672	220	
8							
9	B.C. Corporation Capital Tax		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
10							
11	Total		<u>\$41,379</u>	<u>\$44,672</u>	<u>\$44,672</u>	<u>\$220</u>	- Tab A-1, Page 7

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

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INCOME TAXES / REVENUE DEFICIENCY
FOR THE YEAR ENDING DECEMBER 31, 2008
(\$000s)

Line No.	Particulars	2007 APPROVED	2008		Change	Reference
			Existing Rates	Revised Revenue		
	(1)	(2)	(3)	(4)	(5)	(6)
1	CALCULATION OF INCOME TAXES					
2	Earned Return	\$182,217	\$181,670	\$3,793	\$185,463	\$3,246
3	Deduct - Interest on Debt	(109,714)	(112,047)	(11)	(112,058)	(2,344)
4	Add- Non-Tax Ded. Expense (Net)	(2,290)	(2,644)	-	(2,644)	(354)
5						
6	Accounting Income After Tax	70,213	66,979	3,782	70,761	548
7	Add (Deduct) - Timing Differences	(7,483)	(14,641)	-	(14,641)	(7,158)
8	Add - Large Corporation Tax	-	-	-	-	-
9						
10	Taxable Income After Tax	\$62,730	\$52,338	\$3,782	\$56,120	(\$6,610)
11						
12		33.000%	32.500%	32.500%	32.500%	-0.500%
13	1 - Current Income Tax Rate	67.000%	67.500%	67.500%	67.500%	0.500%
14						
15	Taxable Income (L10 / L13)	\$93,626	\$77,538	\$5,603	\$83,141	(\$10,485)
16						
17						
18	Income Tax - Current (L12 x L15)	\$30,897	\$25,200	\$1,821	\$27,021	(\$3,876)
19	- Deferred Income Tax	-	-	-	-	-
20	- Large Corporation Tax	-	-	-	-	-
21						
22	Total Income Tax	\$30,897	\$25,200	\$1,821	\$27,021	(\$3,876)
23						
24	REVENUE DEFICIENCY					
25	Earned Return	\$182,217		\$3,793	\$185,463	
26	Add - Income Taxes	30,897		1,821	27,021	
27	Deduct - Utility Income Before Taxes,	-				
28	Present Rates	(222,723)		-	(206,870)	
29	Corporate Capital Tax	-		-	-	
30						
31	Deficiency After Corporate Capital Tax	(\$9,609)		\$5,614	\$5,614	

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

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NON-TAX DEDUCTIBLE EXPENSES (NET) AND TIMING DIFFERENCE ADJUSTMENTS
FOR THE YEAR ENDING DECEMBER 31, 2008
(\$000s)

Line No.	Particulars	2007 APPROVED	2008	Change	Reference
	(1)	(2)	(3)	(4)	(5)
1	ITEMS OF A PERMANENT NATURE INCREASING TAXABLE INCOME				
2					
3	Amortization of Deferred Charges	(\$2,725)	(\$3,044)	(\$319)	- Tab A-3, Page 13.3
4					
5	Non-tax Deductible Expenses	435	400	(35)	
6					
9	Total Permanent Differences	<u>(\$2,290)</u>	<u>(\$2,644)</u>	<u>(\$354)</u>	- Tab A-1, Page 8
10					
11	TIMING DIFFERENCE ADJUSTMENTS				
12					
13	Depreciation	\$87,496	\$87,186	(\$310)	- Tab A-Tab 6, Page 7
14	Amortization of Debt Issue Expenses	1,081	602	(479)	
15	Debt Issue Costs	(1,421)	(1,570)	(149)	
16	Capital Cost Allowance	(83,019)	(84,566)	(1,547)	- Tab A-Tab 6, Page 8
17	Cumulative Eligible Capital Allowance	(1,057)	(1,148)	(91)	
18	Long Term Compensation	1,901	957	(944)	
19	Unfunded Pension	(1,814)	(4,026)	(2,212)	
20	Overheads Capitalized Expensed for Tax Purposes	(10,326)	(10,294)	32	
21	Discounts on Debt Issue and Other	(323)	(1,782)	(1,459)	
22	Timing Differences	<u>(7,483)</u>	<u>(14,641)</u>	<u>(7,158)</u>	
23					
24	Total Timing Differences	<u>(\$7,483)</u>	<u>(\$14,641)</u>	<u>(\$7,158)</u>	- Tab A-1, Page 8

TERASEN GAS INC.**2007 ANNUAL REVIEW****2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN**

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DEPRECIATION AND AMORTIZATION EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 2008
(\$000s)

Line No.	Particulars (1)	2007 APPROVED (2)	2008 (3)	Change (4)	Reference (5)
1	<u>Depreciation Provision</u>				
2					
3	Total Depreciation Expense	\$92,254	\$93,668	\$1,414	- Tab A-3, Page 15.4
4					
5	Less: Amortization of Contributions in Aid of Construction	<u>(4,758)</u>	<u>(6,482)</u>	<u>(1,724)</u>	- Tab A-3, Page 9
6		<u>87,496</u>	<u>87,186</u>	<u>(\$310)</u>	
7					
8	<u>Amortization Expense</u>				
9					
10	Amortization of Deferred Charges	(\$2,725)	(\$3,044)	(\$319)	- Tab A-3, Page 13.3
11					
12					
13		<u>(2,725)</u>	<u>(3,044)</u>	<u>(319)</u>	
14					
15	TOTAL	<u>\$84,771</u>	<u>84,142</u>	<u>(\$629)</u>	- Tab A-1, Page 7

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

CAPITAL COST ALLOWANCE
FOR THE YEAR ENDING DECEMBER 31, 2008
(\$000s)

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Line No.	Class	CCA Rate %	12/31/2007 UCC Balance	Adjustments	2008 Net Additions	2008 CCA	12/31/2008 UCC Balance
	(1)	(2)	(3)	(4)	(6)	(7)	(8)
1	1	4%	\$1,369,846	\$17,912	\$88,875	(\$57,288)	\$1,419,345
2	2	6%	185,792	1	-	(11,148)	174,645
3	3	5%	3,132	-	-	(157)	2,975
4	6	10%	254	(1)	-	(25)	228
5	7	15%	70	(70)	-	-	-
6	8	20%	20,793	(146)	4,619	(4,591)	20,675
7	9	25%	1	-	-	-	1
8	10	30%	5,592	(3)	60	(1,686)	3,963
9	12	100%	-	-	-	-	-
10	13		6,606	173	769	(943)	6,605
11	14		6	-	-	(2)	4
12	17	8%	264	-	-	(21)	243
13	29	100%	-	-	-	-	-
14	38	30%	24	1	-	(8)	17
15	39	25%	1	(1)	-	-	-
16	45	45%	12,014	(203)	8,398	(7,205)	13,004
17	49	8%	13,656	782	8,433	(1,492)	21,379
18							
19		Total	<u>\$1,618,049</u>	<u>\$18,445</u>	<u>\$111,154</u>	<u>(\$84,566)</u>	<u>\$1,663,084</u>

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.

Section A

CALCULATION OF LARGE CORPORATION TAX
FOR THE YEAR ENDING DECEMBER 31, 2008
(\$000s)

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Line No.	Particulars (1)	Reference (2)	2007 Approved (3)	2008		Change (6)
				Existing Rates (4)	Revised Rates (5)	
1	Large Corporation Tax					
2						
3	Utility Capital (Line 26)		\$2,492,518	\$2,523,931	\$2,524,294	\$31,776
4	Add: Security Deposits		2,796	3,474	3,474	678
5	Long Term Construction Advances		8	461	461	453
6	Deferred Income Tax		606	364	364	(242)
7	Work in Progress Attracting AFUDC		42,130	21,889	21,889	(20,241)
8	Sub-total		2,538,058	2,550,119	2,550,482	12,424
9						
10	Utility Portion of \$50,000,000 or \$0 Deduction					
11	(Line 38 x \$50,000,000 or \$0)		(47,885)	(47,910)	(47,910)	(25)
12						
13	Taxable Capital		\$2,490,173	\$2,502,209	\$2,502,572	\$12,399
14						
15	Large Corporation Tax Rate		0.000%	0.000%	0.000%	0.000%
16						
17	Large Corporation Tax		\$0	\$0	\$0	\$0
18	Less: Surtax	0.00%	-	-	-	-
19						
20	Large Corporation Tax		\$0	\$0	\$0	\$0
21						
22						
23	Net Plant in Service, Ending	- Tab A-1, Page 6	\$2,371,801	\$2,436,692	\$2,436,692	\$64,891
24	All Other Rate Base Items - Lines 26 - 33 of	- Tab A-1, Page 6	120,717	87,239	87,602	(33,115)
25						
26	Utility Capital		2,492,518	2,523,931	2,524,294	31,776
27						
28	Non-Rate Base Items					
29	Net Book Value of Lower Mainland Premium		97,670	97,670	97,670	-
30	Disallowed Plant Costs		1,890	1,990	1,990	100
31	Plant Held for Future Use		55	55	55	-
32	Fort Nelson Division		4,303	4,303	4,303	-
33	Squamish Gas Co. Ltd.		6,050	6,200	6,200	150
34						
35	Total Capital		\$2,602,486	\$2,634,149	\$2,634,512	\$32,026
36						
37						
38	Proportion of Utility Capital to Total Capital		95.77%	95.82%	95.82%	0.05%

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

2008 RETURN ON CAPITAL FOR THE YEAR ENDING DECEMBER 31, 2008

Under the terms of the 2008-2009 Extension of the 2004 – 2007 PBR Settlement the short term interest rate and new long term issues will be updated each fall for the Annual Review process. The interest deferral account will collect short term rate variances and all variances with respect to long term issues.

Long-Term Debt

Total long-term debt of \$1,373.9 million is entirely TGI related.

Medium-term notes Series 13 and Series 20 totaling \$250 million are set to mature in October, 2007. A \$250 million 30-year debt issue with a coupon rate of 6.0% was settled on October 2, 2007.

The following issues will mature in 2008:

- 2005 Long Term Debt Issue – Coastal Facilities; January 1, 2008; \$50.3 million;*
- Medium Term Note - Series 9; June 2, 2008; \$55.0 million;
- Medium Term Note – Series 9 Reopened; June 2, 2008; \$58.0 million; and
- Medium Term Note – Series 9 Reopened; June 2, 2008; \$75.0 million.

The total debt maturing in 2008 is \$238.3 million.

A \$200.0 million 30 year debt issue with a forecast rate of 5.95% is planned for June 1, 2008.

* Refinanced through unfunded debt.

Unfunded Debt

The unfunded debt rate for 2008 is set at 5.00% based on the current outlook for short-term rates in the year.

The total unfunded debt for 2008 is forecast at \$253.4 million.

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

Common Equity

The revenue requirement information included is based on the allowed 2007 return on equity ("ROE") of 8.37%. The common equity component of TGI will be 35.01% for 2008. The 2008 rates for TGI will be adjusted from those in these Annual Review materials to take into account the Commission's determination of the allowed ROE for the low risk benchmark utility, which determination is expected some time in late November 2007.

