



Joint Workshop of:
TERASEN GAS INC.
2007 Annual Review
and
TERASEN GAS (VANCOUVER ISLAND) INC.
2007 Settlement Update
for 2008 Revenue Requirements

November 13, 2007

9am – 1pm

Terasen Gas. A Fortis company.

Agenda Review and Regulatory Recap

Scott Thomson

Terasen Gas. A Fortis company.

Agenda



- **Welcome / Introduction** - *Scott Thomson*
 - *Review Workshop Agenda*
 - Anticipated duration of Workshop 9:00am to 1:00pm
 - *Regulatory Recap*

- **Terasen Opening Remarks & Report** - *Randy Jespersen*
 - *2007 Priorities – Activities & Accomplishments*
 - *2008 Priorities and beyond*

- **Commodity Cost Outlook** - *David Bennett*

- **Economic/Housing Start Outlook and Demand Forecasts** - *Greg Caza*

Agenda – Terasen Gas Inc.



■ 2008 Revenue Requirements and Rate Outlook - Guy Leroux

- *PBR Cost Drivers*
- *Formula Driven Capital Expenditures and Rate Base*
- *Formula O&M Expenses*
- *Other Cost of Service Items*
- *Earnings Sharing Mechanism Results*
- *Revenue Requirement Results*
- *RSAM Results*
- *Customer Rate Impacts*

Break

■ Other information pertaining to the settlement

- *Customer Care & Service Quality Indicators* - Danielle Wensink
- *5 Year Major Capital Plan* - Tom Loski

■ Code of Conduct & Transfer Pricing Policy - Andrew Lee

■ TGI Conclusion and Next Steps - Scott Thomson

Agenda – Terasen Gas (Vancouver Island) Inc.



■ 2007 Review & 2008 Outlook

- Tom Loski

- *Review and Approval of 2006 RDDA Balance*
- *Capital Expenditures*
- *Rate Base*
- *Working Capital and Deferral Accounts*
- *Whistler Pipeline*
- *British Columbia Capital Tax*
- *Revenue Requirement Results*
- *Customer Rate Proposals*
- *RDDA*

■ TGVI Conclusion and Next Steps

- Scott Thomson

Terasen Gas Opening Remarks

Randy Jespersen
President & CEO

Terasen Gas. A Fortis company.

Terasen Gas 2007 Priorities – Activities & Accomplishments



- Continued Focus on Operational Excellence
 - *Safety, Customer Satisfaction, Cost Containment, Environmental Responsibility*
 - *Integrity Programs*
- Retain, Attract & Motivate Employees
- Successful COPE Collective Agreement Negotiations
- Residential Unbundling Implementation
- Financial Performance
 - *PBR Working Well*
 - *RDDA Reduction*



Terasen Gas 2007 Priorities – Activities & Accomplishments



■ 2 Year Extension of TGI PBR and TGVI Settlement



■ Project Development

■ *Whistler Pipeline Construction*



■ *Mt. Hayes LNG CPCN Approval*



■ Energy Policy Implementation

■ *Input to Energy Plan*

■ *Thermal Metering (increase share of multi-family units)*

■ *BC Hydro Rate Design*

■ *TGI-TGVI System Extension and Customer Connection Policies Changes Review Application*



Terasen Gas 2007 – Additional Activities & Accomplishments

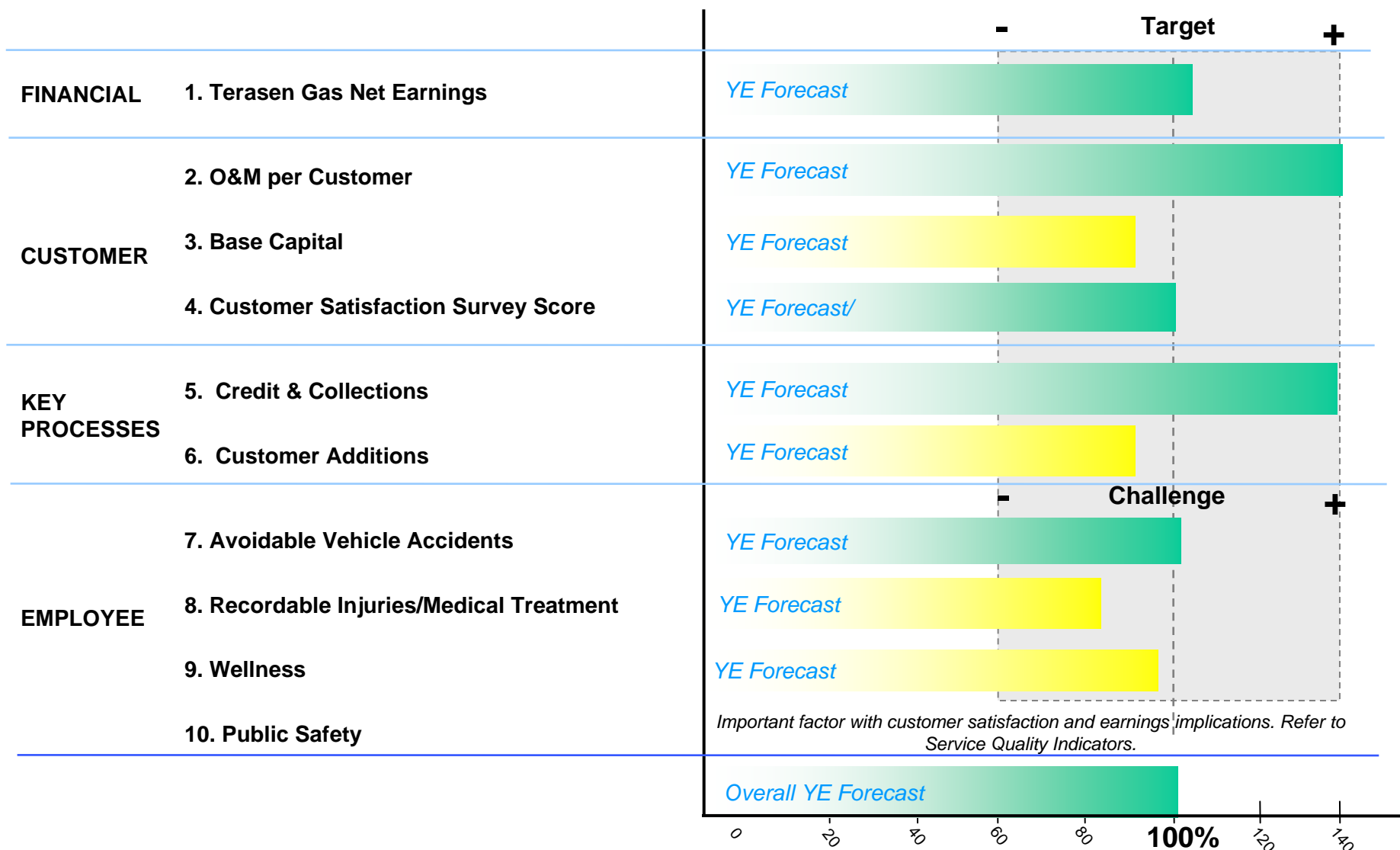


- Acquisition by Fortis
 - *Seamless to Customers & Other Stakeholders*
 - *Smooth Integration & Improved Governance Structure*
- TGVl Long-Term Transportation Service Agreement with BC Hydro to serve Island Cogeneration Plant



Terasen Gas Group 2007 Scorecard

September 2007 Results



Terasen Gas

2008 Priorities and Beyond



- Continued Focus on Operational Excellence
 - *Safety, Customer Satisfaction, Cost Containment, Environmental Responsibility*
 - *Integrity Programs*
- Review of Technology Operating Platforms
 - *Smart Metering Implications*
 - *GIS, Asset Management, other*
- Retain, Attract & Motivate Employees
- Financial Performance

Terasen Gas

2008 Priorities and Beyond



- Project Development
 - *Whistler Pipeline Construction/Plan for Conversion*
 - *Mt. Hayes LNG Construction?*
 - *Other*
- Mitigate Gas/Electric Rate Compression
- Plan for TGVI loss of royalty revenue support in 2012

Terasen Gas

2008 Priorities and Beyond



- Energy & Environmental Policy Implementation
 - *Proactive role in provision of solutions*
 - *Right fuel, right application, right time theme*
 - *“Smart Gas Strategy for BC” based on “net emissions”*
 - *Balancing of Energy, Environment & Economy*
 - *Harmonization with electric & alternative energies*
 - *TGI-TGVI Energy Efficiency and Conservation Application Preparation*

Gas Commodity & Midstream Cost Outlook

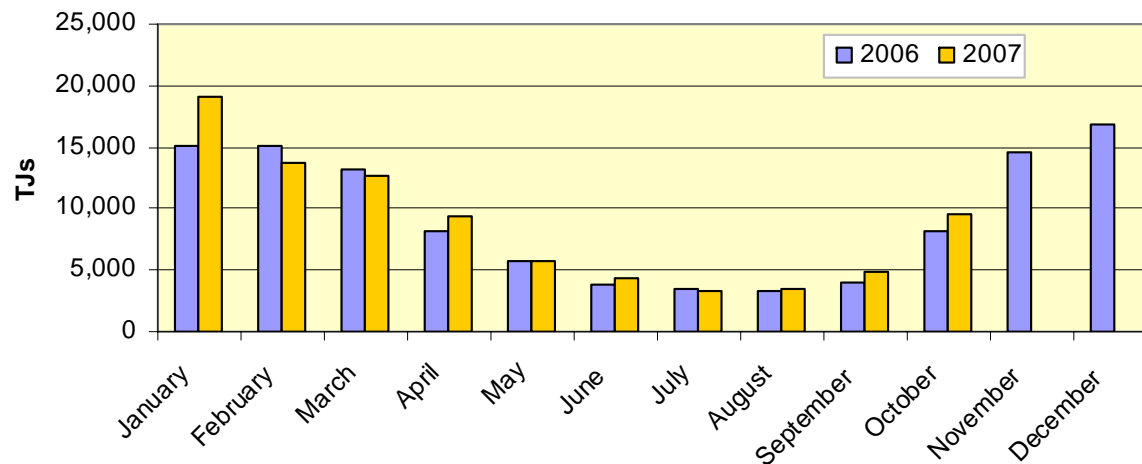
David Bennett

Terasen Gas. A Fortis company.

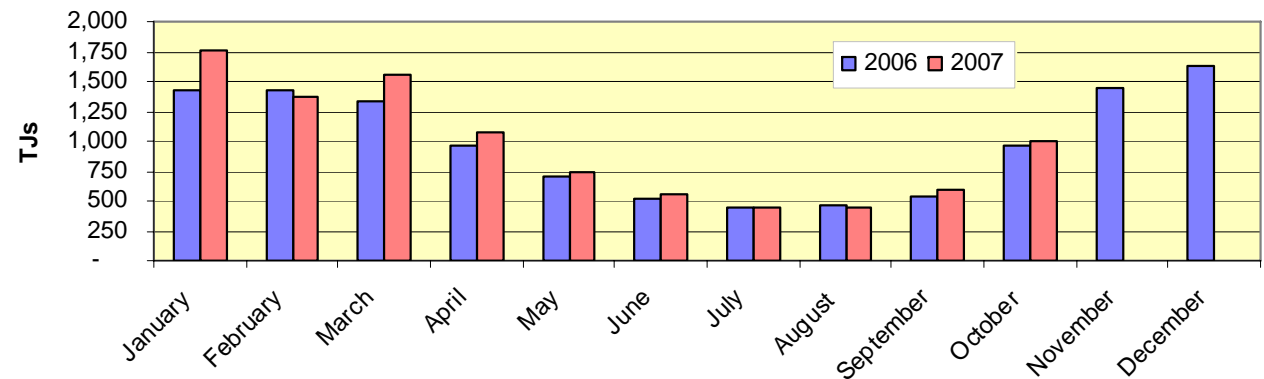
Seeing Higher Core Market Loads in 2007



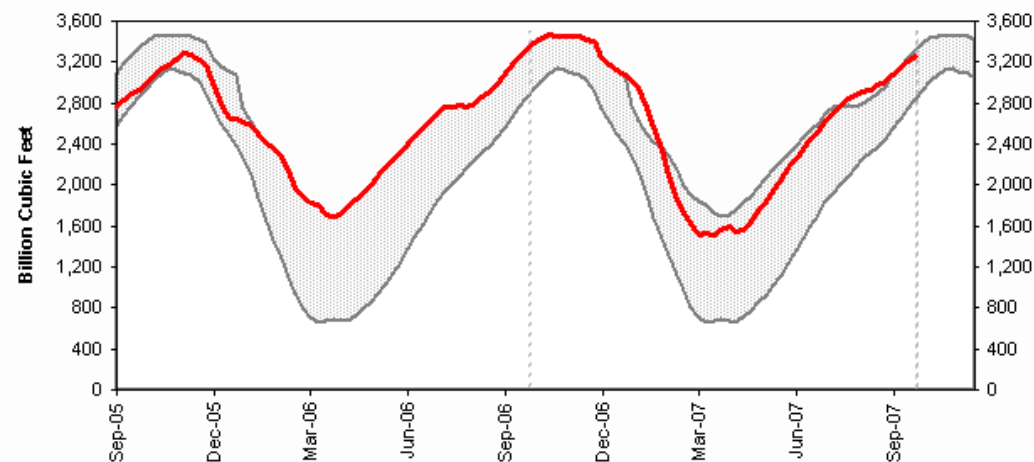
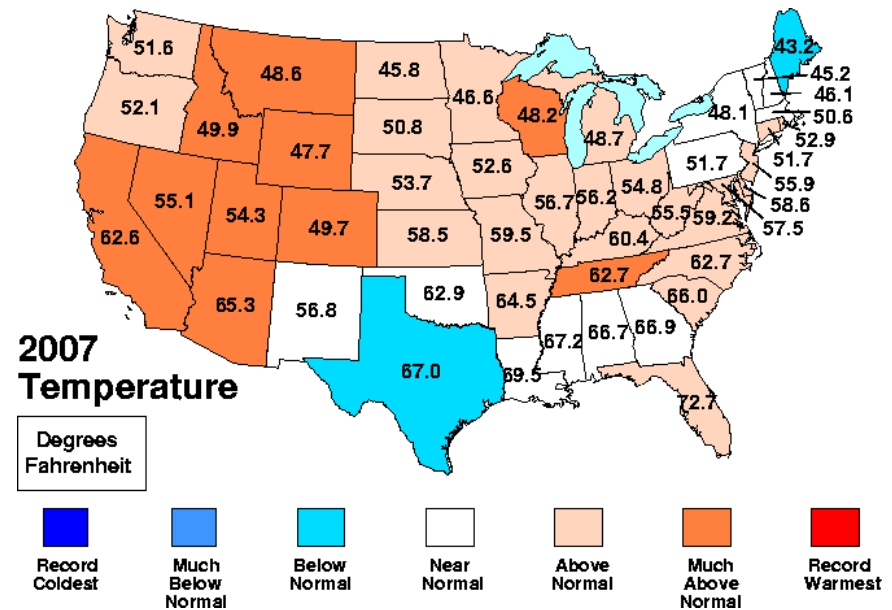
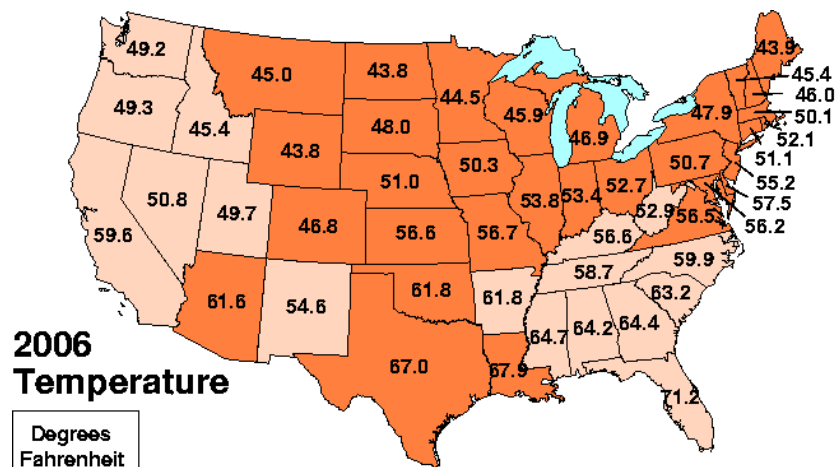
TGI