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TERASEN GAS INC.										Section A
EMBEDDED COST OF LONG-TERM DEBT										Tab 7
FOR THE YEAR ENDING DECEMBER 31, 2008										Page 2
(\$000s)										
Line No.	Particulars	Issue Date	Maturity Date	Coupon Rate	Principal Amount of Issue	Issue Expense	Net Proceeds of Issue	Effective Interest Cost	Average Principal Outstanding	Annual Cost
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Series A Purchase Money Mortgage	3-Dec-1990	30-Sep-2015	11.800%	\$58,943	\$855	\$58,088	12.054%	\$58,943	\$7,105
2	Series B Purchase Money Mortgage	30-Nov-1991	30-Nov-2016	10.300%	157,274	2,228	155,046	10.461%	157,274	16,452
3										
4	2005 Long Term Debt Issue - Coastal Facilities	1-Jan-2005	1-Jan-2008	6.100%	50,300	82	50,218	6.160%	-	-
5										
6	Medium Term Note - Series 9	21-Oct-1997	2-Jun-2008	6.200%	55,000	454	54,546	6.308%	22,992	1,450
7	Med.Term Note - Series 9 (Re-opened)	19-Nov-1998	2-Jun-2008	6.200%	58,000	681	57,319	6.036%	24,246	1,463
8	Med.Term Note - Series 9 (Re-opening)	21-Sep-1999	2-Jun-2008	6.200%	75,000	2,053	72,947	6.578%	31,352	2,062
9										
10	Medium Term Note - Series 11	21-Sep-1999	21-Sep-2029	6.950%	150,000	2,290	147,710	7.073%	150,000	10,610
11	2004 Long Term Debt Issue - Series 18	29-Apr-2004	1-May-2034	6.500%	150,000	1,915	148,085	6.598%	150,000	9,897
12	2005 Long Term Debt Issue - Series 19	25-Feb-2005	25-Feb-2035	5.900%	150,000	1,663	148,337	5.980%	150,000	8,970
13	2006 Long Term Debt Issue - Series 21	25-Sep-2006	25-Sep-2036	5.550%	120,000	669	119,331	5.589%	120,000	6,707
14	2007 Medium Term Debt Issue - Series 22	15-Oct-2007	15-Oct-2037	6.100%	250,000	2,500	247,500	6.174%	250,000	15,435
15	2008 Medium Term Debt Issue - Series 23	1-Jun-2008	1-Jun-2038	5.950%	200,000	2,000	198,000	6.022%	116,940	7,042
16										
17	LILO Obligations - Kelowna							5.953%	28,747	1,711
18	LILO Obligations - Nelson							7.093%	4,555	323
19	LILO Obligations - Vernon							8.108%	13,660	1,108
20	LILO Obligations - Prince George							7.089%	34,914	2,475
21	LILO Obligations - Creston							6.348%	3,303	210
22										
23									<u>\$1,316,926</u>	<u>\$93,020</u>
24	Debentures:									
25	Series E	8-Jun-1989	7-Jun-2009	10.750%	59,890	637	59,253	10.927%	\$59,890	\$6,544
26										
27									<u>\$59,890</u>	<u>\$6,544</u>
28										
29	Sub-Total								\$1,376,816	\$99,564
30	Less - Fort Nelson Division Portion of Long Term Debt								(2,935)	(212)
31	Total								<u>\$1,373,881</u>	<u>\$99,352</u>
32										
33									Average Embedded Cost	<u>7.231%</u>

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

2007 PROJECTIONS

Terasen Gas is projecting a 2007 return on common equity before earnings sharing of 10.323%, or 1.953% higher than the authorized return of 8.370%. This is due to capital productivity improvements, and operating productivity improvements made possible by the integration activities of the Company with TGVl which were facilitated by the performance based rate regulation (PBR) settlement. Under the PBR, which includes an earnings sharing mechanism, Terasen Gas is to share pre-tax earnings variances between authorized level of earnings as determined annually under the settlement and the actual earnings of the utility on a 50:50 basis with its customers. Return on common equity after earnings sharing is 9.54%. Accordingly, the customers' portion of the 2007 incentive earnings surplus is projected to be \$12.6 million on a pre-tax basis. Details in support of this calculation can be found on Page 6 of this Tab.

Terasen Gas proposes to distribute \$15.0 million to customers, representing the projected 2007 earnings surplus sharing plus a true up of prior year's earnings sharing, in 2008 via a rider.

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.
UTILITY RATE BASE
SCHEDULE II
(\$000)

Section A
Tab 8
Page 2

Line No.	Description	Approved 2007	Year Ended 12/31/2007			Difference	Reference
	(1)	(2)	Actual (3)	Normalization (4)	Normal (5)	(6)	(7)
1	Plant in service, Beginning	\$3,140,710	\$3,067,390	\$0	\$3,067,390	(\$73,320)	
2	CPCN's	8,137	10,846	0	10,846	2,709	
3							
4	Additions/Transfers	129,717	112,485	0	112,485	(17,232)	
5	Disposals/Retirements	(32,918)	(32,944)	0	(32,944)	(26)	
6	Plant in service, Ending	\$3,245,646	\$3,157,777	\$0	\$3,157,777	(\$87,869)	
7							
8	Add - Intangible plant	1,614	1,614	0	1,614	0	
9		\$3,247,260	\$3,159,391	\$0	\$3,159,391	(\$87,869)	
10							
11	Contributions in aid of construction	(131,162)	(153,619)	0	(153,619)	(22,457)	
12							
13	Less - Accumulated depreciation / amortization	(744,297)	(678,209)	0	(678,209)	66,088	
14							
15	Net plant in service, Ending	\$2,371,801	\$2,327,563	\$0	\$2,327,563	(\$44,239)	
16							
17	Net plant in service, Beginning	\$2,339,687	\$2,300,196	\$0	\$2,300,196	(\$39,491)	
18							
19	Net plant in service, Mid-year	\$2,355,744	\$2,313,879	\$0	\$2,313,879	(\$41,865)	
20	Adjustment to 13-month average	0	2,298	0	2,298	2,298	
21	Work in progress, no AFUDC	10,771	8,772	0	8,772	(1,999)	
22	Sub-total	2,366,515	2,324,949	0	2,324,949	(41,566)	
23							
24	Construction advances	(11)	(607)	0	(607)	(596)	
25	Unamortized deferred charges	(8,222)	(16,213)	0	(16,213)	(7,991)	
26	Cash working capital	(25,197)	(28,387)	0	(28,387)	(3,190)	
27	Other working capital	143,982	147,293	0	147,293	3,311	
28	Deferred income tax, mid-year	(606)	(606)	0	(606)	0	
29	LIFO Benefit	(2,243)	(2,146)	0	(2,146)	97	
30	Utility rate base	\$2,474,218	\$2,424,283	\$0	\$2,424,283	(\$49,935)	

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC. UTILITY INCOME AND EARNED RETURN (\$000)

Section A
Tab 8
Page 3

Line No.	Description	Approved 2007	Year Ended 12/31/2007			Difference	Reference
	(1)	(2)	Actual (3)	Normalization (4)	Normal (5)	(6)	(7)
1	ENERGY VOLUMES (TJ)						
2	Sales	116,776	118,057	\$0	\$118,057	1,281	
3	Transportation	95,397	99,414	0	99,414	4,017	
4	Total	<u>212,173</u>	<u>217,471</u>	<u>\$0</u>	<u>\$217,471</u>	<u>5,298</u>	
5							
6	Average Rate per GJ						
7	Sales	\$11.832	\$12.192	\$0.000	\$12.192	\$0.360	
8	Transportation	\$0.775	\$0.736	\$0.000	\$0.736	(\$0.039)	
9	Average	<u>\$6.860</u>	<u>\$6.955</u>	<u>\$0.000</u>	<u>\$6.955</u>	<u>\$0.095</u>	
10							
11	UTILITY REVENUE						
12	Sales - Present Rates	\$1,390,101	\$1,439,339	\$0	\$1,439,339	\$49,238	
13	- Increase / (Decrease)	(8,416)	0	0	0	8,416	
14	Transportation - Present Rates	75,080	73,157	0	73,157	(1,923)	
15	- Increase / (Decrease)	(1,193)	0	0	0	1,193	
16	Total Revenue	<u>1,455,572</u>	<u>1,512,496</u>	<u>0</u>	<u>1,512,496</u>	<u>56,924</u>	
17							
18	Cost of Gas Sold (Including Gas Lost)	<u>966,880</u>	<u>1,022,974</u>	<u>0</u>	<u>1,022,974</u>	<u>56,094</u>	
19	Gross Margin	<u>488,692</u>	<u>489,522</u>	<u>0</u>	<u>489,522</u>	<u>830</u>	
20	RSAM Revenue	<u>0</u>	<u>(3,053)</u>	<u>0</u>	<u>(3,053)</u>	<u>(3,053)</u>	
21	Adjusted Gross Margin	<u>488,692</u>	<u>486,469</u>	<u>0</u>	<u>486,469</u>	<u>(2,223)</u>	
22							
23	Operation & Maintenance	169,272	154,413	0	154,413	(14,859)	
24	Vehicle Leases	1,993	1,881	0	1,881	(112)	
25	Property Tax	44,452	44,452	0	44,452	0	
26	Depreciation and Amortization	84,771	75,154	0	75,154	(9,617)	
27	Other Operating Revenue	<u>(24,910)</u>	<u>(22,617)</u>	<u>0</u>	<u>(22,617)</u>	<u>2,293</u>	
28		<u>275,578</u>	<u>253,283</u>	<u>0</u>	<u>253,283</u>	<u>(22,295)</u>	
29	Utility Income before Income Taxes	213,114	233,186	0	233,186	20,072	
30	Income Taxes	30,905	37,375	0	37,375	6,470	- Tab A-8, Page 4
31	EARNED RETURN	<u>\$182,209</u>	<u>\$195,811</u>	<u>\$0</u>	<u>\$195,811</u>	<u>\$13,602</u>	
32	UTILITY RATE BASE	<u>\$2,474,218</u>	<u>\$2,424,283</u>	<u>\$0</u>	<u>\$2,424,283</u>	<u>(\$49,935)</u>	- Tab A-8 Page 2
33							
34	RETURN ON RATE BASE	<u>7.364%</u>	<u>8.077%</u>	<u>0.000%</u>	<u>8.077%</u>	<u>0.713%</u>	

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.
INCOME TAXES
SCHEDULE III
(\$000)

Section A
Tab 8
Page 4

Line No.	Description	Approved 2007	Year Ended 12/31/2007			Difference	Reference
	(1)	(2)	Actual (3)	Normalization (4)	Normal (5)	(6)	(7)
1	CALCULATION OF INCOME TAXES						
2	Earned Return	\$182,209	\$195,811	\$0	\$195,811	\$13,602	
3	Deduct - Interest on Debt	(109,689)	(108,173)	0	(108,173)	\$1,516	
4	Add - Non-Tax Deductible Expense (Net)	(2,290)	(2,324)	0	(2,324)	(34)	
5							
6	Accounting Income After Tax	\$70,230	\$85,314	\$0	\$85,314	\$15,084	
7	Deduct: Timing Differences	(7,483)	(13,151)	0	(13,151)	(5,668)	
8	Add: Large Corporation Tax	0	0	0	0	0	
9							
10	Taxable Income After Tax	\$62,748	\$72,163	\$0	\$72,163	\$9,416	
11							
12	Income Tax Rate (Current Tax)	33.000%	34.120%		34.120%	1.120%	
13	1 - Current Income Tax Rate	67.000%	65.880%	0.000%	65.880%	-1.120%	
14							
15	Taxable Income Before Income Tax	\$93,653	\$109,537	\$0	\$109,537	\$15,884	
16	Add - Amount Required to Provide for						
17	Deferred Income Tax	0	0	0	0	0	
18							
19	Taxable Income	\$93,653	\$109,537	\$0	\$109,537	\$15,884	
20							
21	Income Tax						
22	Current	\$30,905	\$37,374	\$0	\$37,374	\$6,469	
23	Deferred Income Tax	0	0	0	0	0	
24	Large Corporation Tax	0	0	0	0	0	
25							
26	Total	\$30,905	\$37,374	\$0	\$37,374	\$6,469	- Tab A-8, Page 3

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.
RETURN ON CAPITAL
SCHEDULE IV
(\$000)

Section A
Tab 8
Page 5

Line No.	Description	Approved 2007	Year Ended 12/31/2007			Difference	Reference
			Actual	Normalization	Normal		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Unfunded debt	\$137,943	\$105,490	\$0	\$105,490	(\$32,453)	
2	proportion	5.58%	4.35%	0.00%	4.35%	-1.23%	
3	rate of return	4.750%	4.750%	0.000%	4.750%	0.000%	
4	return component	0.27%	0.21%	0.00%	0.21%	-0.07%	
5							
6	Long term debt	\$1,470,051	\$1,470,051	\$0	\$1,470,051	\$0	
7	proportion	59.41%	60.64%	0.00%	60.64%	1.23%	
8	rate of return	7.018%	7.018%	0.000%	7.018%	0.000%	
9	return component	4.17%	4.26%	0.00%	4.26%	0.08%	
10							
11	Preference shares	\$0	\$0	\$0	\$0	\$0	
12	proportion	0.00%	0.00%	0.00%	0.00%	0.00%	
13	rate of return	0.000%	0.000%	0.000%	0.000%	0.000%	
14	return component	0.00%	0.00%	0.00%	0.00%	0.00%	
15							
16	Common equity	\$866,224	\$848,742	\$0	\$848,742	(\$17,482)	
17	proportion	35.01%	35.01%	0.00%	35.01%	0.00%	
18	rate of return	8.370%	10.323%	0.000%	10.323%	1.953%	
19	return component	2.93%	3.61%	0.00%	3.61%	0.68%	
20							
21							
22		<u>\$2,474,218</u>	<u>\$2,424,283</u>	<u>\$0</u>	<u>\$2,424,283</u>	<u>(\$49,935)</u>	
23							
24							
25	Return on rate base	<u>7.364%</u>	<u>8.077%</u>	<u>0.000%</u>	<u>8.077%</u>	<u>0.713%</u>	- Tab A-8, Page 3
26							
27							
28	Utility rate base	<u>\$2,474,218</u>	<u>\$2,424,283</u>	<u>\$0</u>	<u>\$2,424,283</u>	<u>(\$49,935)</u>	- Tab A-8, Page 2

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

TERASEN GAS INC.
EARNINGS SHARING CALCULATION
(\$000)

Section A
Tab 8
Page 6

Line No.	Description (1)		Year Ended 12/31/2007	
			Actual (2)	Reference (3)
1	Utility rate base		\$2,424,283	- Tab A-8, Page 2
2				
3	Common Equity Component	35.01%	848,742	- Tab A-8, Page 5
4				
5				
6	Achieved ROE on Common Equity		10.323%	- Tab A-8, Page 5
7				
8	Authorized ROE on Common Equity		8.370%	- Tab A-8, Page 5
9				
10	ROE Surplus / (Deficit)		1.953%	
11				
12	After Tax Surplus Available for Sharing		\$16,576	
13				
14				
15	Customers' 50% Share of Surplus (net-of-tax)		\$8,288	
16				
17				
18	Customers' 50% Share of Surplus (pre-tax)		\$12,580	

TERASEN GAS INC.

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2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

FIVE YEAR MAJOR CAPITAL PLAN

1.0 INTRODUCTION

This section constitutes Terasen Gas' Five Year Major Capital Plan for the forecast period 2008 through 2012. In addition to this information, Terasen Gas has also included its capital expenditure forecasts and year end projections for 2007.

Terasen Gas has segmented its Capital Plans as follows:

Regular Capital Plan

- Customer Driven Capital, and
- Non-Customer Driven Capital.

Major Capital Plan

- Capital Projects that do not require a Certificate of Public Convenience and Necessity ("CPCN"),
- Approved CPCN Capital Projects, and
- Anticipated CPCN Capital Projects.

Regular Capital includes forecast Capital Expenditures for non-CPCN projects. These expenditures have been categorized into either customer driven capital or non-customer driven capital. Regular Capital excludes Capitalized Overheads, Contributions In Aid of Construction ("CIAC"), and Allowance for Funds Used During Construction ("AFUDC").

Major Capital projects are defined as those discrete projects that are in excess of \$1 million (excluding AFUDC). These forecast expenditures have been categorized into projects which do not require a CPCN and those which do require a CPCN to proceed. As outlined on page 5 of Appendix A to Order No. G-33-07 approving a two year extension of the 2004-2007 Multi-Year Performance-Based Rate Plan, *"CPCN expenditures are excluded from the capital formula. Except in very unusual circumstances, CPCNs will not be filed for projects below \$5 million."* As such, all projects that are expected to have capital costs in excess of \$5 million have been included as prospective CPCN's.

1.1 Five Year Regular Capital Plan

The following table identifies the cost forecasts for regular capital expenditures in the current year, 2007 and 2008 to 2012. For the purposes of this Five Year Capital Plan, Regular Capital has categorized capital expenditures as follows:

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Capital Additions “Customer Driven” Capital

- Mains
- Services
- Meters for New Customer Additions

Other Regular Capital

- Meter Replacements
- Transmission Plant
- Distribution Plant
- IT Capital
- Non-IT Capital

Table 1 includes a comparison of the 2007 Forecast versus Projection for 2007 as well as capital expenditure forecasts for the period 2008 to 2012.

Table 1 - Forecast of Regular Capital Expenditure Targets (2007 - 2012)

	2007 Forecast	2007 Projection	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast
Forecasted Year End Customer Additions	13,160	13,129	11,797	11,346	11,148	11,047	11,048
Customer Driven Capital							
Mains	7,728	8,972	9,527	9,437	9,551	9,749	10,043
Services	15,552	17,871	19,443	19,260	19,492	19,896	20,496
Meters (Customer Additions)	4,172	4,140	3,834	3,798	3,844	3,924	4,042
	27,452	30,983	32,804	32,496	32,888	33,569	34,581
Other Regular Capital							
Replacement Customer Meters (Allocation)	12,327	11,089	13,392	17,231	21,082	25,414	27,310
Transmission Plant	6,401	4,912	11,652	4,841	5,063	5,164	5,267
Distribution Plant	8,806	10,224	9,174	7,793	7,814	8,058	8,270
IT	12,742	5,255	10,736	11,038	11,246	11,471	11,471
Non-IT	11,946	12,036	12,301	12,450	12,699	12,953	13,212
	52,222	43,517	57,255	53,352	57,904	63,060	65,530
Total Regular Capital	79,674	74,500	90,059	85,848	90,791	96,629	100,111

Figures exclude AFUDC and Capitalized Overheads.

1.2 Comparison of 2007 Forecast vs. 2007 Projection

When compared with the figures presented in the 2006 Five Year Capital Plan, Total Regular Capital, the year-end forecast for 2007 is lower by 6.5%. Below is an explanation of the primary driver(s) of forecast differences.

Current net customer addition forecasts for Terasen Gas can be found in Table 1 above. When compared with the forecasts presented in the 2006 Five Year Capital Plan, Customer Driven Capital is forecast to be approximately \$3.5 million higher for 2007. These increases are

TERASEN GAS INC.

2007 ANNUAL REVIEW

2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN

attributable to Mains and Service installation expenses. Installation contracts re-tendered in mid-2006 have resulted in installation price increases for New Mains, the majority of which are installed by external contractors. Contractor paving costs have also increased due to increases in material costs. New Service installations, which are installed by contractor and Terasen crews, have also been impacted by the installation contractor pricing changes and paving cost increases. Additionally, in the lower mainland, crew sizes have been temporarily increased from three to four as part of a succession planning initiative. Once employees are trained and others have retired, crew complements will return to normal.

For 2007, total expenditures for Other Regular Capital are expected to be approximately \$8.7 million lower than anticipated in the 2006 Five Year Capital Plan. This difference is mainly due to the following factors:

1) IT costs are currently projected to be \$7.5 million lower than previous year's forecast. This decrease is attributed to the following two items:

- With the sale of Terasen Inc to Fortis and the subsequent transition efforts, the Commission's approval of the Distribution Mobile Solution and other business priorities, Terasen had to review and re-prioritize its initial 2007 IT budget with the view of what could be undertaken and implemented successfully. Based on that review, it was decided to scale back and/or defer some initiatives in order to maintain the balance between business operation and new projects. Some of the initiatives that were scaled back were the annual hardware refresh programs (i.e. Network, Server, Desktop, Printer) and the SAP and Order Fulfilment and other SAP enhancement projects. Other projects that were deferred to 2008 were the SAP Upgrade project, the Recorded Information Management project for Distribution and Transmission and various system improvement initiatives. The total impact to the 2007 budget was a reduction in anticipated spend across the Terasen Gas companies of just over \$4.0 million.
- \$3.6 million was initially budgeted for the Distribution Mobile Solution Project but additional functionality was required to ensure efficiency and effective performance. This project later became a CPCN approved by the Commission on July 2, 2007 in Order No. C-5-07.

2) The forecast for Replacement Meters is expected to be \$1.2 million less in 2007 than originally anticipated due to a lower number of required meter recalls.

TERASEN GAS INC.

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3) Transmission Plant ("TP") expenditures are currently projected to be \$1.5 million less than previously forecast. This reduction is attributed to the reallocation of TP Laterals. This item was previously identified as a Transmission Plant cost that should have been allocated to Distribution Plant. The cost reallocation results in a \$1.5 million decrease to Transmission Plant expenditures and an equal offsetting increase to the 2007 Distribution Plant expenditure forecast.

4) Non-IT expenditures are currently projected to be \$0.09 million higher than the previous forecast. This increase was attributed to an unanticipated \$0.8 million land rights payment for Ashcroft TP Lateral. However, this variance was significantly offset by approximately \$0.7 million in projects not proceeding as planned.

2. Five Year Major Capital Plan

2.1 Major Capital Projects that do not require a CPCN

Table 2 identifies the forecast of costs for major capital projects not subject to CPCN applications for the current year and the forecast period 2008 - 2012.

In the table below, Transmission and Distribution projects are differentiated as either capacity shortfall projects required to maintain minimum gas system pressures in the respective gas systems or as system modification projects. IT projects are categorized as either upgrades/enhancements, replacements, or new applications.

Table 2 – Forecast of Major Capital Projects not requiring a CPCN (2007 – 2012)

Project Description	Project Category	2007 YEF	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast
<u>Transmission Plant</u>							
SCP Code Compliance Upgrades	Upgrade/Enhancement		3,500				
LNG Coldbox Upgrade	Upgrade/Enhancement	1,334	2,785				
Scada Upgrade	Upgrade/Enhancement		100	1,500			
Kootney River Crossing	Upgrade/Enhancement		1,750	500			
Columbia River Crossing	Upgrade/Enhancement		1,750	500			
<u>Distribution Plant</u>							
SI - 1600m x 323mm STL IP Riverside	Capacity Shortfall			1,192			
SI - 2600m x 323mm STL IP 72nd St	Capacity Shortfall						1,800
SI - 1750m x 323mm STL IP 36th Ave	Capacity Shortfall						1,211
<u>IT</u>							
SAP Upgrade	Upgrade/Enhancement		2,700				
Asset Data Integration	Upgrade/Enhancement	246	1,350				
<u>Non-IT</u>							
No Projects Identified							
		1,580	13,935	3,692	-	-	3,011

2.1.1 Transmission Plant - SCP Code Compliance Upgrades

The Southern Crossing Pipeline (“SCP”) is a key transmission pipeline supplying natural gas to the Interior and through to the Lower Mainland regions of British Columbia. The pipeline was constructed and put in service in December 2000. Since construction of the pipeline, the population density and class location near Oliver has increased from the original design value. The resulting difference has resulted in the lowering of the allowable operating pressure. This upgrade to the pipeline will restore the original operating pressure. This project cost is estimated to be \$3.5 million and will commence in 2008.

2.1.2 Transmission Plant – LNG Coldbox Upgrade

The Liquefied Natural Gas (“LNG”) Coldbox is part of the plant component at the Terasen Gas Tilbury LNG Facility. The LNG Coldbox is the plant component that reduces gas temperature to -162° Celsius, thereby converting natural gas into LNG. The existing plant was built in 1970-1971.

The LNG Coldbox consists of a number of very complex shell and tube, spiral-wound heat exchangers. A number of the tubes in one heat exchanger failed in early 2005. Repairs were successful but very challenging. A materials engineering investigation was completed as to cause and likelihood of additional failures in future. This report stated that further tube failures will occur.

A tube failure in the Coldbox will result in Terasen Gas not being able to produce LNG, Terasen Gas plans to spend approximately \$4.2 million (excluding AFUDC) for replacement of this plant. Preliminary work commenced in 2006 and the project is expected to be completed in 2008.

2.1.3 Transmission Plant - SCADA System Upgrade

The SCADA system operates, controls, and monitors Terasen Gas’ transmission and compression facilities in British Columbia. Timely vendor support of the current version (6.0) of the SCADA application may be at risk as knowledge support diminishes with vendor support staff attrition. Preliminary studies are expected to commence in 2008 with an upgrade to the next supported version to be in service in 2009. The total estimated cost of this project is \$1.6 million (excluding AFUDC).

2.1.4 Transmission Plant - Kootenay River (near Shoreacres) Crossings

The aerial crossing of the Kootenay River on the Savona – Nelson Mainline between Castlegar and Nelson has been identified as requiring extensive rehabilitation. This structure was constructed in 1957 and has extensive cable and support corrosion. This structure is in need of repair or replacement in order to ensure continued gas service to Nelson. A horizontal directional drill (“HDD”) is also being considered as the prime alternative to an aerial crossing. Preliminary investigations were conducted in 2007. Preliminary project design is expected to be completed by the end of 2007 with construction to commence in 2008 with completion expected in 2009. Preliminary cost estimates are approximately \$2 million (excluding AFUDC).