TGVI



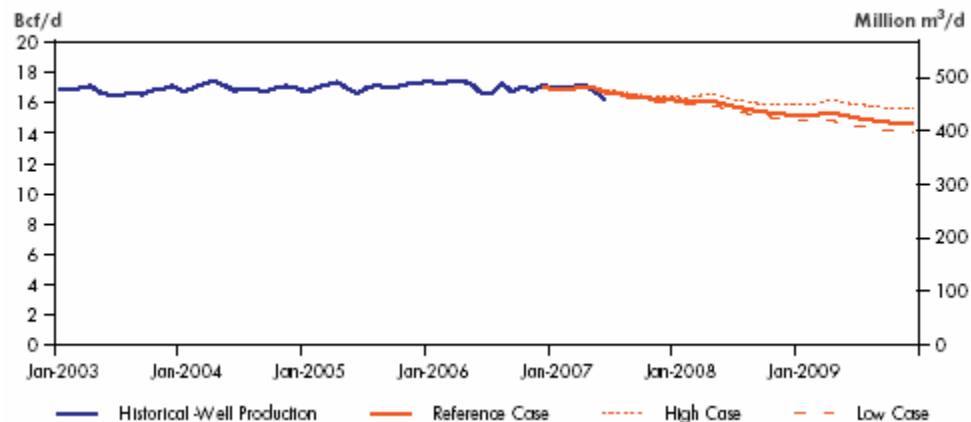
2006 & 2007 – No Significant Events



Canadian Rig Count and Deliverability

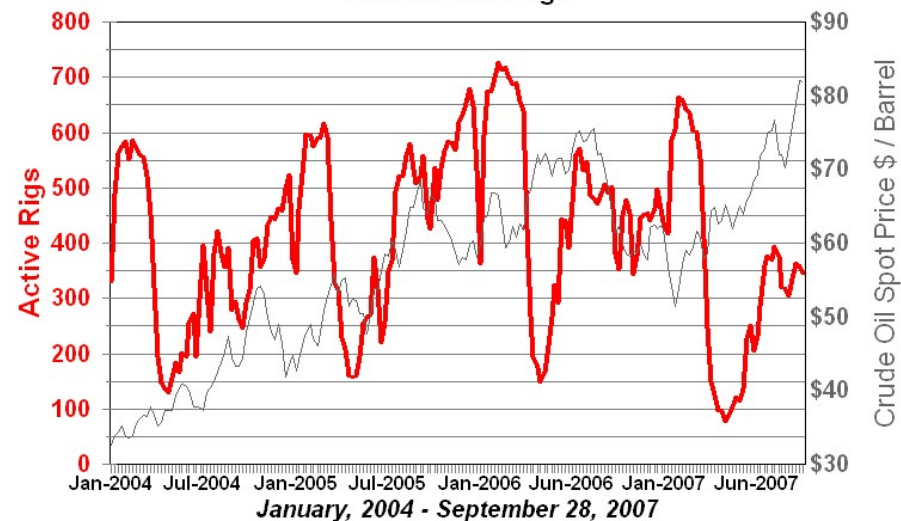


Outlook for Canadian Gas Deliverability – Reference, High and Low Cases

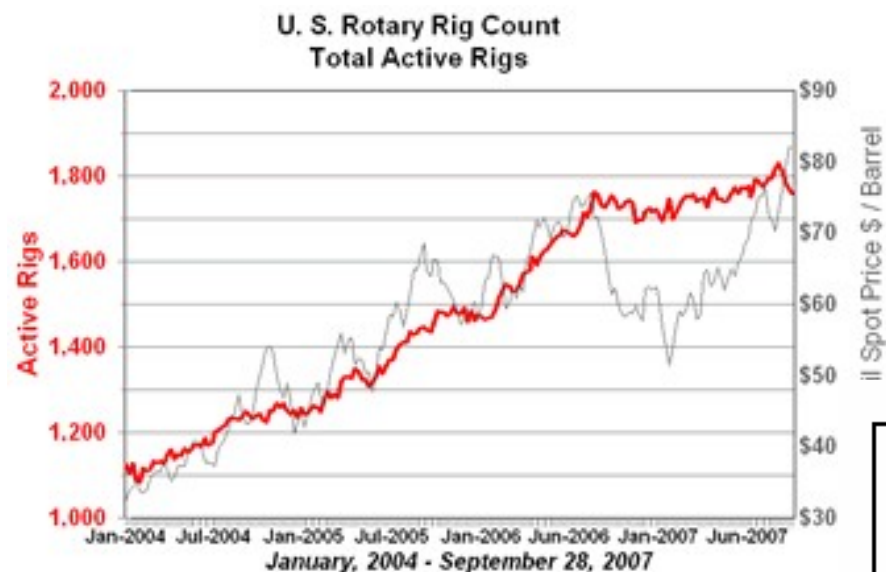


Deliverability and
Rig Count in decline

Canadian Rotary Rig Count
Total Active Rigs



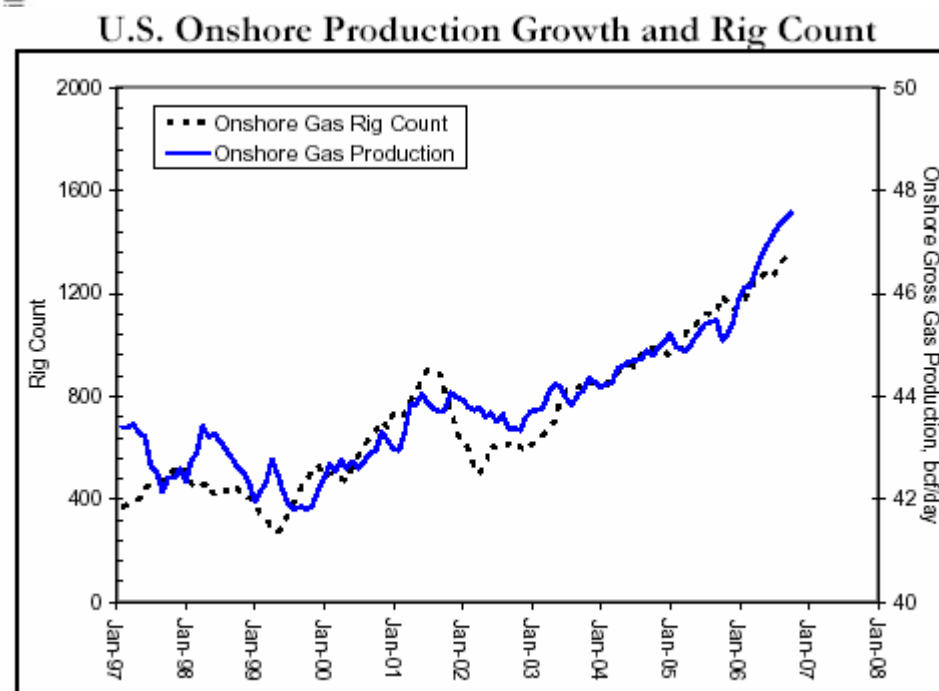
US Gas Rig Count and Deliverability



Situation in Reverse:

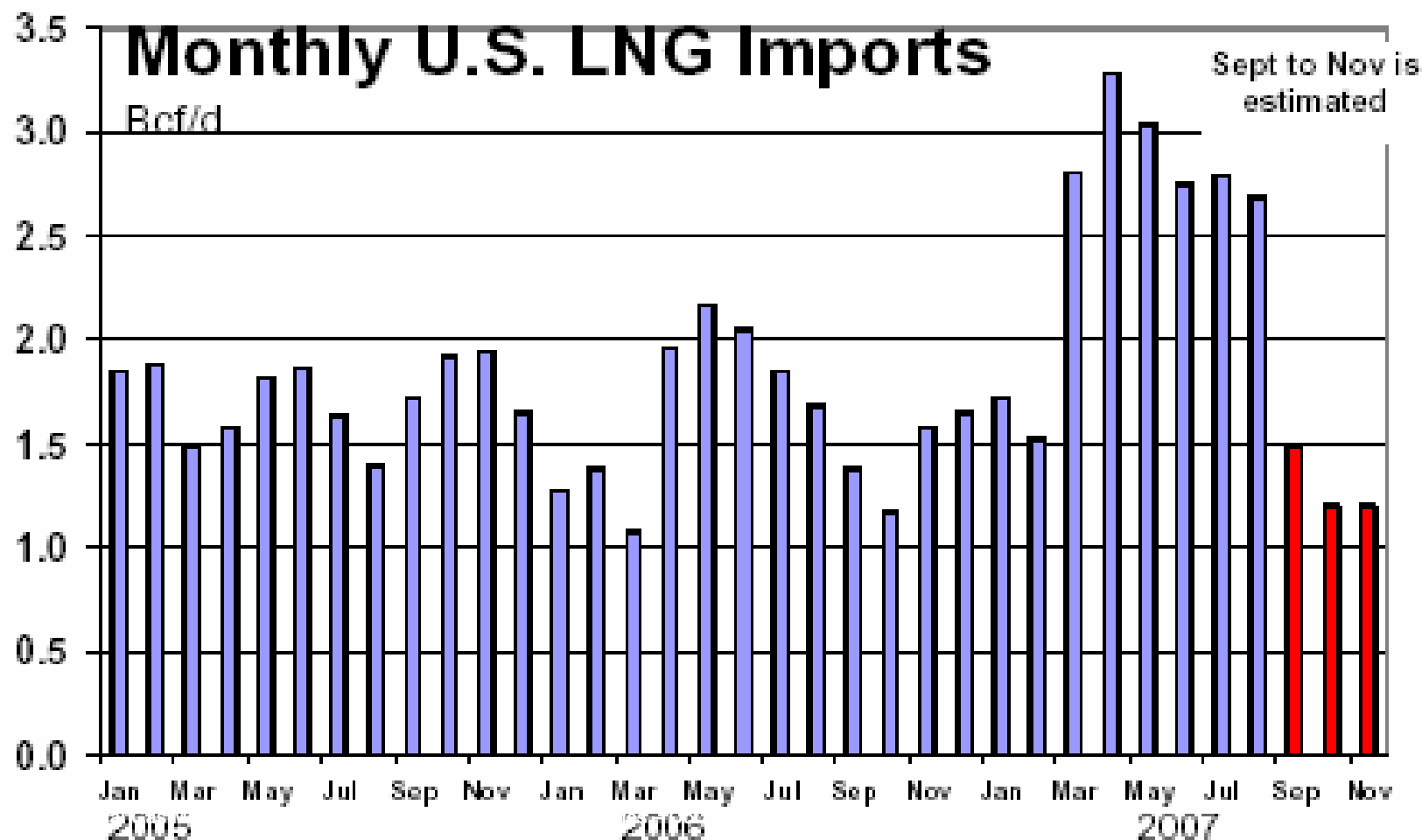
Deliverability on the rise and

Rig Count steady



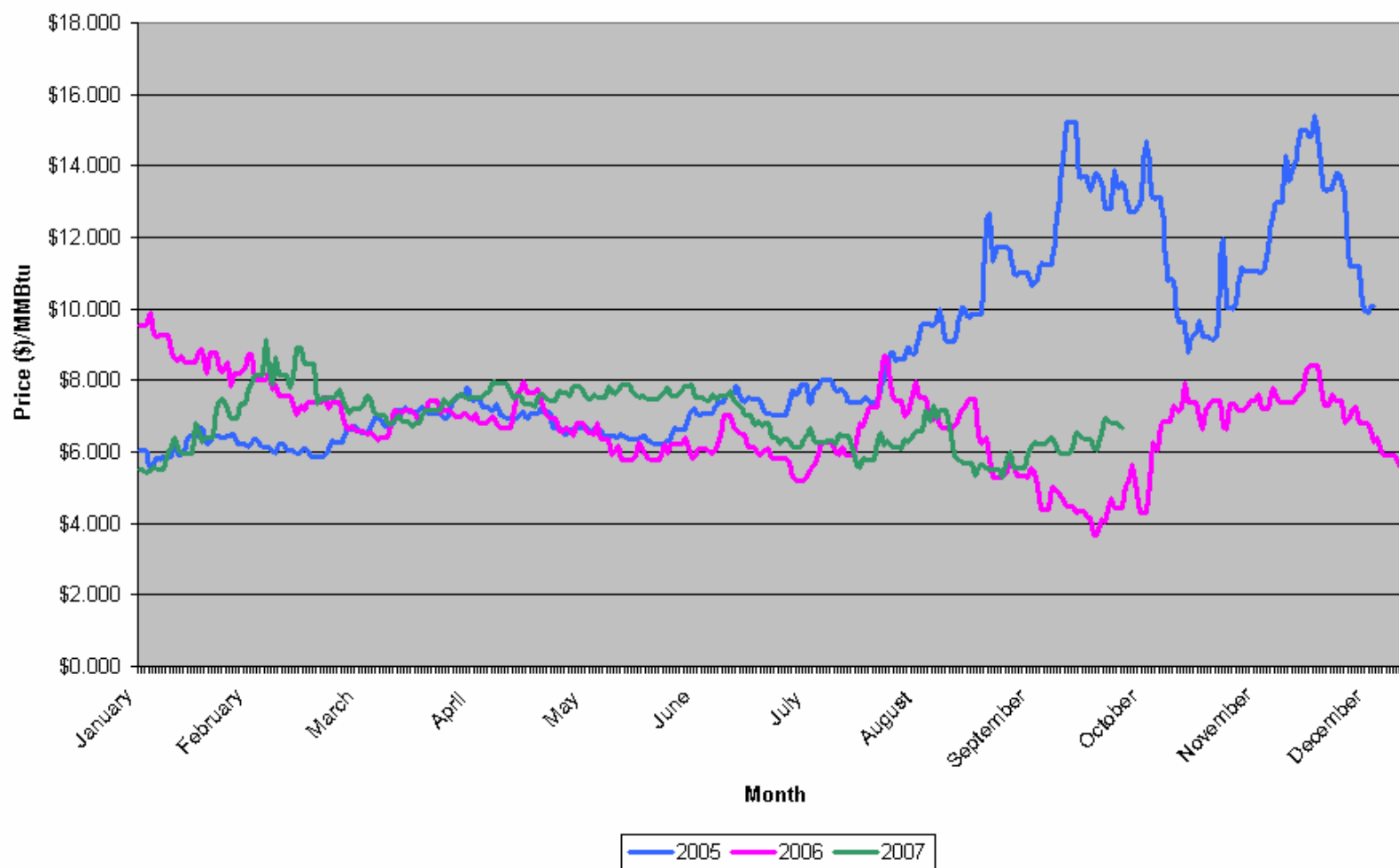
Sources: EIA-914, Baker Hughes and Pickering Energy Partners, Inc.

Import LNG Activity in North America



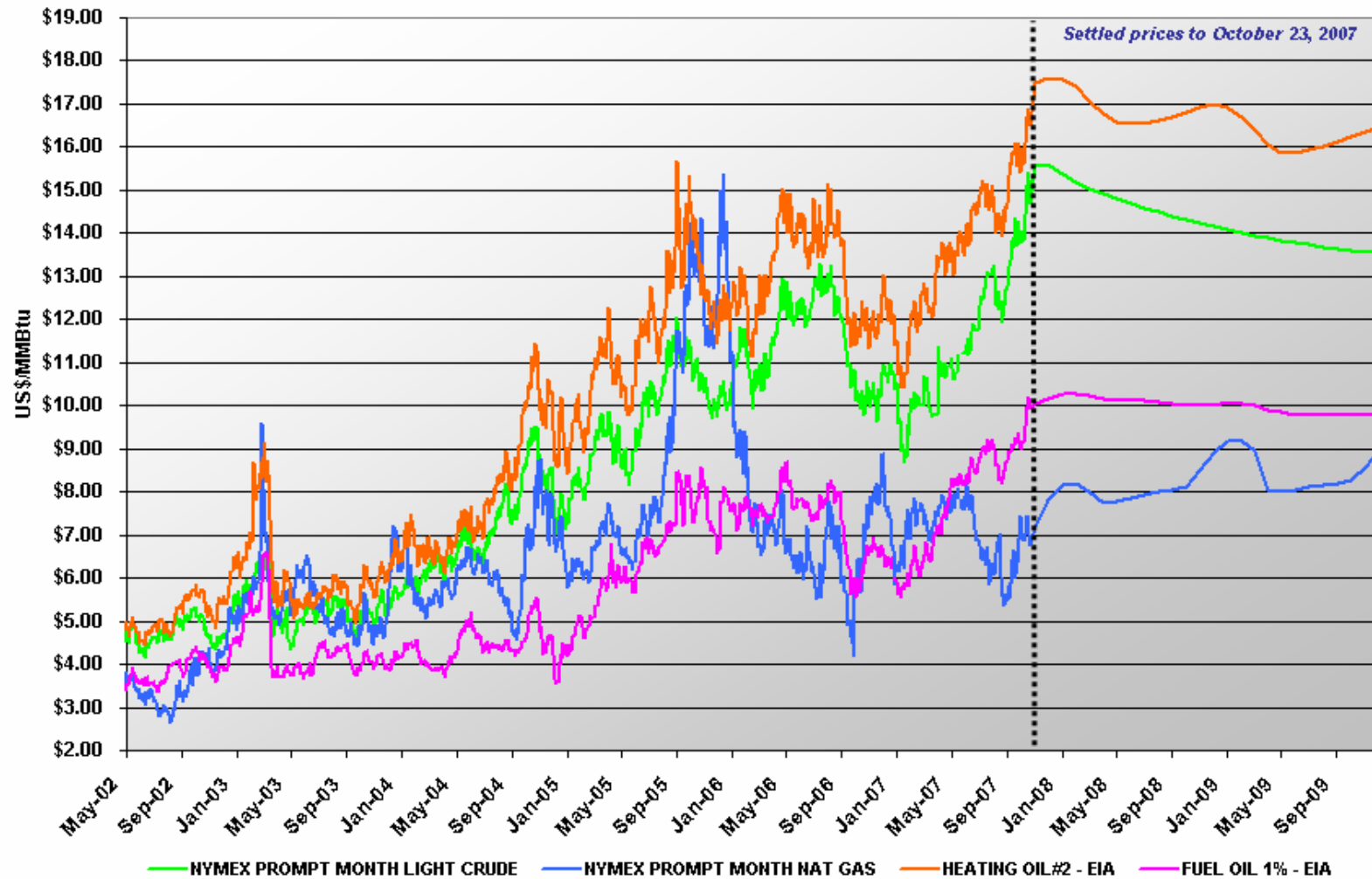
Prices Steady

Henry Hub Spot Price (US\$/MMBtu)