2.1.5 Transmission Plant - Columbia River Crossing near Brilliant

Due to extensive cable and pipe corrosion, rehabilitation is required at the Columbia River on the Savona – Nelson Mainline aerial crossing between Castlegar and Nelson near Brilliant. This structure was constructed in 1957 and must be repaired or replaced to avoid any gas service disruptions to Nelson. As an alternative to an aerial crossing, HDD has been considered at this location. Preliminary investigations are currently being performed and preliminary project designs are expected by the end of the current year. The estimated cost of this project is \$2 million (excluding AFUDC) and completion anticipated in 2009.

2.1.6 Distribution Plant – Riverside IP, Abbotsford

This project consists of a 1.6 km loop of NPS 12 (323mm OD) pipeline operating at 275 psig (1,900 kPa). The estimated cost of this project is \$1.2 million (excluding AFUDC). This project is currently planned to be constructed and in service in 2009. This system improvement is required to restore capacity in the King Intermediate Pressure (“IP”) system feeding Abbotsford and Mission to ensure that tail end pressures remain above minimum acceptable levels. The capacity of the King IP system has been eroded over time by load growth in Abbotsford and to a lesser extent in Mission.

2.1.7 Distribution Plant – 72nd Street IP, Delta

This project is currently planned to be constructed in 2012. It consists of a 2.6 km loop of 323mm O.D. pipeline operating at 1,200 kPa. The estimated cost of this project is \$1.8 million (excluding AFUDC) and is expected to be in service in 2012.

This system improvement is required to accommodate load growth to greenhouses in the Delta area. This system improvement will only be installed if the affected greenhouses convert some, or all, of their interruptible load to firm load. With this loop installed greenhouses would not need to be curtailed until colder ambient temperatures are reached.

2.1.8 Distribution Plant – 36th Avenue IP, Delta

This project is currently planned to be constructed in 2012. It consists of a 1.75 km loop of 323mm O.D. pipeline operating at 1,200 kPa. The estimated cost of this project is \$1.2 million (excluding AFUDC) and is expected to be in service in 2012.

This system improvement is required to increase capacity to offset aggressive long term load growth projections that have been provided by the greenhouses in the Delta area. This system improvement will only be installed if the affected greenhouses convert some, or all, of their interruptible load to firm load.

2.1.9 Transmission & Distribution Plant - Gateway Project

The Gateway Program was established by the Province of British Columbia in response to the impact of growing regional congestion, and to improve the movement of people, goods and transit throughout Greater Vancouver. The Gateway Program is sponsored by the Ministry of Transportation (“MoT”) and includes three components:

- Port Mann / Highway 1 Project – This includes twinning the Port Mann Bridge, upgrading interchanges and improving access and safety on Highway 1 from Vancouver to Langley.
- The South Fraser Perimeter Road Project is a proposed new four-lane, 80 km/h route along the south side of the Fraser River extending from Deltaport Way in southwest Delta to the planned Golden Ears Bridge connector road in Surrey/Langley.
- The North Fraser Perimeter Road Project is a proposed set of improvements on existing roads to provide an efficient, continuous route from New Westminster to Maple Ridge.

The highway projects and segments are in various stages of planning, design and construction. The planned highway construction and upgrades will impact the Terasen Gas Transmission and Distribution systems along the highway corridors. Since 2006, the MoT and Terasen Gas have been involved in ongoing discussions regarding this project and as a result Terasen Gas has conducted conceptual and preliminary investigations into system modifications that will be required.

Based upon the current plans and available information, Terasen Gas projects that total system modifications will cost approximately \$26 million (excluding AFUDC). Terasen Gas has been in discussions with MoT with respect to the cost recovery principles and is hopeful that an agreement will be reached that will allow for maximum recovery of costs.

2.1.10 IT Capital – SAP Core Application Upgrade

SAP is the enterprise application that supports business processes including: Operations and Maintenance; Order Fulfilment; Meter Management and Supply Chain. It also supports back-office functions such as: Payroll; Finance and Performance Reporting. Vendor support of the current version of the SAP application (R3 v4.6C) expired in the fourth quarter of 2006. An upgrade to the next supported version is therefore required. Terasen Gas has negotiated an extension to the support agreement for 2007 and will renegotiate a further extension to mid-year 2009 or the completion of the upgrade project - whichever comes first. The start of the upgrade project is expected in late 2008 with an anticipated go-live date in mid 2009. The cost is anticipated to be in the range of \$2.5 (pure technical upgrade) to \$4.8 million, dependent on the number of enhancements that would be included in the project. The driver for the enhancements will be business priorities to be determined prior to the start of the upgrade project.

2.1.11 IT Capital – Asset Integrity Integration Project

The System Integrity department's mission of providing risk based management services depends heavily on having access to the most current and complete pipeline condition data on which to base its analysis. This pipeline asset and condition data is currently maintained in multiple exclusive databases, digital files, or paper reports, with no current means of automated integration, causing numerous challenges in providing integrity management services. Manual alignment of data from these sources for analysis is difficult and time consuming.

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This project will increase integration and continuity within the existing data environment that would allow compliance with the requirements of Z662 Code Annex N (Guidelines for Pipeline Integrity Management Programs) which has recently been adopted by the Oil and Gas Commission of BC (“OGC”), the technical regulator for the Terasen Gas pipeline assets operating at pressures greater than 700kPag, as the standard to which operating companies shall develop their Integrity Management Plans (“IMP”). In addition to helping the Company meet compliance objectives, this project will:

- Create an automated method to integrate and spatially align pipeline asset integrity data.
- Introduce new tools to determine and analyze risks to the pipeline and surroundings, as caused by current and forecasted conditions.
- Introduce new tools to evaluate various options to reduce the risk to levels considered to be not significant.
- Ensure future capability to integrate distribution data is not compromised.

This estimated cost of this project is \$1.6 million (excluding AFUDC) and expected to be completed in 2008.

2.2 Major Capital Projects that require a CPCN

Table 3 identifies the forecast of costs for major capital projects subject to CPCN applications for 2007 to 2012.

Table 3 Forecast of Major Capital Projects subject to CPCN Applications (2007 – 2012)

Project Description	2007 Projection	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast
Approved CPCN's & Deferral Accounts						
Vancouver LP Replacement	9,836	6,358				
Residential Unbundling	8,639	3,000	-	-	-	-
Distribution Mobile Solution Project	2,499	2,891				
	20,974	12,249	-	-	-	-
Anticipated CPCN's & Deferral Accounts						
Fraser River SBSA Rehabilitation	750	1,500	7,500			
	750	1,500	7,500	-	-	-
Total CPCN's & Deferrals	21,724	13,749	7,500	-	-	-

2.2.1 Approved CPCN – Vancouver LP System Replacement

Approximately 95km of Low Pressure (“LP”) mains are still in service in densely populated and established areas of Vancouver. The LP system serves approximately 7,100 customers including: commercial establishments; residences; schools and hospitals. It is planned to replace the steel/iron LP system with a polyethylene system, operating at Distribution Pressure of 420 kPa (60 psig), over a 3 year period commencing in 2006 with completion in late 2008.

In May 2006, Terasen Gas submitted a CPCN Application to complete this work. In its application, Terasen Gas projected that it would cost approximately \$23.1 million (excluding AFUDC) to complete the 3 year replacement program. Current forecasts indicate that this project will be on target for costs and completion date. This CPCN application was approved by the Commission on June 26, 2006 by Order No. C-2-06.

2.2.2 Approved CPCN - Residential Unbundling Program

Since the release of the BC Energy Policy in 2002, Policy Action #19 stating that "Natural gas marketers will be allowed to sell directly to small volume customers", Terasen Gas has been facilitating providing commodity choice for small volume customers. The Commercial Commodity Unbundling program was launched in November 2004 with Residential Commodity Unbundling commencing in November, 2007.

With direction from the Commission, Terasen Gas completed a detailed design review and cost estimate using external consultants as part of its Pre-Scoping and Scoping Phases for Residential Unbundling between July 2005 and March 2006. To complete this work, the Commission approved \$1.4 million in funding in 2005 to be recorded in a deferral account. On April, 2006, Terasen Gas submitted an application to enhance its business processes and systems as required to support the provision of commodity choice to residential customers in the Terasen Gas service area. In its application it specifically requested the following:

- Implement Commodity Unbundling for all residential customers in its service territory, excluding Fort Nelson and Revelstoke, effective November 1, 2007.

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- Capital Expenditures of \$11.1 million (in addition to the \$1.4 million approved for the pre-scoping and scoping phases), for the two year 2006 and 2007 to implement the Residential Unbundling program.

On August 14, 2006 the Commission issued Order No. C-6-06 approving \$12.5 million towards the implementation phase costs in 2006 and 2007 and \$3.6 million towards the ongoing program costs after 2007. Terasen Gas anticipates filing an application in late 2007 to deal with the establishment of the Residential Commodity Unbundling Cost Recovery Rider and the resetting of the Commercial Commodity Unbundling Cost Recovery Rider. Projected and Forecast costs are as follows:

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Residential Unbundling Project - Customer Choice Program Implementation

Project Cost Update

	Actual Costs to Sept 07		Forecast Costs >>					
	Total	Oct	Nov	Dec	Total	Total Approved	Variance	
Actual & Committed Costs	9,932,160							
Planned Costs	9,933,189	380,686	518,280	267,845	11,100,000	11,105,750	(5,750)	
Variance	(1,029)							
Project Management	190,395	3,837	10,500	11,350	216,082	763,000	(546,918)	
System & Process Changes	4,858,918	-	-	-	4,858,918	4,842,750	16,168	
Finance Process Changes	388,840	76,017	170,959	114,184	750,000	500,000	250,000	
Customer Education	4,494,007	157,496	236,821	111,676	5,000,000	5,000,000	0	
Total	9,932,160	237,350	418,280	237,210	10,825,000	11,105,750	(280,750)	

2.2.3 Approved CPCN – Distribution Mobile Solution Project

The current MobileUP application is used for the Mobile Data Dispatch of customer service activities and the transfer of customer meter and billing information to the Energy Customer Information System. The existing system has reached the end of its useful life and there is significant risk that the current system will fail due to aging technology components. The implementation of the Distribution Mobile Solution provides a new platform for coordinating scheduling and dispatching. The conversion will align customer service activities with construction activities. The Commission issued Order C-5-07 approving the CPCN on July 2, 2007. The estimated cost of this project is \$5.98 million (excluding AFUDC) and it is expected to be complete by August 31, 2008.

2.2.4 Anticipated CPCN – Fraser River South Bank South Arm (“SBSA”) Crossing

In 2006 an engineering assessment of the current 20" and 24" underwater Transmission pipeline crossings of the South Arm of the Fraser River serving Vancouver and Richmond was completed. The engineering assessment provided an opinion indicating that both the underwater crossings and the adjacent south bank require extensive rehabilitation to ensure they do not pose a risk in the event of a seismic occurrence. Terasen Gas has recently received a second opinion on the matter, which confirms that rehabilitation work is necessary. Terasen Gas anticipates that it will file a CPCN application for this project sometime early 2008 targetting an expected completion date of the project in 2009. Project costs are currently estimated to be \$9.75 million (excluding AFUDC).

SERVICE QUALITY ASSURANCE MECHANISM

1 INTRODUCTION

In 2007 the Commission approved the 2008-2009 Extension of the 2004 – 2007 PBR Settlement that Terasen Gas negotiated with its stakeholders. The agreement includes a commitment to maintaining specified levels of service as measured by Service Quality Indicators (“SQIs”).

Terasen Gas has ten SQIs that are measured and compared against benchmarks on an annual basis. Additionally, there are two directional indicators that do not have benchmarks but are designed to give an understanding of trends that may develop in these particular areas relating to customer service.

2 COMPONENTS OF THE SERVICE QUALITY ASSURANCE MECHANISM

The Service Quality Assurance Mechanism includes four components:

1. A set of ten SQIs;
2. Benchmarks for each indicator, where applicable;
3. Two directional indicators; and
4. A process for reviewing Terasen Gas performance.

2.1 Service Quality Indicators and Benchmarks

2.1.1 Choice of Service Quality Indicators

SQIs are generally based on the following criteria:

- Value to customer: The indicator must represent a service or service attribute that the customer thinks is important.
- Controllable by the utility: Only those indicators over which the utility has control should be included. SQIs should not be linked to exogenous events over which management decisions have little or no influence.
- Cost effective: The information collection activities associated with the indicator must be cost effective.

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- Regulated service: The indicator must represent a regulated service provided by the utility that is not generally available from competitors.
- Simplicity and transparency: The indicator should be simple to administer and results should be easy to understand and interpret.
- Prior tracking: The indicators should have been previously tracked to ensure they are stable over time and this should be considered in future evaluations.
- Quantification: The indicators must be quantifiable.
- Flexibility: The indicators should allow sufficient flexibility to allow modifications, additions and deletions as required over time.

2.1.2 Choice of Benchmarks

Benchmarks are reference points against which levels of service quality can be compared. Benchmarks typically reflect either industry standards or the utility's performance over a recent prior period.

2.1.3 Service Quality Indicators and Benchmarks

The following are individual explanations for each of the ten SQIs that were established as part of the 2004 – 2007 PBR Settlement, to be used throughout the settlement period including the two year extension period. Please refer to the table at the end of this section for a summary of the SQIs.

1. Emergency Response Time (Response Time Dispatched to Site for Emergency Calls)

This indicator is the average length of time after notification for a qualified utility representative to arrive on the scene of the emergency (i.e. a pulled main or a situation where gas is blowing) at any location on the Terasen Gas system both during and after working hours, including weekends. The benchmark was set at 21.1 minutes as part of the 2004 – 2007 PBR Settlement.

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Year	Response Time Dispatched to Site for Emergency Calls
2007 (Jan – Aug)	20.6 minutes
2006	21.5 minutes
2005	21.7 minutes
2004	21.6 minutes
2003	22.0 minutes
Benchmark	≤ 21.1 minutes

The 2007 current year-to-date response time of 20.6 minutes is lower than the benchmark of 21.1 minutes. Terasen Gas has shown consistent improvement in response time over the last three years especially in 2007 and expects to maintain this favorable response time at year end.

2. Speed of Answer – Emergency (Percent of Responses Within 30 Seconds by a Person - Emergency Calls)

Call answer time is a common service quality indicator for distribution utilities. The benchmark of 95.0% is included as a performance clause in the contract with CustomerWorks.

Year	Percent of Responses Within 30 Seconds by a Person for Emergency Calls
2007 (Jan – Aug)	98.4%
2006	98.6%
2005	98.8%
2004	97.9%
2003	96.3%
Benchmark	≥ 95.0%

The current year to date service level has remained quite consistent for the last three years with marked improvement since 2003. Terasen Gas expects to be at or near the current level of 98.4% at the end of 2007.

**3. Speed of Answer – Non-Emergency
(Percent Responses Within 30 Seconds by a Person – Non-Emergency Calls)**

This SQI tracks the percent of responses within 30 seconds by a person for non-emergency calls including general, bill inquiries and service applications. The Benchmark of 75.0% is included as a performance clause in the contract with CustomerWorks.

Year	Percent of Responses Within 30 Seconds by a Person for a Non-Emergency Call
2007 (Jan - Aug)	77.3%
2006	78.2%
2005	76.9%
2004	77.5%
2003	76.4%
Benchmark	≥ 75.0%

The 2007 year-to-date percentage for non-emergency speed of answer at 77.3% is better than the benchmark of 75.0% and Terasen Gas expects the year end result to exceed the benchmark target of 75.0%

**4. Transmission System Integrity
(Transmission System Annual Reportable Incidents)**

This indicator is presently tracked manually and this is expected to continue, as it covers several different kinds of incidents that are reported to government.

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Year	Transmission System Annual Reportable Incidents
2007 (Jan - Aug)	1
2006	1
2005	3
2004	3
2003	3
Benchmark	≤ 2

The 2007 year-to-date transmission system reportable incidents of 1 compares favourably with the benchmark level of 2.

**5a. Residential & Commercial Customer Billing Activity
(Customer Bills Produced Meeting Activity Criteria)**

The contract with CustomerWorks contains three performance measures that are included together as sub-measures and combined to form a single service quality indicator. These sub-measures are generally described as accuracy, timeliness, and completion. The tolerance requirements for the first measure are significantly higher than the second and third, 99.9% v. 95%. As such, in order to align these sub-measures, an index score is used. The objective is to achieve a score of 5.0 or less. The benchmark was set based on the performance measures in the contract with CustomerWorks.

	Billing Sub-Measure	Percent Achieved ("PA")	Adjustment Factors	Result
1	Percentage of bills accurate based upon input data	99.9%	IF [PA≥99.9%, 5000*(1-PA), 100*(1.05-PA)]	5.0
2	Percentage of bills delivered to Canada Post within two days of date that the statement file is created	95%	100 – PA	5.0
3	Percentage of customers billed within two business days of the scheduled billing date	95%	100 – PA	5.0

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	Billing Sub-Measure	Percent Achieved ("PA")	Adjustment Factors	Result
Benchmark	Billing Service Quality Indicator (arithmetic average of sub-measures 1 to 3)			5.0

The Adjustment Factors allow the computation of an index score using a simple average of the three results (5.0 or less is desirable).

Year	Customer Bills Produced Meeting Activity Criteria
2007 (Jan - Aug)	2.47
2006	0.77
2005	1.97
2004	1.93
2003	2.63
Benchmark	≤ 5.0

Beginning in March 2006, the determination of this score includes the experience of the TGVl and TGW customers, a base volume increase of approximately 10%. The 2007 year-to-date composite score of 2.47 for customer bills meeting activity criteria compares favourably to the benchmark of 5.0 and Terasen Gas expects to meet the benchmark at year-end.

5b. Industrial Customer Billing Activity (Percent of Industrial Customer Bills Accurate)

This service quality indicator tracks the accuracy of billing for Industrial customers.

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Year	Percent of Industrial Customer Bills Accurate
2007 (Jan - Aug)	99.4%
2006	99.9%
2005	99.9%
2004	96.6%
2003	99.8%
Benchmark	≥ 99.5%

The 2007 year-to-date result of 99.4% for industrial billing accuracy is currently tracking lower than the benchmark of 99.5% as the result of a billing error related to PST and franchise fees that occurred in April this year. Terasen Gas expects to meet the benchmark of 99.5% at year end.

6. Meter Exchange Appointment Activity (Percent of Appointments Met for Meter Exchange)

This indicator tracks the percent of appointments met for meter exchange. The benchmark is set at the 2002 level.

Year	Percent of Appointments Met for Meter Exchange
2007 (Jan - Aug)	93.6%
2006	94.1%
2005	94.3%
2004	93.5%
2003	92.6%
Benchmark	≥ 92.2%

The 2007 year-to-date result of 93.6% of meter exchange appointments met exceeds the benchmark of 92.2% and has shown consistency in results over the last four years.

**7. Industrial Meter Measurement
(Industrial Meter Measurement First Report Under 10%)**

This service quality indicator tracks the percent of time when the deviation is less than 10% between the preliminary billing estimate that is first reported to an industrial customer, compared to the final amount that is billed to the customer. Industrial Shipper Agents are interested in both their daily balanced groups and their monthly balanced groups. This SQI for Industrial Meter Measurement contains both an accuracy measure (percent deviation) and a frequency measure, applied to both daily and monthly groups on a GJ-weighted basis. Customers who do not provide Terasen with a metering phone line are not included in this measure. The benchmark is set at 90%.

Year	Industrial Meter Measurement First Report Under 10%
2007 (Jan - Aug)	100.0%
2006	98.1%
2005	99.5%
2004	98.0%
2003	97.4%
Benchmark	≥ 90.0%

The 2007 year-to-date result of 100.0% for industrial meter measurement exceeds the benchmark of 90.0% and improves upon the 2006 results. The Company expects to exceed the 90.0% benchmark at year-end.

**8. Customer Satisfaction
(Independent Customer Satisfaction Survey)**

Prior to 2005, this service quality indicator tracked customer satisfaction using three surveys conducted by parties outside Terasen Gas. A Residential Survey has been conducted quarterly, while a Large Commercial Survey and a Builder/Developer Survey were conducted annually. In order to arrive at the Service Quality Indicator for the Independent Customer Satisfaction Survey, these three surveys were weighted as follows: 80% Residential, 10% Commercial and 10% Builder/Developer.

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Starting in 2005, a fourth customer satisfaction study with small commercial customers¹ is included in the calculation of the Service Quality Indicator. Additionally, the formula for deriving the Residential score has been updated to reflect the level of importance customers currently place on various service attributes. The four surveys are weighted as follows: 75% Residential, 10% Large Commercial, 10% Builder/Developer, 5% Small Commercial.

High gas costs and other events beyond the control of Terasen Gas such as the Customer Choice Unbundling of Residential Customers this year can influence this SQI. It was agreed as part of the 2004 – 2007 PBR Settlement that no performance threshold for this SQI is needed, but that results would be considered in the context of previous results and that consideration would be given to external factors that can influence satisfaction scores.

Year	Independent Customer Satisfaction Survey ²
2007 (Jan – Aug)	78.0%
2006	77.9%
2005	77.2%
2004	75.3%
2003	73.9%
Benchmark	N/A – results to be compared to prior years

The 2007 year-to-date Independent Customer Satisfaction Survey score of 78.0% shows a consistent improvement over the previous 4 years and the 2006 level of 77.9%. This score is expected to change slightly for year end as the last quarterly result will include any impacts from the Customer Choice unbundling program, which launched May 1st of this year and will see gas flowing under the program commencing November 1st.

¹ Small commercial customers represent approximately 20% of Terasen Gas' annual revenue and approximately 9% of the total customer base.

² The 2004 Service Quality Indicator (SQI) was originally reported as 73.9%. This figure was calculated using the formula in place at that time. In 2005, the 2004 SQI was recalculated using a formula adopted in 2005. This was to ensure that the 2004 SQI could be directly compared to the SQI for 2005 and subsequent years.

9. Customer Satisfaction (Number of Customer Complaints to BCUC)

This indicator tracks the number of customer complaints submitted to the Commission that the Commission then requests, either by Commission Letter or by a Complaint/Inquiry Record, that Terasen Gas provide a written response. Volatile gas costs and other events beyond the control of Terasen Gas can influence the number of complaints to the Commission. It was agreed as part of the 2004 – 2007 PBR Settlement, that there is no performance threshold for this SQI, but that results would be considered in the context of previous results and consideration would be given to external factors and any relevant uncontrollable events that can influence results.

Year	Number of Customer Complaints to BCUC
2007 (Jan - Aug)	100
2006	152
2005	121
2004	191
2003	101
Benchmark	N/A – results to be compared to prior years

The 2007 year end result is expected to be similar to 2006 but the number of complaints is not expected to reach the level experienced in 2004. There has been an increase of complaints over the previous two years mostly due to gas rate volatility.

10. Customer Satisfaction (Number of Prior Period Adjustments)

The Customer Satisfaction indicator tracks the number of prior period adjustments for Industrial Transportation Service customers. A prior period adjustment is a billing inaccuracy that is identified after a bill has been issued; if this occurs, the bill is adjusted with any necessary corrections. It was agreed as part of the 2004 – 2007 PBR Settlement, that there is no performance threshold for this SQI but that results would be considered in the context of previous results.

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Year	Number of Prior Period Adjustments
2007 (Jan - Aug)	9
2006	21
2005	14
2004	18
2003	24
Benchmark	N/A – results to be compared to prior years

The 2007 year-to-date prior period adjustments result of 9 is significantly lower than the benchmark of 24 and year end result are expected to be lower than the number of adjustments experienced in 2006.

2.1.5 Directional Indicators

Two of the previous SQIs were not effective as measures but they are included as Directional Indicators.

1. **Number of Third Party Damages**

Terasen Gas continues its efforts in preventing third party damages to the distribution system. There is no direct link between Third Party Damages and housing starts, so “Number of Third Party Damages” is tracked and reported as a Directional Indicator, with no benchmark.

Year	Number of Third Party Damages
2007 (Jan - Aug)	1054 incidents
2006	1508 incidents
2005	1457 incidents
2004	1492 incidents
2003	1459 incidents

The 2007 year-to-date number of third party damages at 1,054 incidents is anticipated to be slightly higher at year end than the levels experienced during the past three years due to the current high levels of construction, particularly major provincial infrastructure projects such as Gateway and the Canada Line.