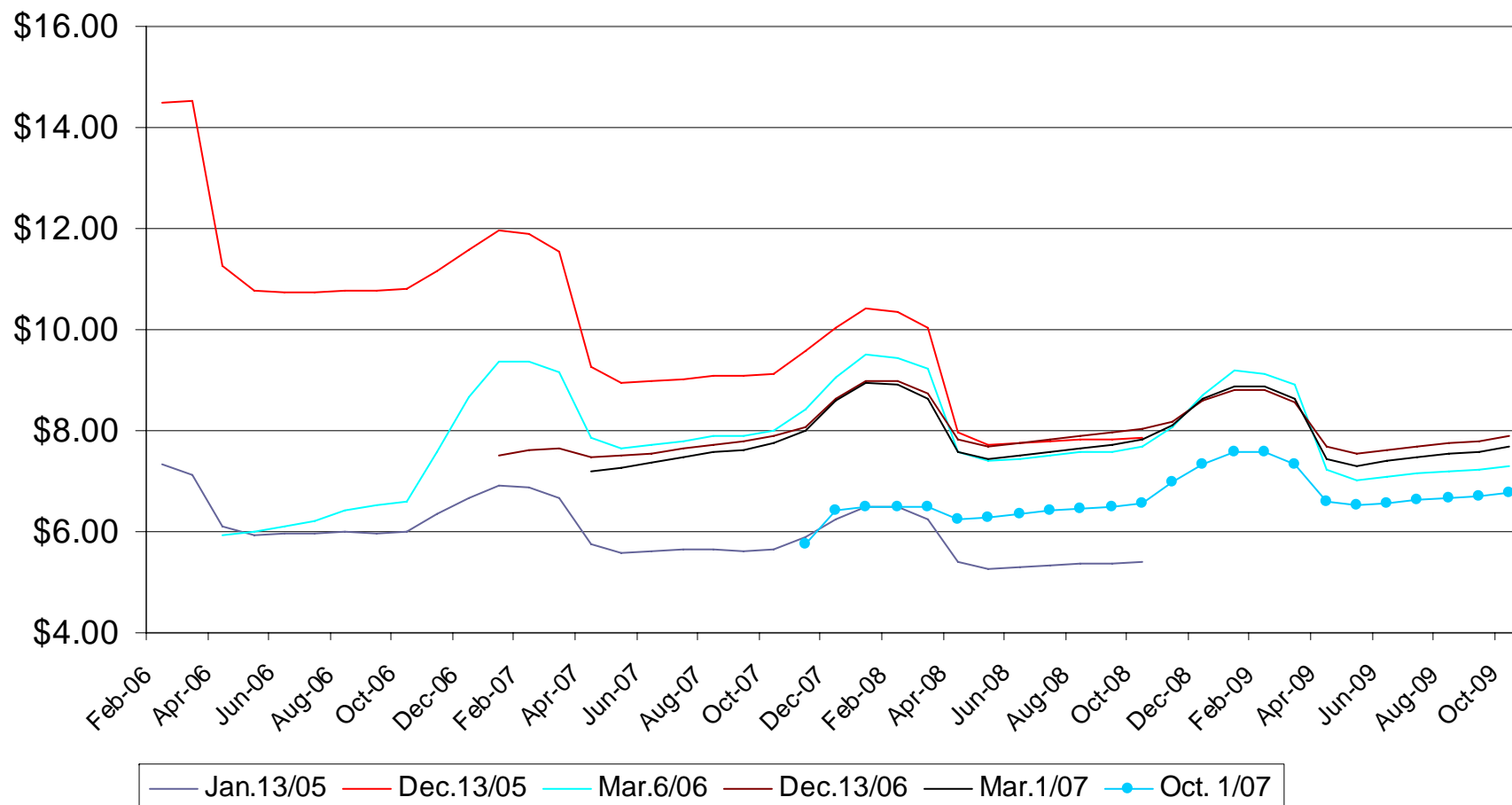
Natural Gas vs. Oil Products

Competing Fuel Prices



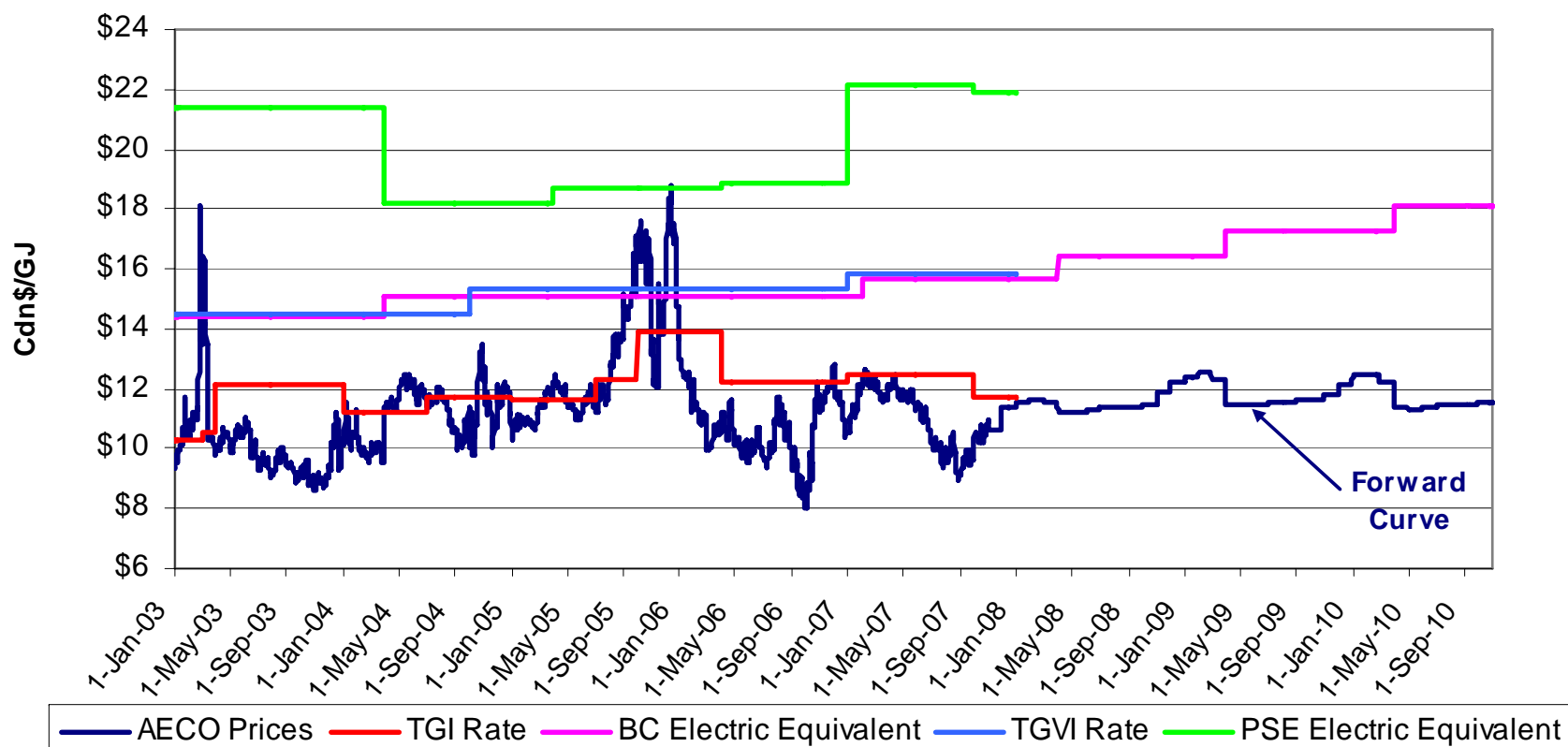
Forward Prices Now Relatively Flat

Changes in Forward AECO Curve (\$Cdn/GJ)



Gas vs. Electric Rate Comparison

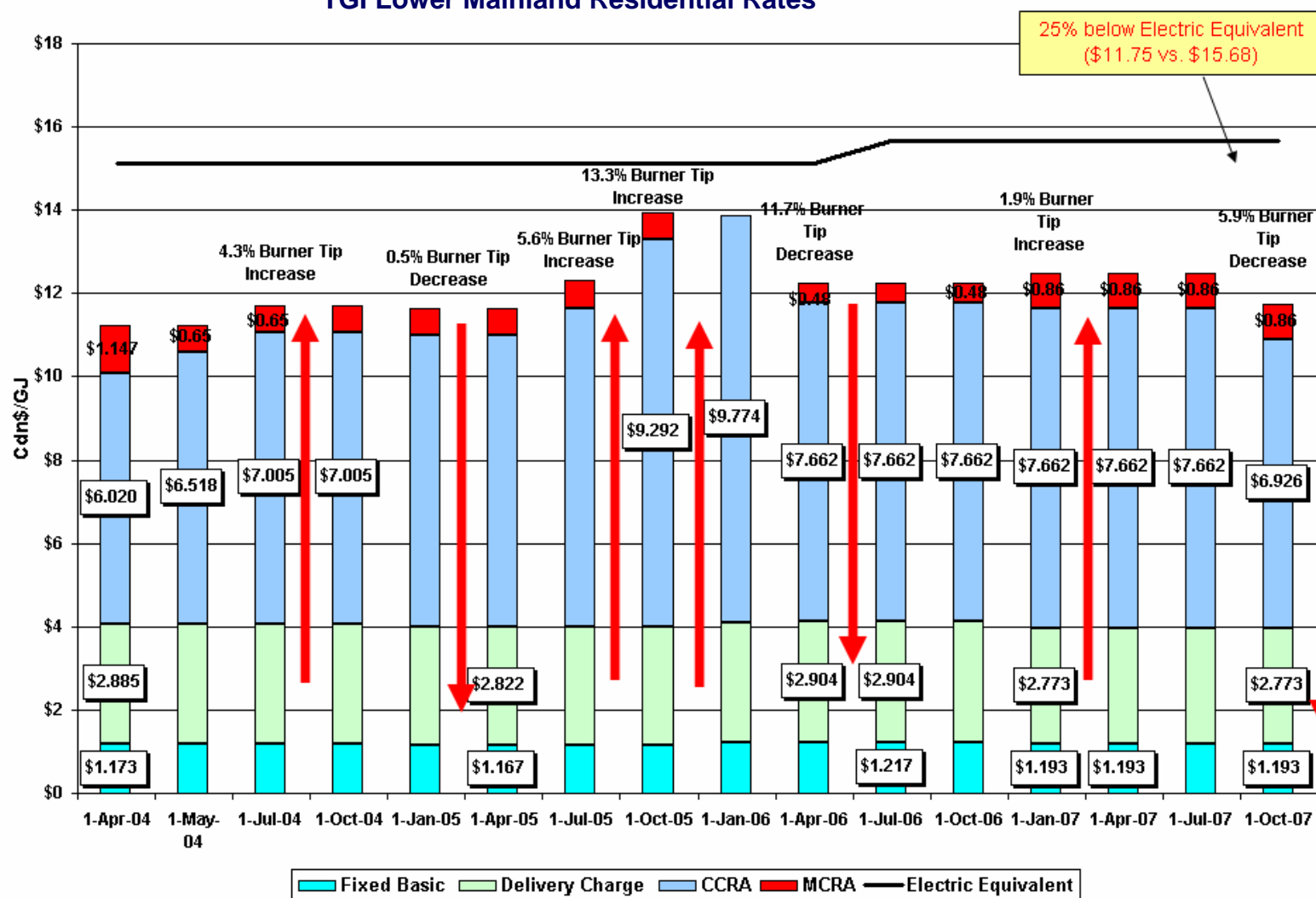
TGI & TGV Residential Rate, Electric Equivalents and AECO Prices



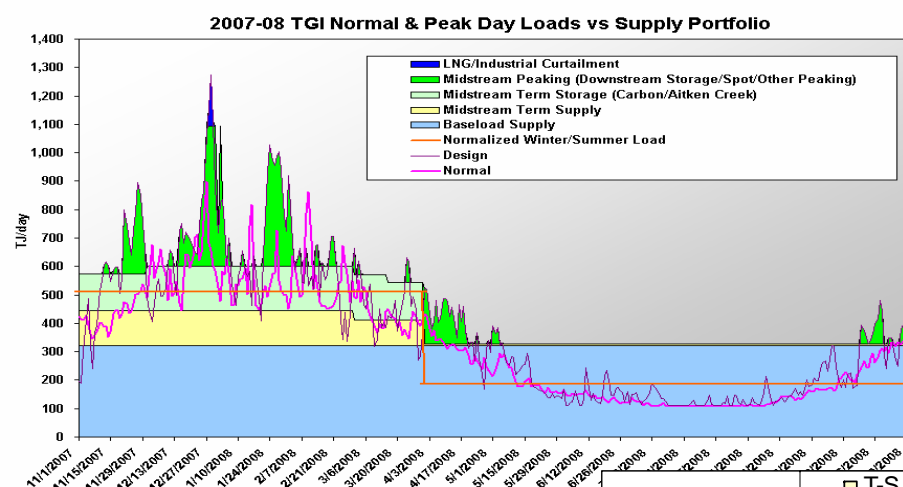
Note: AECO prices adjusted up for TGI Fixed, Basic & Delivery and Midstream charges for comparison purposes

TGI Rates Close to 2004 Levels

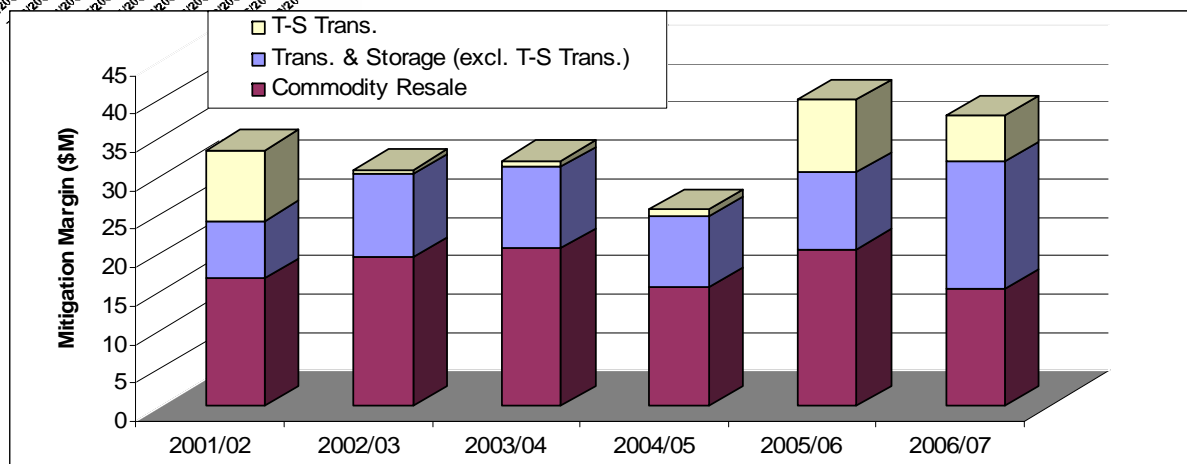
TGI Lower Mainland Residential Rates



MCRA –Managing Peaks and Valleys



Gas Supply Mitigation Activity 2001 - 2007



Note: Graph does not include SCP mitigation

■ Customer retained 97% of margin in 2006/07

- Gas Market Remains Tight / Potential for Volatility
 - *No significant events in 2006 / 2007*
 - *Oil Prices High / Fall in US\$*
 - *Canadian Deliverability Falling / US Deliverability ?*
 - *Import LNG Becoming a Factor in North American market*

- Terasen's objective is to retain competitiveness to other fuels, and lower rate volatility
 - *TGI Rates 25% below electric equivalent*
 - *Customer rate volatility lower than the market*

2008 Forecast

Greg Caza

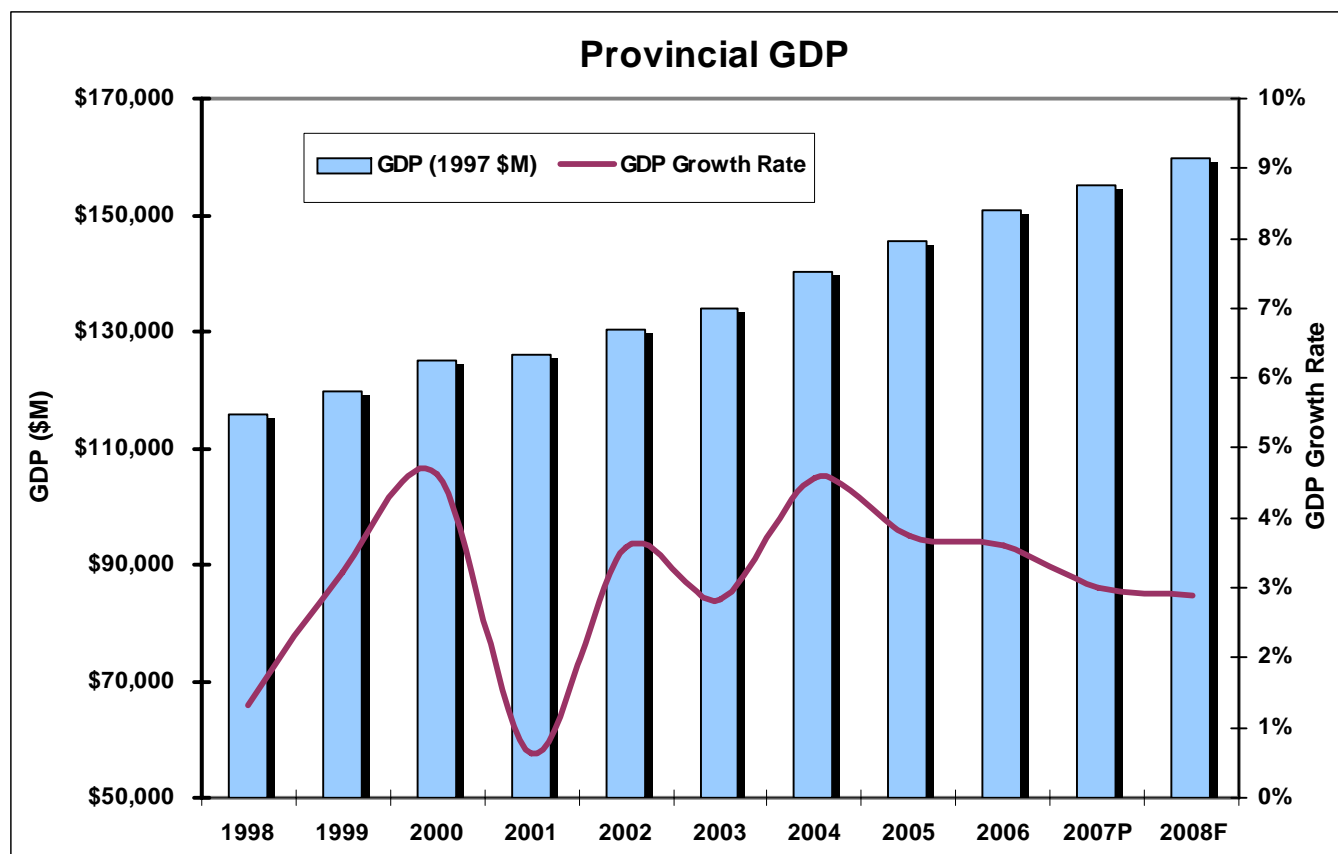
Terasen Gas. A Fortis company.

Overview



- Economic Fundamentals
 - *B.C. Economy*
 - *Housing Market*
 - *Forestry Industry Outlook*
- TGI
 - *Customer Additions & Use per Customer Rates*
 - *Industrial Volumes & Margins*
- TGVl
 - *Customer Additions & Use per Customer Rates*
 - *Transportation Volumes & Revenues*
- Company Summary

B.C. Economy – Continued Strength



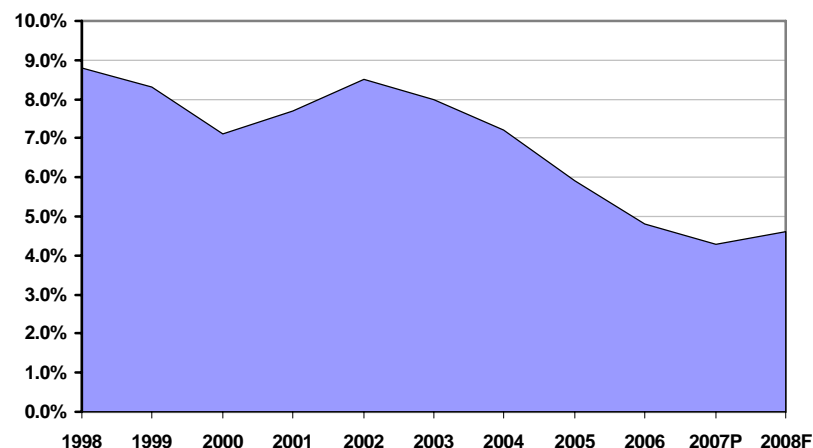
GDP growth rate to remain stable at 2.9% in 2008

- Strong domestic demand
- Employment gains
- Growth in retail trade
- Steady housing activity

Source: Actuals – BC Stats, Forecast – BC Ministry of Finance

B.C. Economy – Cont'd

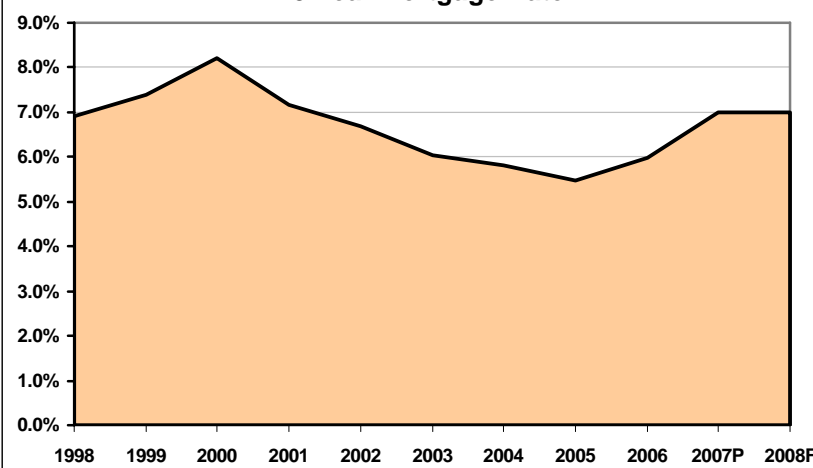
Provincial Unemployment



■ Unemployment rate to remain low at 4.6%

- B.C. Ministry of Finance - 4.6% (2007 Quarterly Report)
- BMO Economics - 4.5% (Sep 2007)
- RBC Economics - 4.7% (Oct 2007)

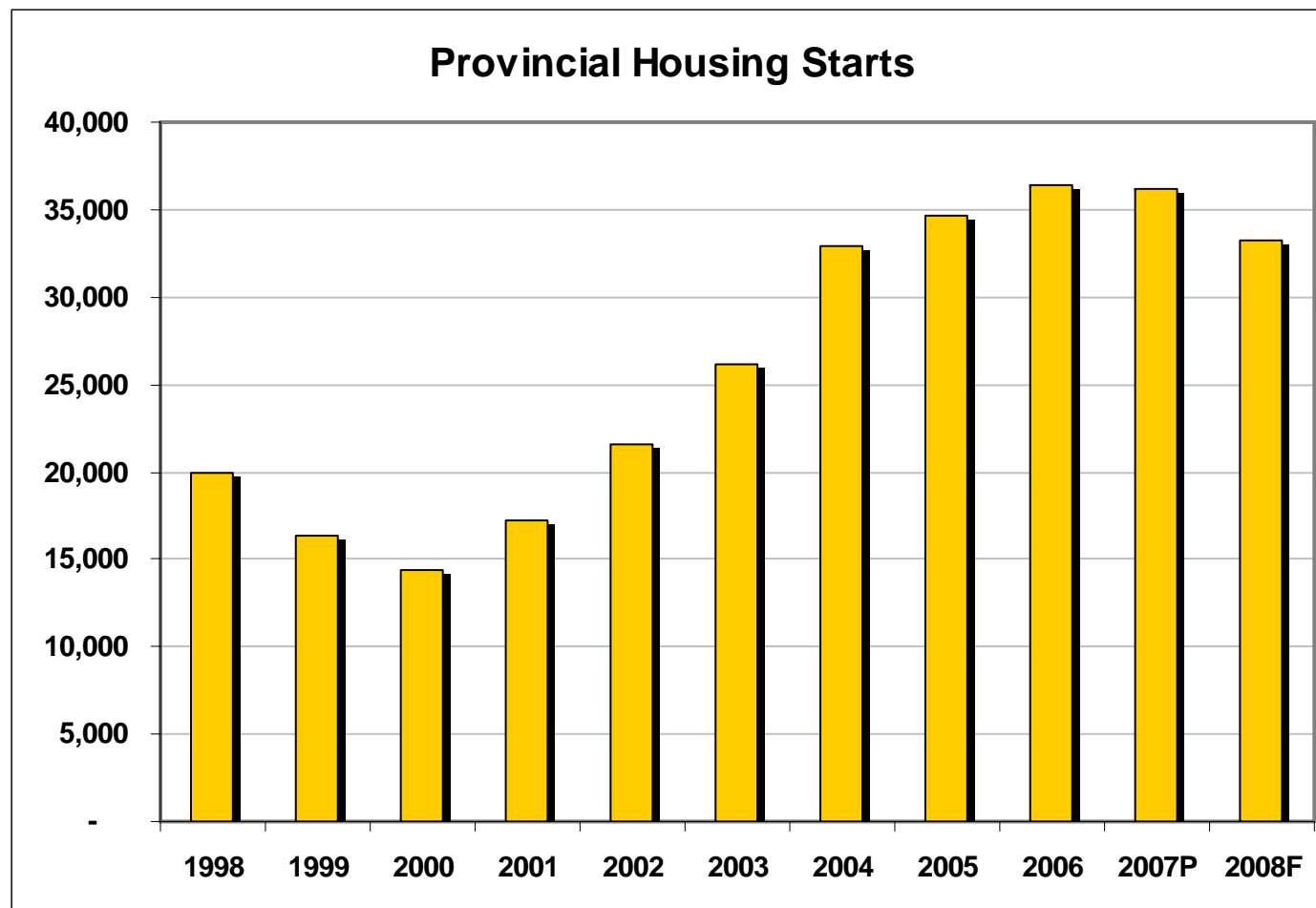
5 Year Mortgage Rate



■ Mortgage rate to remain stable in the 7% range for 2007 and into 2008

- Canadian Mortgage Housing Corp (Q3, 2007 Market Outlook)
- Credit Union Central of B.C. (Oct 2007 Interest Rate Forecast Report)

Housing Starts – Strong but Moderating



Housing starts expected to slow somewhat in 2008

8.1% decrease from 2007

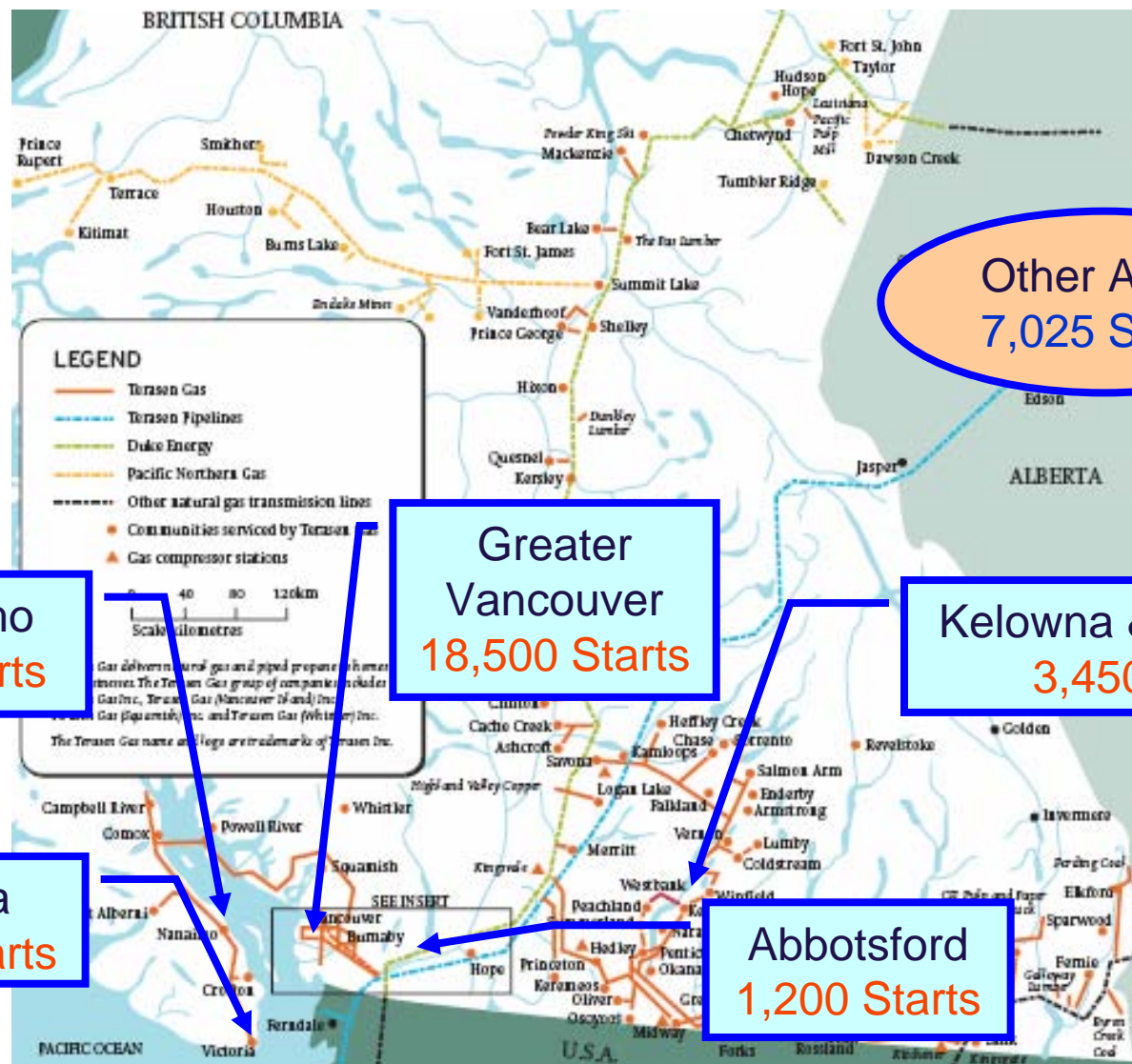
Building activity remains high with respect to longer term

Source: CMHC

2008 CMHC Housing Starts Forecast



**TOTAL
33,250**



**Nanaimo
800 Starts**

**Greater
Vancouver
18,500 Starts**

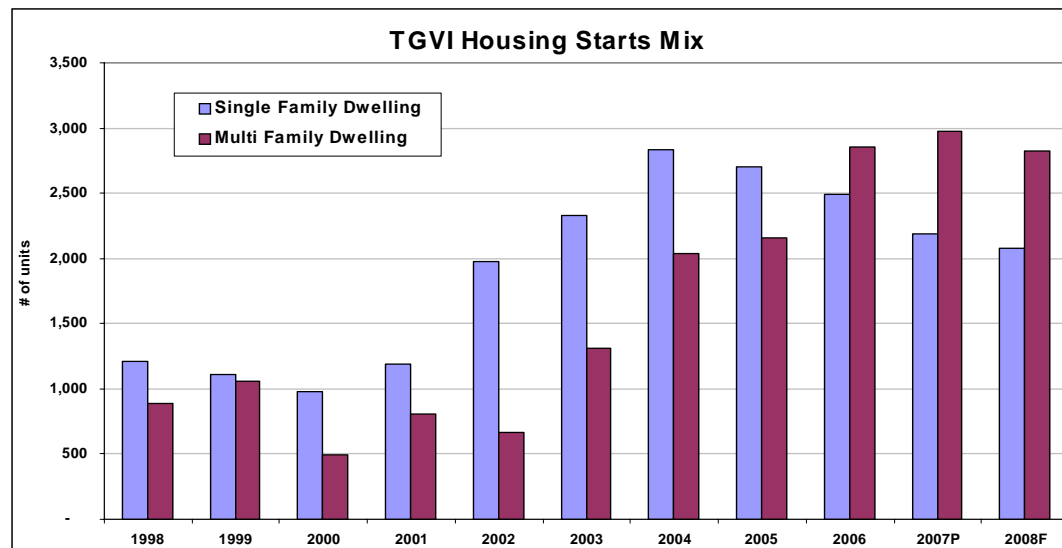
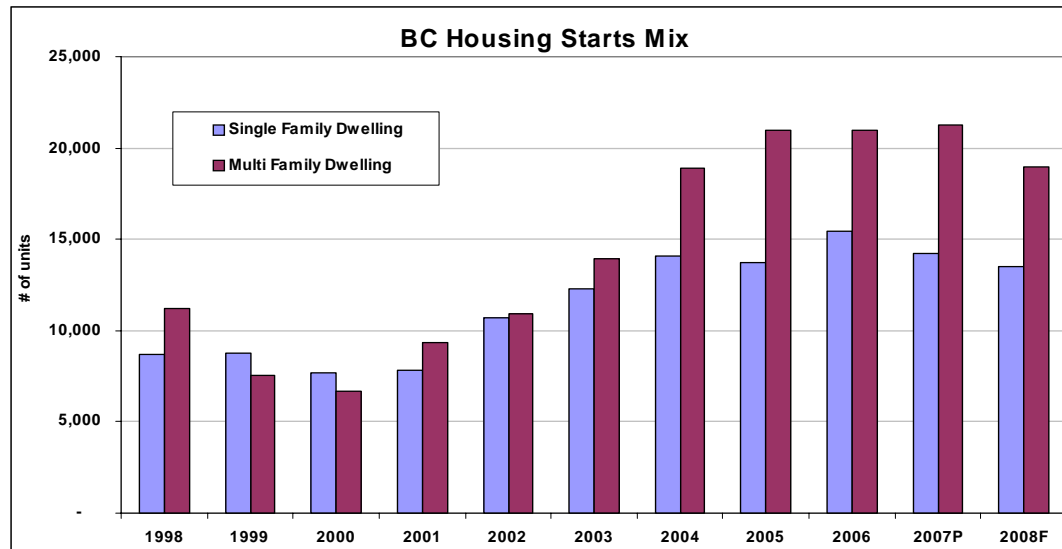
**Kelowna & Kamloops
3,450 Starts**

**Victoria
2,275 Starts**

**Abbotsford
1,200 Starts**

**Other Areas
7,025 Starts**

Housing Types



Multi-family's market share eases slightly but continues to dominate in 2008

- *Slight increase in single family dwellings as a percentage of total units*
- *Multi-family dwellings have now taken the lead on Vancouver Island*

U.S. Slowdown – Minor Impact on B.C.