2. Leaks per Kilometre of Distribution Mains

The number of leaks may measure integrity to a certain extent, but in practice, there could be a perceived incentive to lengthen the frequency between surveys in order to reduce the number of leaks detected. Each year approximately one-fifth of the Distribution System is surveyed for leaks. The number of leaks found in any one year will vary in the short term, more because of the condition of the portion of the system being surveyed rather than the quality of the current maintenance program. This statistic will only become valid over a long time horizon; probably 15 to 25 years. The purpose of the leak survey is to find leaks in the system so as to make the appropriate repairs prior to an escalating incident. This measure will continue to be tracked manually and reported as a Directional Indicator, with no benchmark.

Year	Leaks per Km of Distribution Mains
2007 (Jan - Aug)	0.0015 (54 leaks)
2006	0.0021 (76 leaks)
2005	0.0034 (120 leaks)
2004	0.0045 (150 leaks)
2003	0.0040 (134 leaks)

. The Company projects year-end results to be within the range of previous years.

2.1.6 Conclusion

It is Terasen Gas' submission that service quality continues to be maintained in 2007, and, moreover, has been maintained throughout the settlement period.

2.2 Summary of Service Quality Indicators

	Performance Measure	Service Quality Indicator	Benchmark
1	Emergency Response Time	Response Time Dispatched to Site for Emergency Calls	21.1 minutes
2	Speed of Answer - Emergency	Percent of Responses Within 30 Seconds by a Person for Emergency Calls	95.0%
3	Speed of Answer - Non-Emergency	Percent of Responses Within 30 Seconds by a Person for Non-Emergency Calls	75.0%
4	Transmission System Integrity	Transmission System Annual Reportable Incidents	2
5a	Residential & Commercial Customer Billing Activity	Index Based on the Percent of Customer Bills Produced Meeting Accuracy, Timeliness, and Completion	5.0
5b	Industrial Customer Billing Activity	Percent of Industrial Customer Bills Accurate	99.5%
6	Meter Exchange Appointment Activity	Percent of Appointments Met for Meter Exchange	92.2%
7	Industrial Meter Measurement	Industrial Meter Measurement First Report under 10%	90.0%
8	Customer Satisfaction	Independent Customer Satisfaction Survey	N/A – results to be compared to prior years
9	Customer Satisfaction	Number of Customer Complaints to BCUC	N/A – results to be compared to prior years
10	Customer Satisfaction	Number of Prior Period Adjustments	N/A – results to be compared to prior years

2.3 Summary of Directional Indicators

	Directional Measure	Directional Indicator
1	Distribution System Integrity	Number of Third Party Damages
2	Distribution System Integrity	Leaks per Kilometre of Distribution Mains

2007 DEMAND SIDE MANAGEMENT STATUS REPORT

1. INTRODUCTION

Under the terms of the extension of the 2004 – 2007 Multi-Year PBR Settlement, Terasen Gas is required to submit an annual Demand Side Management (“DSM”) Status Report to the Commission as part of the Annual Review process. This report follows the 2006 Status report in form and content and provides an overview of Terasen Gas’ DSM activities in 2007 with details pertaining to the progress of individual DSM programs against forecasted targets and objectives for the year, and details pertaining to other DSM initiatives. As in prior years, Terasen Gas has offered several types of programs most of which are in progress at the time of this writing; therefore, impacts are estimated rather than actual results.

2. GENERAL OVERVIEW OF DSM PROGRAMS AT TERASEN GAS

With the release of the Government of British Columbia’s Energy Plan in 2007, the profile of Energy Efficiency and Conservation activities at Terasen Gas increased, and is one of the ways that Terasen Gas can support the provincial policy goals. In 2007, Terasen Gas continued efforts to promote natural gas conservation and efficiency to its customers through a combination of awareness, education and incentive programs. In 2007, the Residential New Construction Heating Program was closed to new applications, and the Efficient Boiler Program was limited to new construction applications.

Energy conservation and efficiency continues to be promoted by a number of other utilities, agencies and industry members. Terasen Gas continues, whenever feasible, to partner with others to better leverage its available DSM funds. BC Hydro and FortisBC are contributing to the Variable Speed Motor component of the Energy Star Heating Upgrade program, along with 15 furnace and boiler manufacturers. In March 2007, Terasen Gas’s Contribution Agreement of \$2.4 million with the Ministry of Energy, Mines and Petroleum Resources (“MEMPR” or “the Ministry”) concluded. This entailed a contribution by the Ministry to both program and incentive costs for a market survey of gas contractors, for Energy Star furnace/boiler upgrades in residential new construction and retrofits, for a Commercial Boiler program and for sponsorship of the 2006 BC Energy Forum. The Government of Canada has implemented their Eco-Energy strategy of retrofits for various residential upgrades, and the 2007 version of the Energy Star Heating Upgrade program is incremental to the federal grant of \$300 to \$500 for an Energy Star

furnace upgrade. More information about the federal government's Eco-Energy program is available at <http://www.oeenrcan.gc.ca/residential/personal/retrofit-homes/retrofit-qualify-grant.cfm?attr=4#eligible>.

As in past years, programs are subjected to economic cost-benefit tests (most notably a standardized Total Resource Cost test) prior to launch, and in this report (in response to Commission Order G-160-06) Terasen Gas has also included information on the Ratepayer Impact Measure Test, the Participant Cost Test and the percentage of "free riders". Terasen Gas has launched an evaluation of the Energy Star Heating Upgrade program that ran from September 2005 to March 2007, and the first results are anticipated to be available early in 2008 and will be included in next year's Annual Review. The evaluation will provide insight into opportunities for future improvement and assist in measuring actual natural gas savings against projections, as well as free ridership rates.

DSM initiatives also produce benefits for the utility, the customer, and society in general which are not considered part of the Total Resource Cost ("TRC") test, particularly greenhouse gas emission reductions. The greenhouse gas ("GHG") emission reductions from Terasen's DSM activities are tracked but in the cost-benefit analysis that Terasen Gas performs, the GHG emission reductions have not been monetized.

3.0 EDUCATION AND OUTREACH INITIATIVES

Destination Conservation

Destination Conservation (DC) is a K-12 school program involving students, teachers and school facilities management staff. The program is organized by the Pacific Resource Conservation Society, a BC based not-for-profit group, and offered to school districts. It features energy conservation curricula and support materials for participating teachers and technical assistance to school facilities management staff. Terasen Gas contributes a portion of the first year operating costs for the program to a number of school districts in prior years. In the FortisBC service territory, FortisBC contributes the second year operating costs, providing another example of how Terasen works with partners to deliver programs. Although participation in the program last year was weak due to a distraction within BC's education system reflecting teachers' contract negotiations, this year participation has picked up significantly, partially because the labour situation is now settled, but also because of the focus provincially on conservation and climate change.

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To date there are three new districts joining the Destination Conservation program for the 2007 school year with the support of Terasen Gas. Vancouver School District (SD #39) is operating a pilot of the program with 15 schools registered. The intention is for the program to expand based on the savings demonstrated by these 15 schools. Likewise the Central Okanagan School District (SD #23) has 11 schools registered to participate in DC this year, with the intent of expanding the program in 2008. The final district joining the program this year is Okanagan Skaha (SD #67) in the Penticton area. All 18 schools in this district are registered to participate in DC. There are 44 new schools in all supported by Terasen Gas in their first year.

As first year schools, all three districts will be participating in the energy workshop stream. The Orientation, Energy 1, Energy 2 and Celebration sessions engage the building occupants – staff, students and parent volunteers. There are also two building operator training workshops, usually held back to back. These mirror the occupant workshops focusing on lighting and heating, ventilation and air conditioning in year one.

Commercial Energy Utilization Advisory

This program is offered to larger Rate Schedule 3/23 and Rate Schedule 5/25 commercial customers. The offer includes an initial benchmarking consultation and an onsite assessment of natural gas conservation and efficiency opportunities along with recommendations and estimated savings. As of June 30 2007, there have been 59 completed assessments in 2007, and expected total of by year end is 100. Typically, 25% of the customers who receive the assessment implement the recommended measures and average 600 Gigajoules (“GJ”) in annual savings.

Publications

Terasen Gas continues to publish brochures and other collateral to encourage residential customers to adopt energy savings measures and practices. These include our “Hot Tips” booklet, which contains a number of energy saving tips that homeowners can readily perform themselves, as well as bill inserts and our customer newsletter.

Mass Media Communication

In 2007, Terasen Gas discontinued the use of television commercials as a way to promote its energy efficiency programs and to draw attention to the importance of energy efficiency.

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Instead, the company focussed on radio as a cost-effective medium for communicating information about energy efficiency in general, and the Energy Star Heating Upgrade program in particular.

Community Energy Planning Participation

Terasen Gas continues to be an active participant in community-based conservation initiatives (i.e. the Community Energy Association) and collaborates with the provincial and federal governments to review and to implement energy efficiency standards. Terasen Gas is an active supporter of British Columbia's "Community Action on Energy Efficiency" strategy (<http://www.em.gov.bc.ca/AlternativeEnergy/EnergyEfficiency/default.htm>).

Trade Show Activity

Terasen Gas increased its trade show activity in 2007, promoting energy efficiency and conservation at Buildex 2007 (aimed at construction and building trades, as well as architects, engineers, developers and builders), the Vancouver Spring Home and Garden Show, the Vancouver Fall Home and Interior Design show as well as home shows in Kelowna and Kamloops. The company found this to be an effective way to reaching customers with energy saving information and answering their questions.

Other Activities

Terasen Gas engages in a number of demand side management related activities designed to enhance energy efficiency in British Columbia. Some of them are described below:

- Terasen Gas participated and continues to participate on the Steering Committee for BC Hydro's Conservation Potential Review and on BC Hydro's Electricity Conservation and Efficiency Advisory Committee.
- Terasen Gas's sponsorship of the Douglas College program "Building Operator Training" which is designed to address ongoing maintenance and upgrades to commercial building operations by training facilities staff in efficiency techniques was expanded to make the course available in Prince George and Kelowna
- Terasen Gas sponsored participation for members in the Building Owners and Managers Association's on-line training course related to energy efficiency.

4. 2007 INCENTIVE PROGRAM DESCRIPTIONS

Please note that in 2007, Terasen Gas commissioned and received from Willis Energy Services an updated model for calculating DSM cost/benefit ratios and TRC results. The method of presenting energy savings from DSM activity has changed from that presented in previous years to reflect this improved model. In previous Annual Reviews, energy savings have been presented as simple annual savings. Energy savings and cost/benefit test results are presented in the 2007 Annual Review as the present value of the savings over the measure life, to more appropriately represent energy savings from DSM activity. A discount rate of approximately 5.9%, representing Terasen's after tax weighted average cost of capital, was used to determine the present value of the energy savings. It is the intention of Terasen Gas to continue to use the present value measure life method of presenting savings and analyzing cost/benefit results in all future reviews.

Energy Star Heating System Upgrade

The 2007 program represents a continuation of previous years' programs. As in previous years, this year's Residential Heating System Upgrade program offers financial incentives to residential customers to replace older furnaces and boilers with ENERGY STAR qualified high efficiency natural gas models. The "Winter 2007" version of the program was officially launched September 1, 2007 and runs to March 31, 2008. Partners on this program are BC Hydro, FortisBC, and 15 participating manufacturers. These partners are contributing to customer incentives.

Under this program, residential customers are offered a \$250 utility bill credit towards the purchase of an ENERGY STAR qualified high efficiency natural gas furnace or boiler. BC Hydro and FortisBC are contributing an additional \$50 incentive if the selected furnace has a variable speed motor.

Additional supplier-funded incentives ranging from \$150 to \$1,000 in value toward the purchase of 15 brands of ENERGY STAR qualified furnaces and boilers are being promoted by Terasen Gas as part of this program. The manufacturers are responsible for administering their own coupons and the manufacturer coupons are only valid for redemption between September 1, 2007 and January 31, 2008

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The program design for the Energy Star Heating System Upgrade program estimates the average annual natural gas savings at 13.8 GJ per participant. There have been 3666 participants in the program year to date, and Terasen estimates that there will be an additional 650 participants to December 31, 2007. This participation level results in a present value (PV) energy savings over the measure life of 344,369 GJ, a present value measure life GHG savings of 17,456 tonnes, and a Total Resource Cost Ratio (TRC) of 1.39.