- Provincial economy expected to fair well in spite of U.S. housing market
 - Canadian sub-prime mortgages represent less than 5% of mortgages
 - Assessment of B.C.'s economy

B.C. Finance Minister- Carole Taylor – Sept 14th, 2007

"British Columbia's economy is proving to be quite resilient in the face of significant recent challenges & risks in the US economy"

TD Bank Quarterly economic report – Oct 4th, 2007

"B.C. economy is well positioned to ride out the current market turmoil in US"

RBC Economics Research – Oct 2007

"Economic growth in B.C. is expected to remain robust at 3% in 2007 despite the recent shakeup in the U.S. economy"

Conference board of Canada – Oct 2007

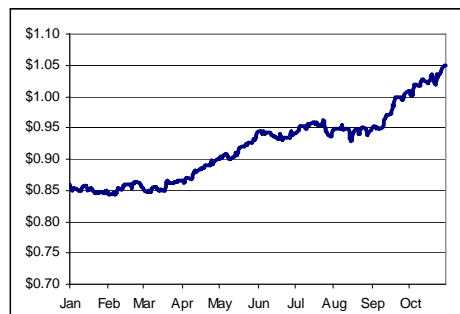
"B.C. Government's strong fiscal position is promising & could serve as an economic cushion for global market downturns."

Forestry Industry – Difficult Times Ahead

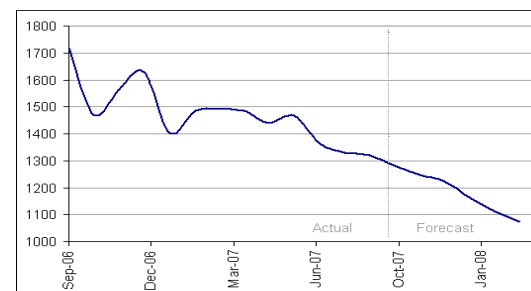


- Forestry industry's struggles are expected to continue in 2008 due to major shifts in economic drivers

- **Strong Canadian dollar**

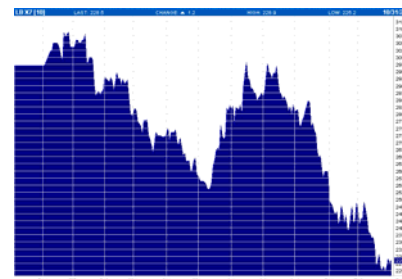


- **Decline in U.S. housing market**



- **Lower price for lumber**

- **25% decrease in price since Jan.**



Forestry Industry – Cont'd

■ Recent industry developments

Weyerhaeuser Co. - Sep 17th, 2007

“plans to shut a sawmill in Okanagan Falls, B.C. and cut 224 jobs”

Canfor Corp. - Oct 6th, 2007

“announced that it will be taking a series of shutdowns at its sawmills & the curtailments are expected to be about 74 million board feet”

Pope & Talbot Inc - Oct 8th, 2007

“closed three lumber mills for two weeks due to the falling prices of softwood lumber products and continued strengthening of the Canadian dollar.”

Pope & Talbot Inc - Oct 29th, 2007

“...has sought court protection from creditors, blaming the strong Canadian dollar and weak lumber prices.”

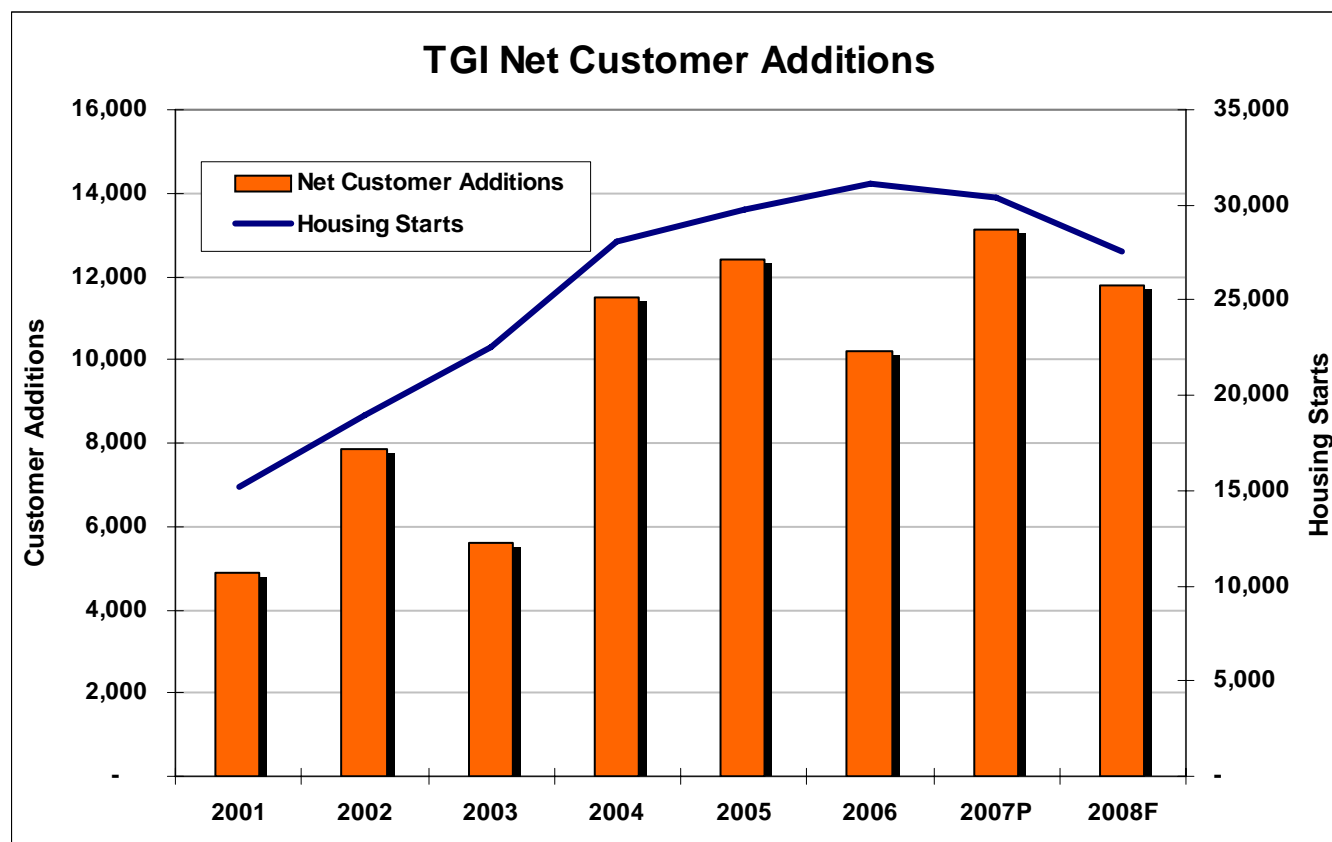
CANPAR Industries – Nov 1st, 2007

“CANPAR Industries will cease operation of its particleboard facility in Grand Forks on December 21, 2007”

TGI Forecast

Terasen Gas. A Fortis company.

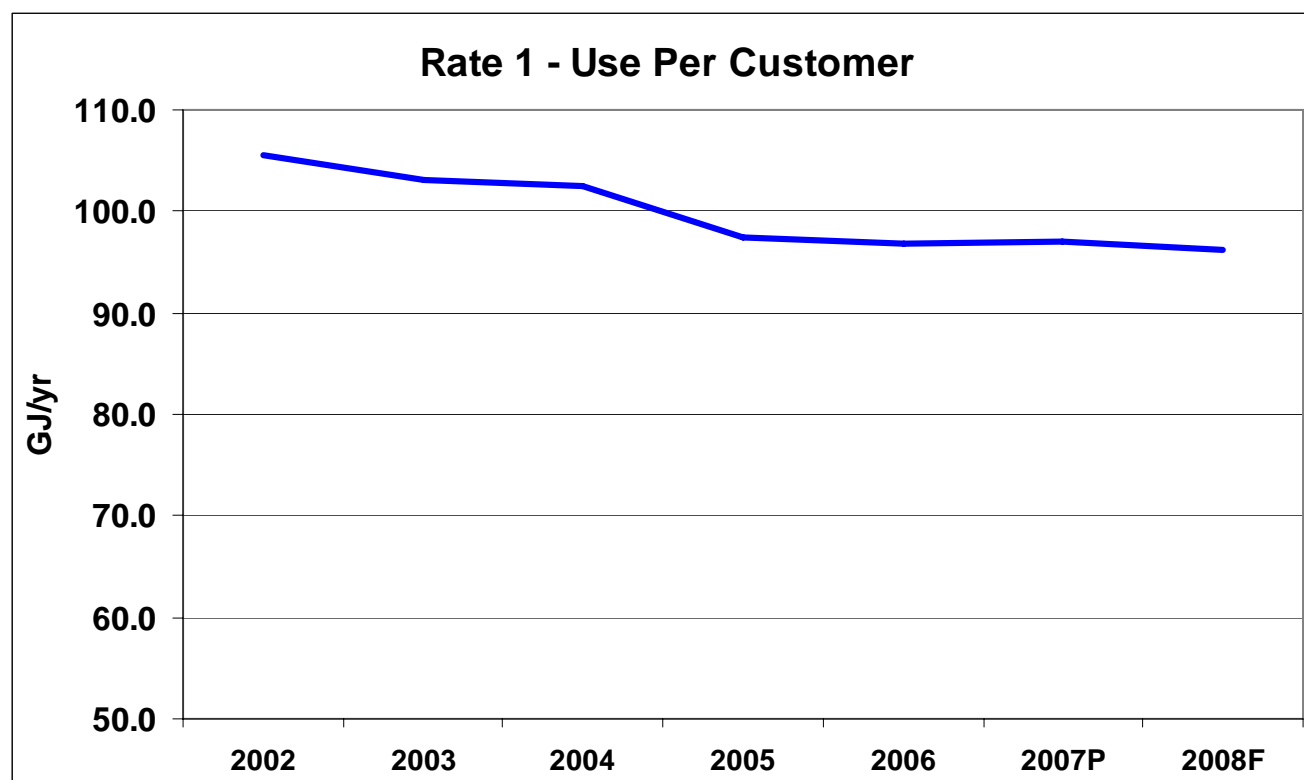
TGI Net Customer Additions Forecast



TGI customer additions forecast to decrease from 2007 projection

Consistent with CMHC forecast

Use per Customer Rates



Residential use rates are forecast to decline by 1% from 2007 projection

Consistent with long-term trends at other natural gas utilities

Commercial use rates are expected to remain relatively steady in 2008

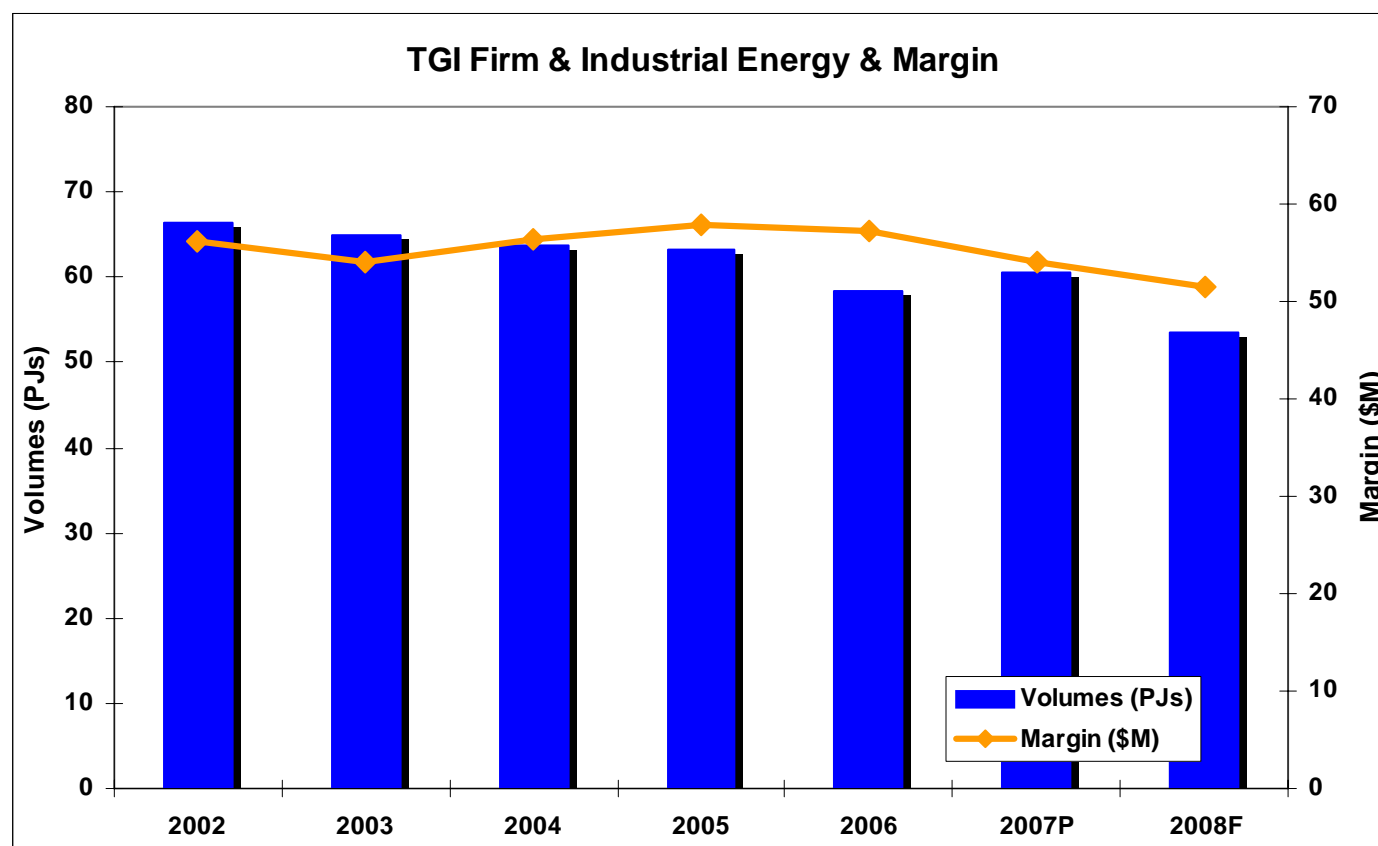
	2002	2003	2004	2005	2006	2007P	2008F
Rate 1	105.6	103.1	102.6	97.4	96.8	97.1	96.1
Rate 2	301.8	303.6	313.8	305.8	314.3	319.9	321.9
Rate 3	3,378.1	3,292.0	3,500.9	3,387.6	3,314.1	3,445.4	3,429.0
Rate 23	5,281.1	4,883.4	5,112.6	4,714.3	4,685.7	4,916.3	4,850.0

*Use per customer rates are normalized

Industrial Forecast Methodology

- Industrial & Transportation forecast is determined from direct customer feedback
- Customer survey for Rates 7, 22, 25, & 27
- Forecast derived from survey responses & most recent 12 month of actual demand where no response received
 - *750 customers surveyed*
 - *368 responded, or 49% (46% in 2006)*
 - *Respondents responsible for 80% of volume (71% in 2006)*

Industrial Energy Demand & Margin



Rates included: 4-7, 22, 25 & 27 (excl. Burrard Thermal & TGVl)

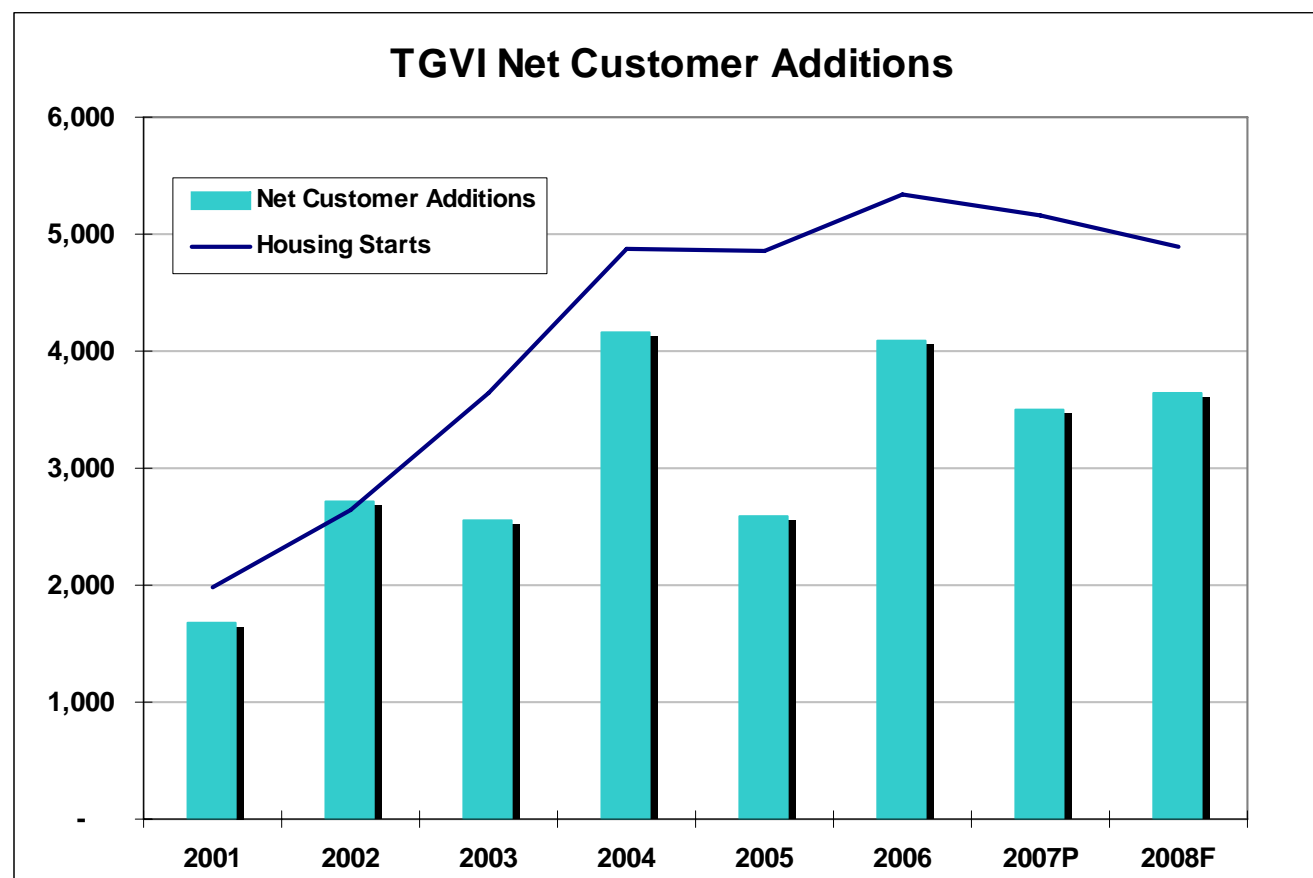
Industrial volumes forecast to decline in 2008

- *Forestry industry is main driver*
 - 24% decline in demand from '07 to '08 budget
- *Margin to decline as a result*

TGVI Forecast

Terasen Gas. A Fortis company.

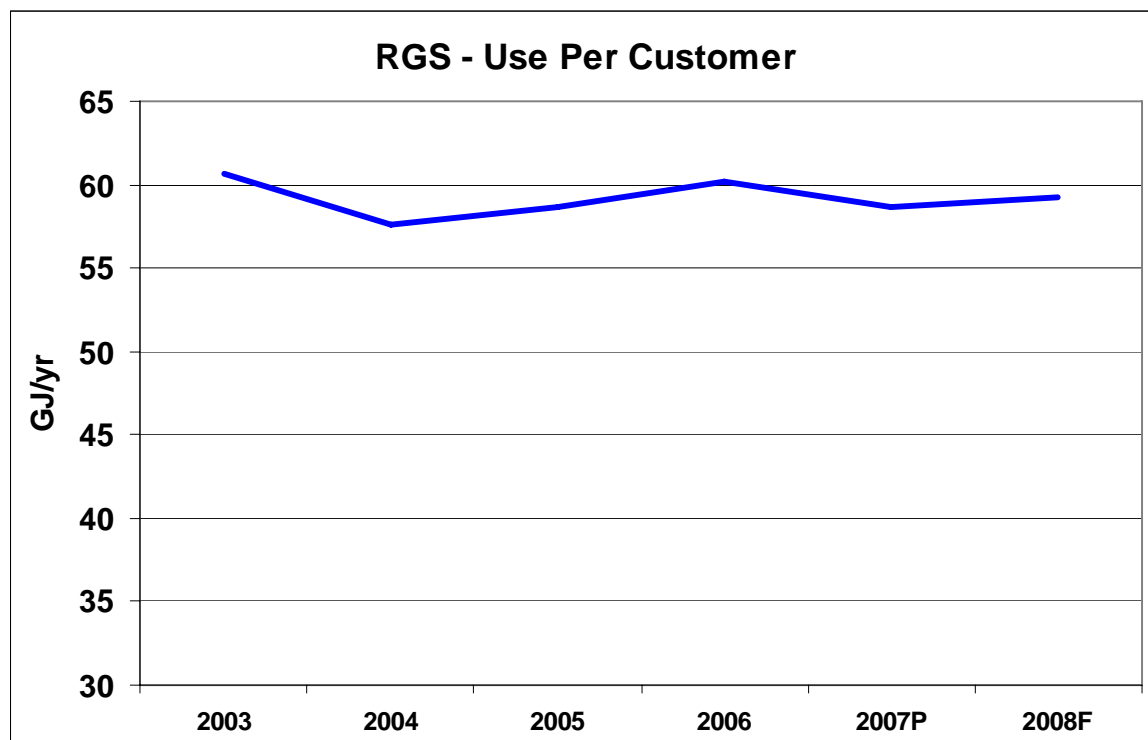
TGVI Customer Additions Forecast



2008 customer additions are expected to be slightly above the 2007 forecast based on strong results in the first part of this year

Overall trend remains consistent with housing starts

TGVI Use per Customer



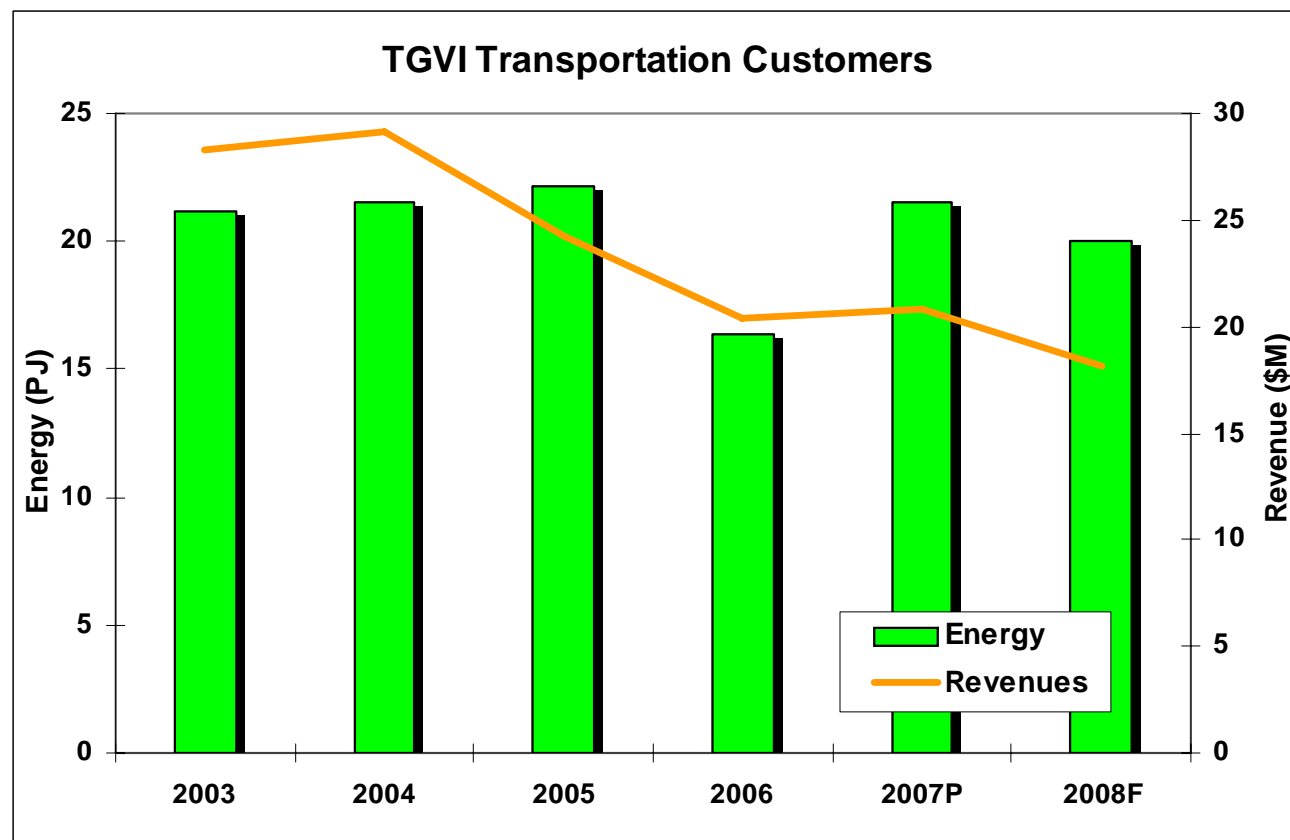
■ Residential rates continue to remain stable over longer term

■ Commercial rates also continue to show stability year over year

	2003	2004	2005	2006	2007P	2008F
RGS	60.6	57.6	58.7	60.2	58.7	59.3
SCS1	66.6	63.5	75.0	75.1	84.7	72.7
SCS2	297.0	284.7	313.6	313.8	311.2	307.2
LCS1	901.2	884.6	943.2	903.2	955.8	916.0
LCS2	2,325.0	2,325.5	2,384.3	2,295.4	2,404.4	2,341.0
AGS	1,247.7	1,406.8	1,338.5	1,387.1	1,411.6	1,389.0
LCS3	15,459.8	16,740.4	16,521.2	17,378.9	18,191.8	18,188.0

*Use per customer data is normalized

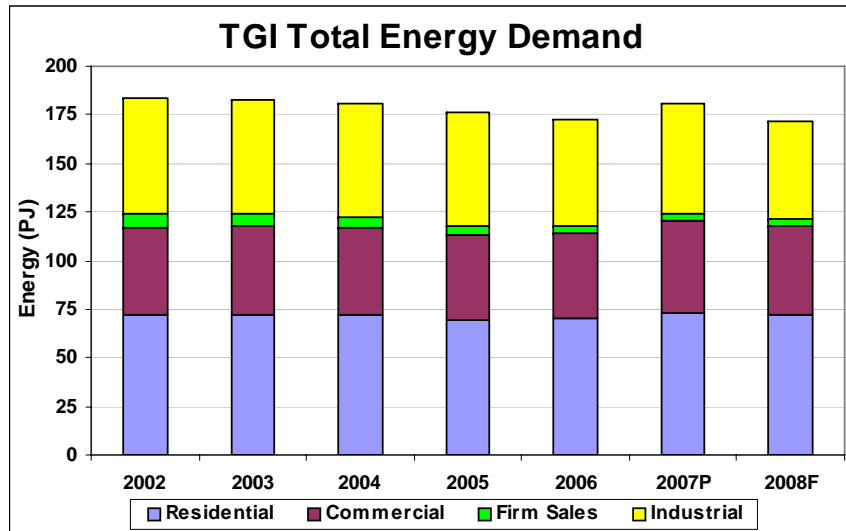
Transportation Customers - Energy and Revenues



Note: Actuals & projection contain interruptible volumes

- Consumption and margins to decline in 2008 due to reduction of contract demand by VIGJV
- BC Hydro has entered into long-term contract for ICP

TGI & TGVI – Trends in Energy Demand

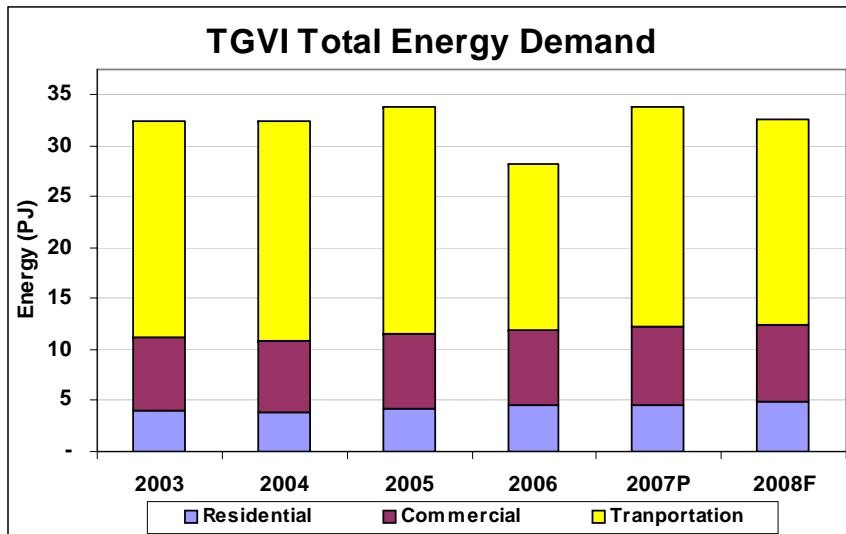


■ Residential and commercial demand continues to grow as a % of TGI's total business

■ Long-term trend shows slight decrease in demand

■ *Residential and commercial steady*

■ *Industrial energy consumption in decline*



■ Bulk of TGVI's energy demand is driven by Transportation customers

■ *Future Transportation volumes expected to remain fairly constant*

■ Residential and commercial volumes will continue to increase as a % of total energy demand

2008 TGI Revenue Requirement & Rate Outlook

Guy Leroux

Terasen Gas. A Fortis company.

2008 Revenue Requirements

Cost Drivers



	2007 Projected	2008 Forecast	Impact on Formulas
Customer Additions	13,129	11,797	Customer addition driven capital
Customers - End of Year	825,812	837,609	Customer addition driven capital
Average Customers	817,480	829,970	O&M and Other base capital
Change in Average Customers	11,636	12,490	O&M
Customer Growth Percentage	1.44%	1.53%	O&M
B.C. Inflation (CPI)		2.10%	O&M and Capital
Adjustment Factor - 66% of CPI		-1.39%	O&M and Capital

2008 Revenue Requirements

Formula Based Capital Expenditures



	Projected 2007	Forecast 2008
<u>CUSTOMER ADDITION DRIVEN CAPITAL EXPENDITURES</u>		
Customer Addition Driven Capital Expenditures Per Customer Addition	\$2,162.50	\$2,177.94
Number of Customers Additions	13,129	11,797
Target Customer Addition Driven Capital Expenditures (\$000)	\$28,391	\$25,693
<u>OTHER BASE CAPITAL EXPENDITURES</u>		
Other Base Capital Expenditures Per Customer	\$88.53	\$89.16
Average Number of Customers	817,480	829,970
Target Other Base Capital Expenditures (\$000)	\$72,372	\$74,000
Total Base Capital Additions excluding Forecast CPCN Addition (\$000) =	\$100,763	\$99,693

2008 Revenue Requirements Capital Plant Additions (\$000)



	2007 Projected	2008 Forecast
Base Capital Expenditures	\$100,763	\$99,693
Add - Work in Progress Changes	(575)	(128)
Add - AFUDC	982	994
Add - Overhead Capitalized	27,535	27,552
Total Base Capital Additions to Gas Plant in Service	\$128,705	\$128,111
CPCN Additions to Opening Gas Plant in Service	10,846	10,092
Total Plant Additions	\$139,551	\$138,203

2008 Revenue Requirements

Utility Rate Base (\$MM)



	2008 <u>Forecast</u>
Total Plant Additions	\$ 138
Plant in Service, Beginning Balance	3,243
Amortization, Disposals, CIAC, Intangible Plant	<u>(944)</u>
Net Plant, Ending Balance	<u>\$ 2,437</u>
Net Plant Beginning Balance	<u>\$ 2,398</u>
Net Plant in Service, Mid-Year	\$ 2,417
Gas in Storage	127
Unamortized Deferred Charges, Mid-Year	(27)
Other Rate Base Items	<u>(12)</u>
Utility Rate Base	<u>\$ 2,505</u>

2008 Revenue Requirements

Formula Based O&M Expense (\$000)



Gross 2007 O&M
 Multiply (1 + Customer Growth)
 Multiply (1 + CPI - Adjustment Factor)

Add Pension & Insurance Adjustment

Gross 2008 Adjusted O&M
 Capitalized Overhead

Fort Nelson O&M

Vehicle Lease

Net 2008 Utility O&M

	2008 Forecast
	\$200,183
x	101.53%
x	100.71%
=	\$204,693
+	(4,575)
	\$200,118
	(27,552)
	(651)
	(2,056)
	\$169,859

2008 Revenue Requirements

Other 2008 Cost of Service Items



■ Property Taxes

- *Reforecast annually and defer variances*
- *2008 forecast of \$44.6 million (\$200k over 2007 Approved)*

■ Depreciation and Amortization

- *Based on approved depreciation rates and amortization periods*

■ Other Operating Revenues

- *Reforecast all items annually, except formula based Late Payment Revenues*

2008 Revenue Requirements

Other 2008 Cost of Service Items



■ Income Taxes

- *In 2007 the effective Corporate tax rate was 34.12%*
 - Last year of Large Corporation Tax of 1.12%
- *For 2008 tax rate is 32.5%*
 - No Large Corporation Tax ("LCT") expense in 2008

■ Debt & Interest Rates

- *Unfunded debt rate is set at 5.0% based on current outlook for short-term rates*
- *Issued \$250 million long-term debt on October 2, 2007 at 6.0% coupon rate*

■ Return on Equity and Capital Structure

- *8.37% ROE in Annual Review advance materials*
- *35.01% Common Equity component*

2008 Revenue Requirements

Exogenous Factors



■ B.C. Ministry of Small Business and Revenue (“MSBR”)