New Construction Energy Star Heating System Program/PowerSmart New Home Program

This program was closed to new applications March 31, 2007. Effective January 1, 2008, the Government of British Columbia has legislated under the Energy Efficiency Act that all furnaces and boilers in new construction be Energy Star-rated. Given construction lead times, in order to minimize free rider rates, Terasen Gas felt that builders who were going to apply to the program for homes to be completed by December 31, 2007 would have done so by March 31 of this year.

Terasen's involvement in the BC Hydro PowerSmart New Home Program also ended March 31 2007. Terasen had 80 applications for the Energy Star heating and natural gas hot water components of the Power Smart New Home program. These participants have been incorporated into the results for the New Construction Energy Star Heating System program presented below

For the New Construction Energy Star Heating System Program, it is estimated that the average annual natural gas savings is 9.1 GJ per participant with 2981 homes participating. This results in a present value energy savings over the measure life of 250,950 GJ, a present value measure life GHG savings of 12,721 tonnes and a TRC of 1.73.

Efficient Boiler Program

This program was modified again from that which was offered in previous years. In 2006, the incentives offered under the Efficient Boiler Program were increased in response to increases in boiler prices and the market responded very positively to this modification in incentives. In order to stay within the funding envelope allocated for the program, incentives were restricted partway through 2007 to applications for new construction only.

Given the high degree of variability in both incentive amounts and in projected annual savings, only actual approved applications to date are reported here. It is impossible to estimate applications that might be submitted between now and the end of 2007 with any degree of certainty. The present value of energy savings over the measure life for applications received for the Efficient Boiler Program to date is 155,041 GJ, with a present value measure life GHG savings of 7,859 tonnes and a TRC of 1.47.

5. SUMMARY OF 2007 RESULTS

TRC Test and DSM Incentive Status

The TRC test is a measure of the net benefits of a utility's DSM programs. Terasen Gas calculates overall TRC impact on a 'portfolio' basis, that is, by examining the impact of the combined group of programs for the year.

For the 2007 portfolio (as identified in the table below), the TRC net benefit for specific programs is forecasted to be approximately \$6,368,000 with a combined TRC ratio of 1.85. The numbers presented in the table below reflect actual incentive applications year to date for the Residential New Construction Heating Program, the PowerSmart New Home Program, the Efficient Boiler Program and Destination Conservation, and projections for the Energy Star Heating Upgrade Program and the Commercial Energy Assessment Program. The TRC net benefit from programs, less the non-program-specific DSM costs incurred for salaries, administration, overhead, research, and non-program related education, outreach and promotion is forecasted to be approximately \$5,494,073

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Discount Rate 5.9%

Program Name	Number of Participants	Savings per Participant per Year (GJ)	Measure Life (Years)	NPV Energy Savings over Measure Life (GJ)	GHG Savings over Measure Life (tonnes)	Free Rider Rate (%)	RIM Result	Participant Result	TRC Result	TRC Net Benefit
Energy Star Heating System Upgrade	4316	13.8	20	344,369	17,456	50	0.58	2.8	1.39	\$1,123,000
New Construction Energy Star Heating System Program	2981	9.1	20	250,950	12,721	20	0.81	3.6	1.73	\$1,222,000
Efficient Boiler Program	20	14650*	25	155,041	7,859	20	0.93	1.9	1.47	\$571,000
Destination Conservation	44	113	3	13,315	675	0	0.74	6.4	1.56	\$55,000
Commercial Energy Utilization Advisory	100	600	15	439,921	22,300	25	0.95	3.5	3.03	\$3,397,000
Program Portfolio Result				1,203,596	61,010		0.78	3.1	1.85	\$6,368,000

* note that the savings for the Efficient Boiler Program are not presented per participant per year, but are instead an aggregate of savings for all participants for the year

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Greenhouse Gas Reduction

In its demand side management incentive offers, Terasen Gas informs participating customers of its intent to record resulting emission reductions as part of the company's Greenhouse Gas Management Program. The present value of the GHG savings over the projected lives of the various measure resulting from Terasen Gas energy efficiency incentive programs is estimated to be 61,010 tonnes.

DSM Incentive Mechanism

To qualify for the DSM Incentive, a threshold of 75% of the established energy savings target of 177,425 GJs simple annual savings must be achieved, entitling Terasen Gas to an incentive of 3% of the TRC net benefits. Where the energy savings meet or exceed the threshold target of 177,425 GJs, the incentive percentage increases to 5% of the TRC net benefits. The simple annual savings from Terasen Gas DSM programs in 2007 are shown in the table below. Given the projected simple annual energy savings and net TRC benefits for 2007, Terasen Gas would be eligible for a DSM incentive of approximately \$164,822.

Program Name	Number of Participants	Savings per Participant per Year (GJ)	Annual Savings (GJ)
Energy Star Heating System Upgrade	4316	13.8	59,561
New Construction Energy Star Heating System Program	2981	9.1	27,127
Efficient Boiler Program	20	14650*	14650*
Destination Conservation	44	113	4,972
Commercial Energy Utilization Advisory	100	600	60,000
Total Annual Savings			151,660

* note that the savings for the Efficient Boiler Program are not presented per participant per year, but are instead an aggregate of savings for all participants for the year

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6. SUMMARY OF COSTS

Program and administration costs as well as customer incentive costs are forecasted to remain within the allowed levels in 2007. Program and administration costs are treated as O & M and incentives are recovered through a deferral account.

	Allowed (\$000)	Projected (\$000)
Administration, program costs, marketing and research	1,624	1,600
Customer Incentives	1,500	1,500

7. RESEARCH INITIATIVES

Multi-Utility and Industry Studies

Terasen Gas continues to participate in a number of multi-utility research initiatives. The City of Vancouver's Sustainability Office has been particularly active in this area, and Terasen Gas has participated or is participating in studies around Pre-Rinse Spray Valves, Building Recommissioning, Efficiency Upgrades in Strata Buildings and an Energy Consumption Benchmarking Study for Multi-Family Dwellings. One new area of participation for Terasen Gas is with the Consortium for Energy Efficiency based in the United States, and the company anticipates participating in various equipment studies led by that organization.

8. PROPOSED 2008 ACTIVITY

As part of the 2006 Annual Review process as well as the extension of the 2004-2007 PBR Settlement Agreement through 2009, the Company committed to filing an application in 2007 for Energy Efficiency and Conservation programs, commencing in 2008. Terasen Gas expects to submit this application later this year. Terasen Gas anticipates that the Company will be seeking increases in efficiency and conservation funding over the levels currently allowed for in the Settlement Agreement. The Company anticipates that the regulatory review of this application will not be complete until early in 2008.

For the purposes of this Annual Review materials filing, the Company has assumed that the level of incentives and O&M costs for DSM activities equals that included in the Settlement Agreement of \$3.1 million per year. As stated above, the Company expects that the regulatory

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review of this application will not be complete until early in 2008, with the new programs commencing in 2008. As a result, the Company has not included additional expenditures in the 2008 test year forecast. The Company will seek, subject to Commission approval, deferral account treatment in 2008 for any additional expenditures approved by the Commission for 2008, as part of the review of the Company's Energy Efficiency and Conservation application.

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REPORT ON THE ESTABLISHMENT OF INCENTIVE MECHANISM FOR REDUCING UNCONTROLLABLE / PARTIALLY CONTROLLABLE EXPENSES FOR THE YEAR ENDING DECEMBER 31, 2007

PROPERTY TAX

The 2008-2009 Extension of the 2004 – 2007 Multi-Year PBR Settlement addresses the issue of establishing incentive mechanisms for Terasen Gas for reducing uncontrollable or partially controllable costs.

The Negotiated Settlement, Appendix A to BCUC Order No. G-51-03, indicates that the Company is to have a positive incentive around provincial and municipal government taxes, fees and expenses and that a specific mechanism was agreed to regarding property taxes.

For purposes of determining the incentive, property taxes are divided between the 1% In-Lieu taxes and all other categories of property taxes. The other property taxes include General, School, First Nations, and other taxes, and will herein be referred to as Other Property Taxes.

With respect to the 1% In-Lieu taxes, the Company is entitled to keep 10% of the savings related to achieving a reduced rate for the tax or a changed structure to the tax which lowers the amount payable.

For the Other Property Taxes, a modified version of the formula-based approach applicable to O&M expenses and net gas plant in service will be applied. The 2006 actual amount forms the base to which 2007 customer growth, inflation, and inflation offset factors will be applied to determine the target for 2007. The Company is entitled to 10% of the amount by which its actual taxes are lower than the target. In the formula below the property taxes for Squamish, \$59,500, have been added to derive the 2007 Other Property Taxes.

The 2007 threshold for Other Property Taxes is:

$$(\$27,795,700 + \$59,500) \times (1 + 1.44\%) \times (1 + 2.00\% - 1.32\%) = \$28,448,000$$

The 2007 Other Property Taxes total is projected to be \$28,866,000, which is higher than the 2007 threshold of \$28,448,000 (Table A). Since the projected 2007 property taxes are higher than the target, the Company is not entitled to an incentive based upon the 2007 results. However, it is important to note that had Terasen Gas not realized the property tax savings due

TERASEN GAS INC.**2007 ANNUAL REVIEW****2008-2009 EXTENSION OF THE 2004 – 2007 MULTI-YEAR PERFORMANCE BASED RATE PLAN**

to its mitigation efforts, the 2007 actual property taxes would have been higher by \$142,567 (Table B).

Table A

	2006 Actual	Change	2007
Average Number of Customers	805,844	11,636	817,480
Percentage Growth in Average Customers		1.44%	
Annual Inflation Rate - CPI		2.00%	
Adjustment Factor		1.32%	
Other Property Tax (\$000)			
Formula Based			\$ 28,448
Actual / Projected	\$ 27,855		<u>28,866</u>
Difference			<u>\$ (418)</u>

The table below summarizes the total property tax savings realized to-date following the Terasen Gas property tax mitigation plan:

Table B

Item No	Particulars	Actual in 2006	Expected in 2007	Total
1	Distribution Pipeline Update Factor Error		87,000	87,000
2	Office Appeals	134,300	50,400	184,700
3	Other Appeals	16,670	5,167	21,837
		<u>\$150,970</u>	<u>\$142,567</u>	<u>\$293,537</u>

If Terasen Gas is successful with current mitigation efforts, future property tax savings could reach \$500,000 (see discussion on Mitigation Activities in Progress on Page 3 of this Tab).

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Background Details behind Property Tax Cost Mitigation Plans

The 2007 property tax mitigation plans were based on preemptive strategies by Terasen Gas with the goal of minimizing property taxes and cost pressures to customers. The savings summarized below are based on actual performance or are based on current ongoing mitigation activities. Unrealized future savings relate to issues that are before the Property Assessment Appeal Board.

Mitigation Activities during 2007:

1. **Distribution Pipeline Update Factor Error** – Terasen Gas discovered an error in the update (or inflation) rates applied by BC Assessment in 2005. An agreement to correct the error in the 2006 taxation year, ensuring the overall assessment over the two years would be as originally agreed upon. This affected mainly Lower Mainland folios. It is estimated that tax savings, to be implemented in 2008, amount to \$87,000.
2. **Office Appeal** – In 2006 it was discovered that the classification of several of the Company offices did not comply with the Property Assessment Appeal Board, this resulted in a further \$81,400 savings. Further, refunds totaling \$50,400 were received in 2007 relating to the prior year appeals.
3. **Miscellaneous Appeals** – The Company achieved a further reduction of \$5,167 through various other appeals on valuation and classification.
4. **Other Activities** – Terasen Gas continues to be involved with a variety of groups specializing in Local Government taxation, these include the Canadian Property Tax Association, the Vancouver Board of Trade, and the Canadian Energy Pipeline Association.

Mitigation Activities in progress:

5. **Office Appeal** – In addition to the activities described under point #2, the Company is attempting to seek changes in the wording of the regulations. Terasen Gas met with Provincial Government officials to discuss changes in legislation to address the inequity in property classification applied to Utility offices. The Company is hopeful that changes in legislation will be forthcoming for the 2008 taxation year. Based on the 2007 Assessment roll it is estimated a change in legislation would result in annual savings of \$500,000.