Provincial Sales Tax (“PST”) Reassessment

- *Assessed \$36 million PST on Southern Crossing Pipeline Project*
- *\$10 million Deferral account approved with 2006 Annual Review*
- *On March 26, 2007 the Minister allowed TGI’s appeal*
- *Reduced assessment to \$7.1 million*
- *TGI continues its appeal on \$7.1 million*

2008 Revenue Requirements

Exogenous Factors



■ Proposed Federal Tax Rate Changes

- *Federal mini-budget proposed changes in Corporate Tax rates.*
- *Net effect: Corporate Tax Rate from 32.5% to 31.5%*

■ Lochburn Land Sale

- *Approved by Order G-116-07*
- *Reduction in Rate base of \$1.1 million*
- *\$2.5 million being returned to customers through rate rider*
- *Applied for Deferral Account treatment for timing difference*

■ System Extension and Customer Connection Policy Changes

- *Applied for Deferral Account treatment for timing difference*

Possible Future Exogenous Factors Accounting Related Matters



- CIICA Handbook changes for Rate Regulated Operations
 - *Move from flow through taxes to normalized taxes*

- International Financial Reporting Standards
 - *Canadian GAAP will be replaced by International Standards*
 - *Will involve changes in processes*

2008 Revenue Requirements Earning Sharing Mechanism



<u>2007 Projected ESM</u>	<u>(\$ Millions)</u>
2007 Surplus Earnings (Pre-Tax)	<u>\$25.2</u>
Customers' Share (50%)	<u>\$12.6</u>
Company's Share (Net of Tax)	<u>\$8.3</u>
Customers' Share of Surplus	\$12.6
2006 Surplus True-Up	<u>2.4</u>
Total Earnings Sharing to be distributed to customers	<u>\$15.0</u>

Note (1): 2007 Annual Review, Section A, Tab 8, Page 6, Line 12

Summary of 2008 Revenue Requirement Decrease



	(\$ Millions)	
Items that are Decreasing		
Lower tax rates	(4.2)	
Change in Pension and Insurance forecast	(3.4)	
Lower Amortization of deferrals	(0.7)	
		(\$8.3)
Items that are Increasing		
Lower Use Rates and Customer Growth	6.9	
Higher O&M per Formula	4.0	
Higher Interest Expense	2.2	
Lower Other Revenues	0.3	
Higher Property Taxes	0.2	
		13.6
Revenue Requirement Increase (Decrease)		5.3
Earnings Sharing		(15.0)
Net Revenue Requirement Decrease After Earnings Sharing		(\$9.7)

2008 Revenue Requirements RSAM Update



Revenue Stabilization Adjustment Mechanism

	(\$ Millions)
RSAM balance at January 1, 2007	\$36.5
2007 Projected RSAM Activity	
New RSAM Additions	\$3.7
RSAM Rider Recovery	<u>(17.4)</u>
RSAM balance decrease (after tax)	<u>(13.7)</u>
RSAM balance at December 31, 2007(after tax)	<u>\$22.8</u>

- 3% colder than normal in the Lower Mainland, 1% warmer Inland, 2% warmer Columbia.
- 2007 RSAM rider of \$0.145/GJ is projected to decrease by \$0.05/GJ (pre-tax) to \$0.095/GJ in 2008, based on 3-year amortization for a pre-tax 2008 total rider of \$11.3 million.

2008 Revenue Requirements

Customer Margin Impact (Lower Mainland)



LOWER MAINLAND Customers	Proposed Increase (Decrease)			2008 Delivery Margin Related Changes % Change over 2007
	Delivery Margin	ESM Rider 3	RSAM Rider 5	
Rate Schedule 1 - Residential Service	1.11%	-0.55%	-1.26%	-0.70%
Rate Schedule 2 - Small Commercial Service	1.11%	-0.49%	-1.53%	-0.91%
Rate Schedule 3 - Large Commercial Service	1.08%	-0.48%	-2.00%	-1.40%
Rate Schedule 23 - Large Commercial T- Service	1.10%	-0.48%	-1.98%	-1.36%

2008 Revenue Requirements

Customer Margin Impact (Lower Mainland)



LOWER MAINLAND Customers	Proposed Increase (Decrease)			2008 Delivery Margin Related Changes % Change over 2007
	Delivery Margin	ESM Rider 3	RSAM Rider 5	
Rate Schedule 4 - Seasonal Service	1.21%	-0.53%	n/a	0.68%
Rate Schedule 5 -General Firm Service	1.14%	-0.38%	n/a	0.75%
Rate Schedule 6 - NGV Stations	1.17%	-0.63%	n/a	0.54%
Rate Schedule 7 - Interruptible Sales	1.12%	-0.39%	n/a	0.73%
Rate Schedule 22 - Large Industrial T-Service	1.21%	-0.41%	n/a	0.80%
Rate Schedule 25 - General Firm T-Service	1.15%	-0.47%	n/a	0.67%
Rate Schedule 27 - Interruptible T-Service	1.13%	-0.47%	n/a	0.66%

Customer Care and Service Quality Indicators

Danielle Wensink

Terasen Gas. A Fortis company.

Service Quality Indicator Performance



■ 2007 YTD (September)

- *TGI performance is meeting targets*
- *On track to maintain performance through end of 2007*

The screenshot shows the Terasen Gas website with the following structure:

- Header:** Terasen Gas logo and tagline "Get comfortable." followed by navigation links: About Us, About Natural Gas, Safety, Careers, Forms & Brochures, Contact Us.
- Sub-headers:** "For Homes", "For Business", "For Building Professions & Trades".
- Menu:** ACCOUNTS & BILLING, RATES, CUSTOMER CHOICE, SAVING ENERGY, APPLIANCES & EQUIPMENT, OFFERS.
- Breadcrumbs:** About us > Our commitments > Performance & planning > Service quality indicators > 2007 Service Quality Indicator results.
- Left Sidebar:** About us (selected), News, About Fortis Inc., Newsletters, Service areas, Rates & regulatory, Our commitments, Aboriginal relations, Community relations.
- Main Content:**
 - 2007 Service Quality Indicator results**
 - Terasen Gas Inc. 2007 quarterly results**
 - | | Performance Indicators | 2007 YTD | Target |
|----|---|----------|--------|
| 1. | Emergency Response Time
(Time in minutes:seconds for dispatch to site - Emergency) | 20:36 | <21:06 |
| 2. | Speed of Answer - Emergency
Emergency Call Handling | 98.4% | >95% |
| 3. | Speed of Answer - Non Emergency
Non Emergency Call Handling | 77.3% | >75% |

Customer Initiatives



■ Communications

- *Customer Choice*
- *Terasengas.com Re-launch*
- *Public Safety*
 - Flood Preparedness
 - Call Before You Dig
 - Gas Odour Awareness
- *Commodity Rate Reviews*
- *Heating System Upgrade Offer*



ENERGY STAR® heating system upgrade offer

This offer applies only in the following regions:
Lower Mainland - East Kootenays (Columbia) - Interior (Inland) - Fort Nelson

Make a fresh start and save money

1. **Receive a \$250 credit** on your Terasen Gas bill when you upgrade your natural gas furnace or boiler to a high-efficiency ENERGY STAR natural gas heating system **before March 31, 2008**.

Plus, receive an extra \$50 credit if the ENERGY STAR natural gas furnace you install has a variable speed motor.

These offers are available to all natural gas customers in the applicable regions. Customers who have signed with a gas marketer remain eligible for Terasen Gas promotional offers.

Burn blue. Save green.

The clean blue flame of natural gas helps you save two kinds of green



» Potentially hundreds of dollars on your annual heating costs

» The beautiful environment of British Columbia

Customer Initiatives



Payment plan options

Did you know?
There are two ways to pay your bill more conveniently.

The Equal Payment Plan balances your monthly payments. The Pre-Authorized Payment Plan makes the payments automatic, so they require zero time or effort.

Looking for a way to avoid paying high bills in the winter? Or a more convenient way to pay your Terasen Gas bill each month? Take advantage of one or both convenient payment plan options: The Equal Payment Plan and the Pre-Authorized Payment Plan.

The Equal Payment Plan
Under the Equal Payment Plan, you will be billed each month based on your estimated annual natural gas usage. Payment amounts are reviewed quarterly to help minimize year-end adjustments.

How does it work?
To calculate your payment amount we:

- estimate your annual usage based on past usage at your premises
- calculate your total estimated annual charges using current rates and applicable taxes
- divide the amount by 12 to get your monthly installment amount

Each month, your statement will show your monthly usage and gas charges, your current monthly installment, and your year-to-date gas charges and installments.

We review your monthly installment amount each quarter and adjust it up or down to reflect significant changes in the weather, your gas usage or gas rates.

The final bill for the 12-month period includes your reconciliation balance which is a charge or credit for the difference between the total monthly installments billed and your actual gas charges for the year.

How to register
Residential and small commercial customers can sign up for the Equal Payment Plan by calling 1-888-224-2710.

Equal payment vs. regular bill amounts
The example below shows payment amounts for the year with an adjustment at the second quarterly review.

Pre-Authorized Payment Plan
Another way to make paying your gas bills easier is with the Terasen Gas Pre-Authorized Payment Plan. You can arrange to have your Terasen Gas bill payment automatically withdrawn from your bank account on the due date. You'll still receive a monthly statement, but you'll save the time and trouble of writing cheques, travelling to your local payment centre, postage costs, and worries about missed due dates and related late payment charges. Plus you'll have the peace of mind that comes from knowing your bills will always be paid on time – even when you're on vacation.

www.terasengas.com

Billing

- *Equal Payment,*
- Pre-authorized Payment Promotion*
- *ICE Levy Implementation*
- *Electronic Billing Promotion*



Customer Initiatives

- Billing Call Centres
 - *Customer Call Satisfaction Tracking*
 - *Winter Readiness*

- Construction Customers
 - *Increased Staff Level in Surrey Installation Centre*



Service Quality Indicators

Performance Indicator	2007 YTD (September)	2007 Target	Status
Emergency Response	20:36 min.	<21:06 min.	✓
Speed of Answer – Emergency (% in 30 s)	98.4%	>95%	✓
Speed of Answer – Non-emergency (% in 30 s)	77.3%	>75%	✓
Transmission Reportable Incidents	1	<2	✓
Index of Customer Bills not meeting Criteria	2.43	<5	✓

Service Quality Indicators

Performance Indicator	2007 YTD (September)	2007 Target	Status
Percent of Transportation Customer Bills Accurate	99.4%	>99.5%	✓
Meter Exchange Appointment Activity	93.6%	>92.2%	✓
Accuracy of Transportation Meter Measurement 1 st Report	100%	>90%	✓

Service Quality Indicators

Performance Indicator	2006 Actuals	2007 YTD (September)	2007 vs 2006
Customer Satisfaction Survey	77.9%	78.5%	→
Customer Complaints to BCUC	152	106	→
Number of Prior Period Adjustments	21	10	→

Directional Indicators	2006 Actuals	2007 YTD (September)	2007 vs 2006
Leaks per Kilometer of Distribution Mains	76	55	→
Number of Third Party Distribution System Incidents	1,508	1,216	→

TGI 5 Year Capital Plan

Terasen Gas. A Fortis company.

Capital categorized into two categories and six types:

1. Regular Capital

- i) Capital expenditures necessary to attach new customers (Mains, Services, & New Meters)
- ii) Replacement meters & regulators for existing customers
- iii) Capital expenditures allocated to maintain system integrity and reliability (Transmission and Distribution)
- iv) Capital expenditures for IT Investments
- v) Capital expenditures for Non-IT
 - System renewals, alterations, tools, equipment & other

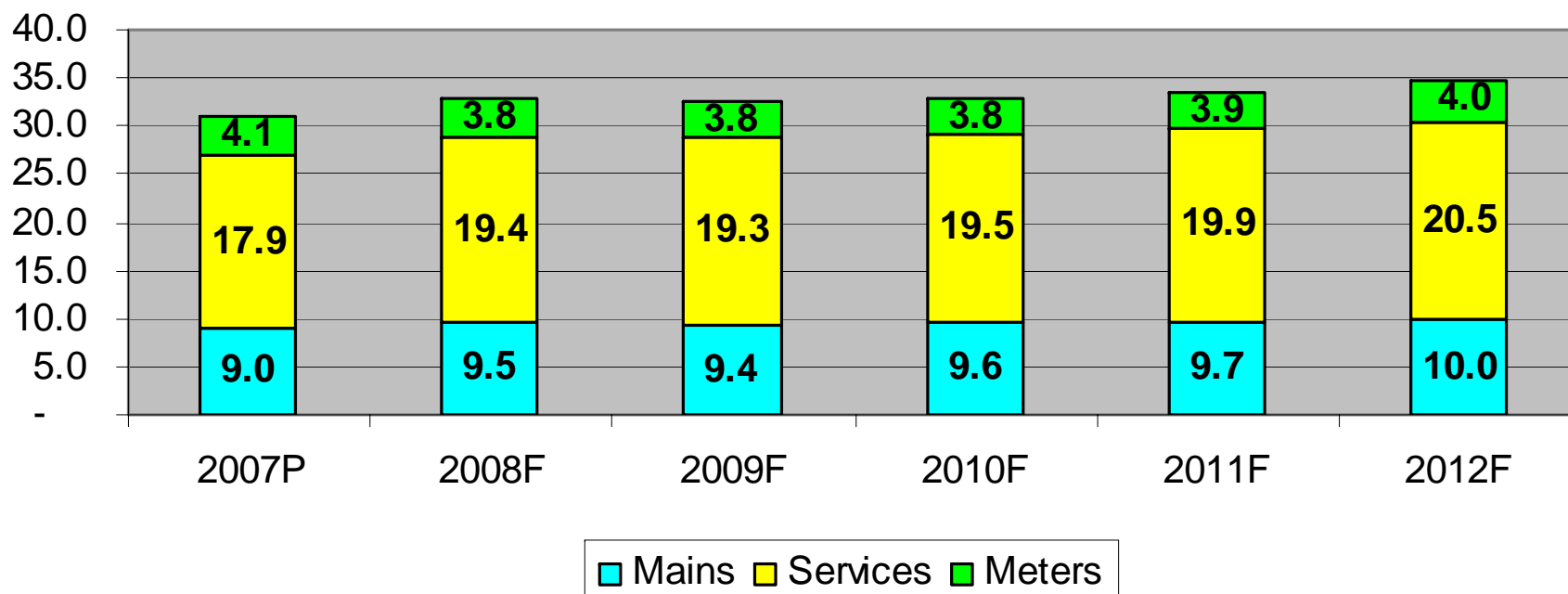
2) CPCN Projects

- vi) Projects over \$5 million
 - Applications filed for Commission Review and Approval as required

Customer Additions Capital Cost Projections (2007 – 2012)



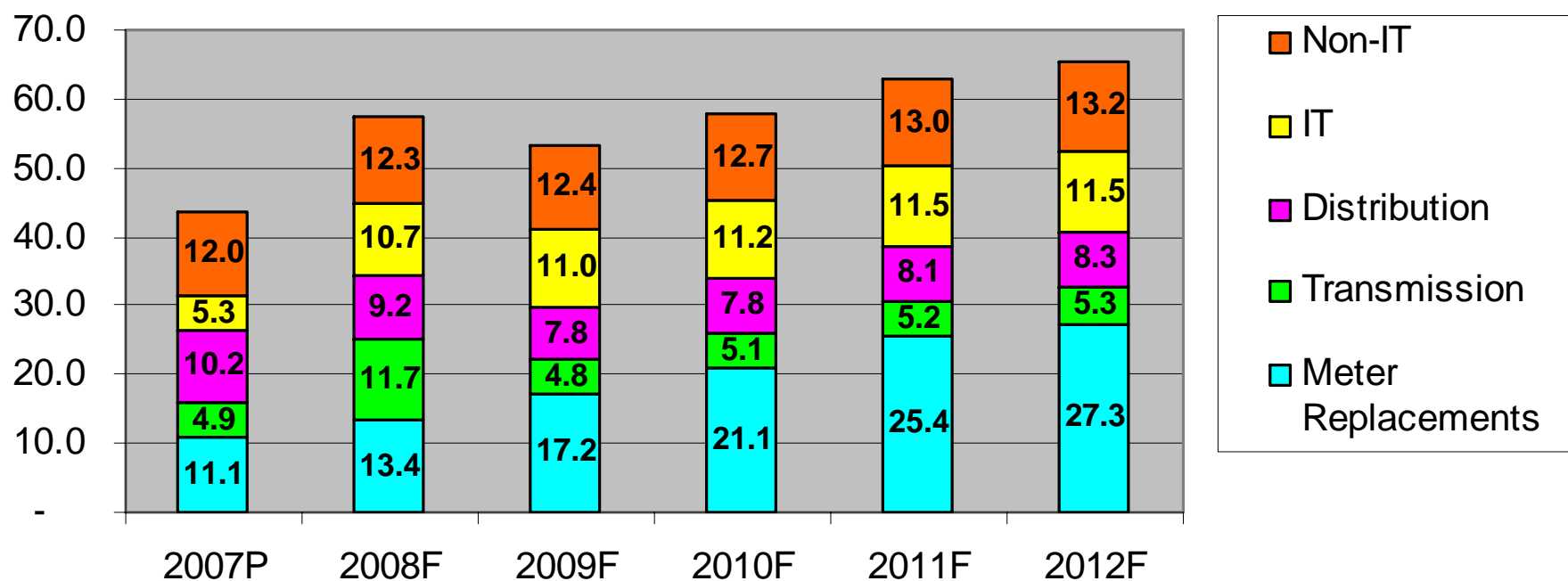
Customer Driven Capital (\$ millions)