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CODE OF CONDUCT AND TRANSFER PRICING POLICY REVIEWS CONDUCTED BY INTERNAL AND INDEPENDENT EXTERNAL AUDITORS

The Commission stated, at page 21 of Appendix A to Commission Order G-51-03, the following relating to compliance with the 2004-2007 Negotiated Settlement and extended by Order No. G-33-07:

“At each Annual Review, Terasen Gas will provide the report required by and filed with the Commission summarizing the results of the annual compliance review of the Code of Conduct and Transfer Pricing Policy of the Commission conducted by Terasen Gas’ Internal Audit Services. For each year during the Term of the Settlement, the Commission will provide Stakeholders with the proposed Commission directions to Terasen Gas’ Internal Audit Services. Any Stakeholder may request the Commission to add directions to review and report on other areas of concern.”

The Internal Audit Services has prepared a report entitled “Annual Review of Compliance with the Terasen Gas Inc. Code of Conduct and Transfer Pricing Policy” based on the same guidelines and framework as in 2005 and is attached as Appendix A to this Section B-5.

In addition, the Commission continued to state at page 22 of Appendix A:

“In addition, before the first Annual Review, Terasen Gas’ independent external auditor will review the work performed by Terasen Gas’ Internal Audit Services.....Subsequent to the first Annual Review, Stakeholders and Terasen Gas may make submissions to the Commission regarding whether or not such a review and report by the independent external auditor of Terasen Gas should be continued for other Annual Reviews.”

For the 2007 Annual Review, Terasen Gas contracted the services of the firm Ernst & Young to provide a review of and report on Terasen Gas’ compliance with the Code of Conduct (“CoC”) and the Transfer Pricing Policy (“TPP”). Ernst & Young’s report is attached as Appendix B.

Based on their respective review procedures, both internal and external auditors concluded that nothing came to their attention that would cause them to conclude that Terasen Gas is not in compliance with either of the CoC or TPP.



(a subsidiary of Fortis Inc.)

Andrew Lee
Manager, Internal Audit Services

16705 Fraser Highway
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September 24, 2007

Mr. Randy Jespersen
President, Terasen Gas Inc.
16705 Fraser Highway
Surrey, B.C. V3S 2X7

Dear Mr. Jespersen:

Subject: Annual Review of Compliance with the Terasen Gas Inc. Code of Conduct and Transfer Pricing Policy

Internal Audit Services (IAS) has completed a review of compliance with the Terasen Gas Inc. (Terasen Gas) Code of Conduct and Transfer Pricing Policy for the Provision of Utility Resources and Services (the Policies). This review is conducted to satisfy Terasen Gas requirements as documented in the Policies.

"Terasen Gas will monitor employee compliance with the Code of Conduct by conducting an annual compliance review, the results of which will be summarized in a report to be filed with the Commission (B.C. Utilities Commission) within 60 days of the completion of this review."¹

"The Transfer Pricing Policy will be reviewed on an annual basis as part of the Code of Conduct compliance review."²

Background

The Policies were issued in August 1997 to govern the relationships between Terasen Gas and Non-Regulated Business (NRB) for the provision of Utility resources. NRBs are defined as: "an affiliate of the Utility not regulated by the Commission or a division of the Utility offering unregulated products and/or services"³. Terasen Gas has processes and practices that are designed to ensure compliance with these Policies.

Commission approval was obtained in July 2003 for the Terasen Gas Settlement Agreement for a 2004 - 2007 Performance-Based Rate Plan. One of the conditions for compliance with this negotiated settlement is that:

"At each Annual Review, Terasen Gas will provide the report required by and filed with the Commission summarizing the results of the annual compliance review of the Code of Conduct and Transfer Pricing Policy of the Commission conducted by Terasen Gas' Internal Audit Services.

¹ Item 7 Compliance and Complaints, Code of Conduct

² Item 7 Review of Transfer Pricing Policy, Transfer Pricing Policy

³ page 2 Definitions, both Code of Conduct and Transfer Pricing Policy

In addition ... Terasen Gas' independent external auditor will review the work performed by Terasen Gas' Internal Audit Services and ..., consistent with Section 8600 of the CICA Handbook 'Review of Compliance with Agreements and Regulations', will provide a report of Terasen Gas' compliance with the Code of Conduct and Transfer Pricing Policy.⁴

Review Objective and Approach

Objective:

Consistent with prior years, the objective of this review is to determine whether the existing processes and controls that support compliance with the Policies are adequately designed and operating effectively during the period under review.

Approach:

Our review of business processes and controls that support compliance with the Policies is made in accordance with Canadian generally accepted standards for review engagements as set out in the Canadian Institute of Chartered Accountants Handbook. Our enquiry, analytical procedures and discussion that we deemed necessary included the following:

- Review the Code of Conduct and Transfer Pricing Policy.
- Make enquires to understand the provision of Utility resources to NRBs.
- Make enquiries to understand the processes and controls maintained by Terasen Gas to comply with the Policies.
- Review evidence of such processes and controls and compliance with the Policies.

Conclusion

Based on my review nothing has come to my attention that causes me to believe that Terasen Gas Inc. is not in compliance with the Code of Conduct and Transfer Pricing Policy for the period September 1, 2006 to August 31, 2007.

Specific Matter

Our survey of a representative sample of Terasen Gas Inc. employees identified 11 employees who report being unaware of the Policies. These staff did not perform NRB work as confirmed by their supervisors, more importantly, it was established that annually the policies are reviewed with each of the employees as part of awareness training.

Remedial action:

Management has advised these individuals directly of the policies and is reviewing practices for update and improvement.

We thank management and staff for their assistance and co-operation during our review.



Andrew Lee, CA-CIA
Manager – Internal Audit Services

cc: David Bennet, VP, General Counsel and Corporate Secretary, Terasen Gas Inc.
Scott Thomson, VP, Finance & Regulatory Affairs & CFO, Terasen Gas Inc.
Ernst & Young LLP

⁴ Page 21 & 22, Appendix A, BCUC Order G-51-03

REVIEW ENGAGEMENT REPORT

To Mr. Scott Thomson
Vice President, Finance & Regulatory Affairs and Chief Financial Officer
Terasen Gas Inc.

We have performed the procedures enumerated below, solely to assist you in evaluating **Terasen Gas Inc.'s** (the "Company") compliance for the year ended August 31, 2007 with its Transfer Pricing Policy For Provision of Utility Resources and Services (the "Transfer Pricing Policy") and the Code of Conduct For Provision of Utility Resources and Services (the "Code of Conduct"), both dated August 1997, included in the Company's Internal Audit Services report on compliance with the Transfer Pricing Policy and Code of Conduct dated September 24, 2007.

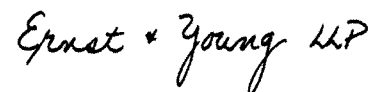
Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information and the Report supplied to us by the Company.

A review does not constitute an audit and consequently we do not express an audit opinion on the Report.

Based on our review, nothing has come to our attention that causes us to believe that the Company is not in compliance with the Code of Conduct and Transfer Pricing Policy for the year ended August 31, 2007.

This report is intended solely for the information of the audit committee, management, and the other users of the report including the British Columbia Utilities Commission.

Vancouver, Canada,
October 2, 2007.



Chartered Accountants

EXOGENOUS FACTORS and FINANCIAL ACCOUNTING MATTERS

Terasen Gas is permitted to adjust the cost of service for “Exogenous Factors” pursuant to the provisions of the 2004-2007 Settlement Agreement and 2008-2009 extension (Appendix A, Page 14).

Terasen has identified one item that merits exogenous treatment under the judicial, legislative or administrative changes, orders and directions section of the Settlement Agreement. Four additional items have been added to the financial accounting matters section.

Exogenous Factors

1. Provincial Sales Tax (“PST”) reassessment

As part of the 2006 Annual Review Terasen Gas brought forth an exogenous factor that resulted from an audit conducted by the B.C. Ministry of Small Business and Revenue (“MSBR”), Terasen Gas was assessed approximately \$36 million under the Social Services Tax Act related to the construction of the Southern Crossing Pipeline Project (“SCP”) for the audit period August 1, 2000 to November 30, 2005.

The MSBR had taken the view that the pipe and compressors are tangible personal property and has assessed PST on the services to install the pipeline on the basis that labour services to tangible personal property are taxable.

Terasen Gas did not agree with the reassessment and appealed the MSBR assessment to eliminate or mitigate any possible payment. The Company has obtained legal advice that the reassessment should not stand up on appeal in support of its arguments, however some risk remained that some or all of the reassessed amounts would be sustained. In 2006 Terasen Gas remitted a \$10 million payment to prevent further accrual of interest which will be refundable with interest in the event Terasen Gas is successful on appeal. On March 26, 2007, the Minister allowed TGI’s appeal, in part, and reduced the assessment to \$4.5 million plus interest of \$2.6 million. TGI has filed an appeal of the remaining \$7.1 million reassessment on June 25, 2007 to the BC Supreme Court and the appeal will be proceeding in due course.

When the appeal is resolved, Terasen will seek a Commission order with respect to the disposition of the deferral account.

Financial Accounting Matters

1. Sale of Vacant Land at 3700 2nd Avenue, Burnaby, B.C. (Lochburn)

By Order G-116-07, dated September 21, 2007, the Commission approved TGI's Application to sell 7.67 acres of vacant land at the Lochburn site that is no longer required for the provision of natural gas distribution service. Once the sale is completed \$1,136,155 will be removed from the Rate Base and \$2.5 million will be refunded to ratepayers by a rate rider. At this time the sale of the land has not been completed. While TGI is hopeful the completion of the sale of land will occur in 2007 it is uncertain if all required conditions can be met before year end. The materials in the annual review do not reflect the sale of the land. TGI proposes that the value of the cost of service from the removal of the land from utility use be credited to a deferral account and amortized in the following year. The cost of service reduction would be based on the reduced operating and maintenance expense, property tax and the mid-year rate base effect on earned return and income tax expense using the approved capital structure and allowed return on capital for 2008.

2. Changes to CICA Handbook Section 3061 Property, Plant & Equipment, Effective January 1, 2008

Section 3061.04 of the CICA Handbook includes the following wording, to be effective January 1, 2008:

“Spare parts and servicing equipment are usually carried as inventory and recognized in net income as consumed. However, major spare parts and standby equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.”

This CICA Handbook revision will result in a reclassification in TGI's financial statements between inventory and property, plant and equipment for pipe, valves, fittings and other items that would ultimately be used for gas plant in service. These costs will be transferred to Plant Work in Process (WIP) in the financial statements.

A reclassification from inventory to WIP has no effect on the utility's Rate Base since both Inventory and WIP (not attracting AFUDC) are calculated based on a 13 month average balance. For forecast 2008 in this annual review, these costs are still included in inventory as part of Other Working Capital. Of the 2008 forecast inventory of \$6.7 million, approximately

\$6.2 million would have been transferred to WIP if the CICA Handbook change was reflected in the annual review materials. For the annual review in 2008 for the forecast 2009 year, TGI request Commission Approval to follow the CICA Handbook and include these costs in WIP (not attracting AFUDC).

3. Accounting for Rate Regulated Operations:

Under a proposed change to accounting for rate regulated operations, the CICA has announced it will eliminate certain sections of the CICA Handbook as they pertain to rate regulated accounting. The changes include removing the exemption in Section 1100 related to the recognition and measurement of assets and liabilities as they relate to rate regulation, and amending Section 3465 Income Taxes to require the recognition of future income tax liabilities and assets. The changes will be made on a prospective basis for years beginning on or after January 1, 2009. The amendments leave open the possibility that alternate sources of GAAP (such as US GAAP) may be used as a source of guidance within the GAAP hierarchy. While the Company is still assessing the differences between the current Canadian standard and the US standard (FAS 71), it appears that the Company would be required to book future income taxes on its balance sheet with an offsetting regulatory asset or liability for the amount expected to be recovered in future rates. If implemented, this change would likely result in increases to cost of service and customers' rates.

4. International Financial Reporting Standards ("IFRS"):

Over the past year, the CICA has concluded that Canadian GAAP will be replaced by IFRS standards on January 1, 2011. While there are many similarities between Canadian GAAP and IFRS, the Company is still assessing what the impact of this change will be on the financial statements of the various entities within the Terasen Group. It should be noted that IFRS does not currently have a standard for rate regulated enterprises and as such, the Company may not be able to continue using current accounting methods for deferral accounts after the implementation of IFRS on January 1, 2011.