Other Regular Capital Cost Projections (2007 – 2012)



Other Regular Capital (\$ Millions)



Major Regular Capital Projects 2007 – 2012 Transmission



Transmission	2007	2008	2009	2010	2011	2012
(\$ millions)	Projection	Forecast	Forecast	Forecast	Forecast	Forecast
SCP Code Compliance Upgrades		3.5				
LNG Coldbox Upgrade	1.3	2.8				
SCADA System Upgrade		0.1	1.5			
Kootenay River Crossing		1.8	0.5			
Columbia River Crossing		1.8	0.5			
Other	3.6	1.8	2.3	5.1	5.2	5.3
Total	\$ 4.9	\$ 11.7	\$ 4.8	\$ 5.1	\$ 5.2	\$ 5.3

Major Regular Capital Projects 2007 – 2012

Distribution and IT



Distribution	2007	2008	2009	2010	2011	2012
(\$ millions)	Projection	Forecast	Forecast	Forecast	Forecast	Forecast
Riverside IP, Abbotsford			1.2			
72nd St. IP, Delta						1.8
36th Ave. IP, Delta						1.2
Other	10.2	9.2	6.6	7.8	8.1	5.3
Total	\$ 10.2	\$ 9.2	\$ 7.8	\$ 7.8	\$ 8.1	\$ 8.3

IT Projects	2007	2008	2009	2010	2011	2012
(\$ millions)	Projection	Forecast	Forecast	Forecast	Forecast	Forecast
SAP Upgrade		2.7				
Asset Data Integration	0.2	1.4				
Other	5.0	6.6	11.0	11.2	11.5	11.5
Total	\$ 5.3	\$ 10.7	\$ 11.0	\$ 11.2	\$ 11.5	\$ 11.5

Major Regular Capital Projects 2007 – 2012 Approved & Anticipated CPCN's



Approved CPCN's	2007	2008	2009	2010	2011	2012	Total for
(\$ millions)	Projection	Forecast	Forecast	Forecast	Forecast	Forecast	Period
Vancouver Low Pressure Replacement	9.8	6.4					\$ 6.4
Residential Unbundling	8.6	3.0					\$ 3.0
Distribution Mobile Solution	2.5	2.9					\$ 2.9
Total	\$ 21.0	\$ 12.2					

Anticipated CPCN's							
Fraser River SBSA Rehabilitation	0.8	1.5	7.5				\$ 9.0
Future Unidentified Projects		?	?	?	?	?	?
Total	\$ 0.8	\$ 1.5	\$ 7.5	\$ -	\$ -	\$ -	\$ 21.2

Gateway & Other Transportation Infrastructure Projects



- Gateway (\$26.1 million)
- Golden Ears Bridge (\$2.3 million)
- Highway 15 (\$1.2 million)
- Canada Line Rapid Transit (\$1.1 million)

Working with Governing authorities with respect to cost recovery principles

Code of Conduct & Transfer Pricing Policy

Andrew Lee CA.CIA
Manager – Internal Audit Services

Code of Conduct

- Governs the relationships between Terasen Gas Inc. (TGI) and NRBs for the provision of Utility resources.
- Application of Commission Principles
 - *Shared Services & Personnel*
 - *Transfer of Assets or Services*
 - *Provision of Information*
 - *Preferential Treatment*
 - *Equitable Access to Services*
 - *Compliance and Complaints*
 - *Financing and Other Risks*
 - *Use of Utility Name*
 - *Distribution System Access*

Transfer Pricing Policy

- Addresses pricing of resources & services provided by TGI to:
 - *NRBs*
 - *Divisions of the Utility providing unregulated products or services*
- Adequate compensation ..., thereby protecting ratepayers from subsidizing unregulated activities
- Pricing Rules:
 - *If applicable, tariff rate.*
 - *If no tariff rate exists, either at Full Cost, or where feasible and practicable, the Competitive Market Price, whichever is greater.*
 - *If an alternative transfer price provides greater benefit to the ratepayer, then application to the Commission for special pricing consideration.*

Compliance Reviews

- Two compliance reviews are conducted in accordance with the Negotiated Settlement:
 - *Internal Audit*
 - *External Auditors, Ernst & Young LLP*
- Objectives of IA Review:
 - *To provide assurance that requirements of the Code of Conduct and Transfer Pricing Policies approved by the BCUC are being met.*
 - *To ensure business processes and internal controls are in place to facilitate and support compliance with these Policies.*

Internal Audit Review

- Performed according to Generally accepted standards for review engagements, as set out by the Canadian Institute of Chartered Accountants.
- Procedures include:
 - *Review the Code of Conduct and Transfer Pricing Policy.*
 - *Make enquiries to understand the provision of Utility resources to NRBs.*
 - *Make enquiries to understand the processes & controls maintained by Terasen Gas to comply with the policies.*
 - *Review evidence of such processes and controls and compliance with the policies.*

“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.”

Signed:

Andrew Lee, CA-CIA

Manager- Internal Audit Services

September 24, 2007

External Auditor Report

Ernst & Young LLP



- Reviewed TGI's compliance in accordance with Canadian generally accepted standards for review engagements.
- Procedures included a review of the Internal Audit Service report and the work they performed in connection with their 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.”

Signed:

Ernst & Young LLP, Chartered Accountants

October 2, 2007

Conclusion

Scott Thomson

Conclusion

- Questions?

- Next Steps

Review & Approval of Final 2006 RDDA Balance

Tom Loski

2006 RDDA – APPROVAL Needed

	2006		
	2006 Settlement Update Forecast	Actual	Difference
Opening Balance	\$ 48,731	\$ 48,731	\$ 0
Current Year Deficiency/(Surplus)	(10,844)	(11,060)	(216)
RDDA Balance Financing	3,955	3,955	0
RDDA Principal Repayment	(6,889)	(7,105)	(216)
Closing RDDA Balance	\$ 41,842	\$ 41,626	(\$ 216)

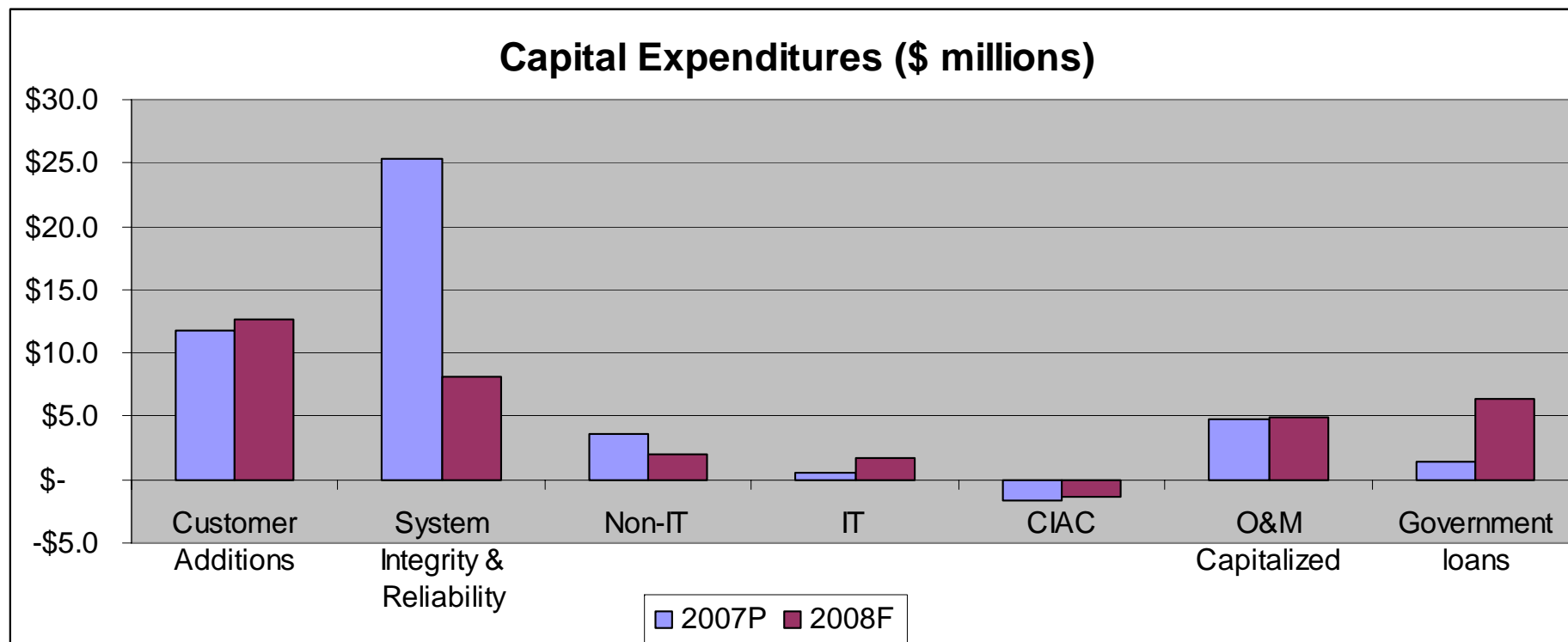
TGVI Capital Expenditures

Terasen Gas. A Fortis company.

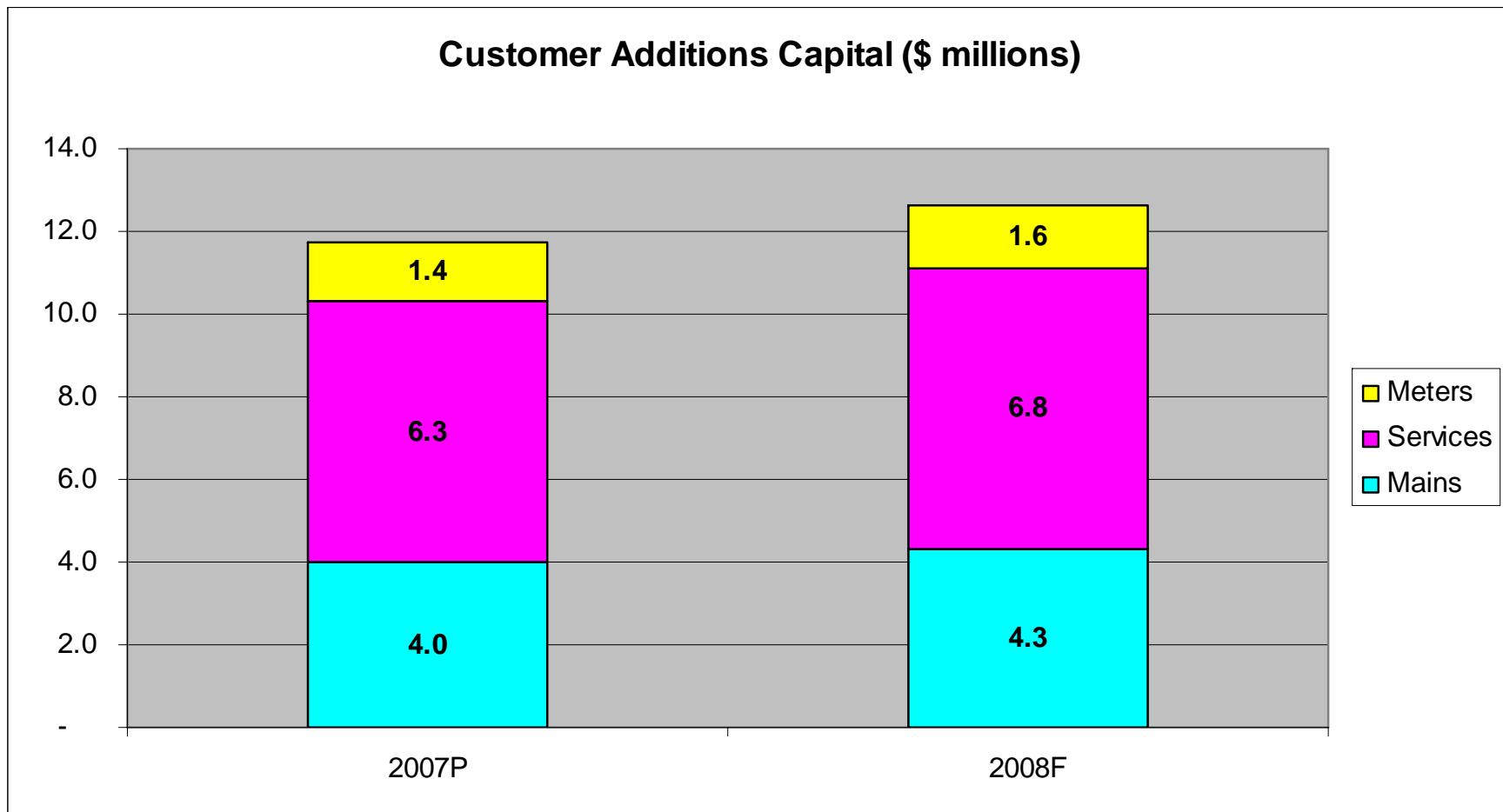
Capital forecasts for 2007 and 2008 anticipated expenditures are categorized as follows:

1. *Customer Additions Capital (Mains, Services, & Meters)*
2. *System Integrity & Reliability Capital (Transmission and Distribution)*
3. *Non-IT Capital (system alterations, tools, equipment & other)*
4. *IT Capital*
5. *CPCN's*
6. *Contributions in Aid of Construction (CIAC)*
7. *O&M Capitalized*
8. *Repayment of Government Loans*

Capital Expenditure Forecasts Excluding CPCN's



Customer Additions Capital



2008 Major System Integrity & Reliability Projects



Transmission	2007	2008
(\$ millions)	Projection	Forecast
Texada Island Compressor	13.3	
Population Encroachment	2.0	1.9
Relocate Coquitlam Dam Pipeline Crossing	0.1	1.0
Miscellaneous Creek Crossings	1.0	1.1
V1 Coquitlam Compressor Unit 3 Purchase		2.1
V1 Coquitlam Unit 3 Spare Compressor Purchase	2.6	
Other	3.5	1.3
Total	\$ 22.5	\$ 7.4

Distribution	2007	2008
(\$ millions)	Projection	Forecast
DP Mains System Improvements	1.9	
Other	1.1	0.7
Total	\$ 3.0	\$ 0.7

2008 CPCN's and Anticipated CPCN's

Approved CPCN's	2007	2008
(\$ millions)	Projection	Forecast
Approved CPCN's		
Whistler to Squamish NG Pipeline	20.1	10.7
Distribution Mobile Solution Project	0.3	0.3
	\$ 20.4	\$ 11.0

Anticipated CPCN's		
Mt. Hayes LNG Facility	1.5	49.7
Future Unidentified Projects		?
Total	\$ 1.5	\$ 49.7

These expenditures are anticipated cash outlays and not reflective of what is going into rate base.

Plant Additions



Plant Additions (\$ millions)	2007 PROJECTED	2008 FORECAST
Customer Additions Capital	11.7	12.6
System Integrity and Reliability Capital	25.4	8.1
Non-IT Capital	3.7	2.1
IT Capital	0.5	1.7
O&M Capitalization	4.8	4.9
Contributions in Aid of Construction	(1.7)	(1.3)
Total Proposed Rate Base Additions	44.4	28.1

2007P and 2008F Rate Base, Revenue Requirement, and RDDA Balance

Tom Loski

Terasen Gas. A Fortis company.

Plant in Service



	2007 Projection	2008 Forecast
Net Opening Plant in Service	\$ 508,216	\$ 543,308
Current Yr. Capital Spent Added to Plant	44,451	28,089
Prior Yr. Capital Spent Added to Plant	6,625	615
Depreciation and Removal	(15,984)	(17,903)
Net Closing Plant in Service	543,308	554,109

Utility Rate Base



	2007 Projection	2008 Forecast
Net Opening Plant in Service	508,216	543,308
Add: Closing Prior Yr. Non-AFUDC WIP	1,759	2,738
Adjusted Net Opening Plant in Service	509,975	546,046
Net Closing Plant In service	543,308	554,109
Average Net Plant in Service	526,642	550,078
Add/Subtract: 13-month Adjustment	(5,200)	
Net Mid-year Plant in Service	521,442	550,078
Mid-year Allocated Net Common Plant	(104)	(104)
Mid-year Contributions	(63,580)	(61,187)
Working Capital	16,956	15,700
Mid-Year Rate Base	\$ 474,714	\$ 504,487

British Columbia Capital Tax Assessment

- BCUC Order No. G-2-03 approved the creation of a non-rate base deferral account
- TGVl recovered \$5.16 million from the province through an appeal process
- Application for the creation of a rate base deferral account
 - *Transfer the remaining balance of \$2.39 million from a non-rate base deferral account*
 - *Amortize over two years starting in 2008*

Whistler Pipeline Proposed Deferral Mechanism



- Uncertainty of pipeline completion and system conversion in 2008
 - *2008 rate proposals assume pipeline construction complete and energized in 2009*
- Contingency treatment proposed if project completion occurs in 2008
 - *Approval to create a rate base deferral account in that event*
 - Attracting AFUDC through the end of 2008
 - Rate base addition Jan 1, 2009
 - *TGW toll = BCH toll + allocation of TGI wheeling*

2008 O&M Expenses

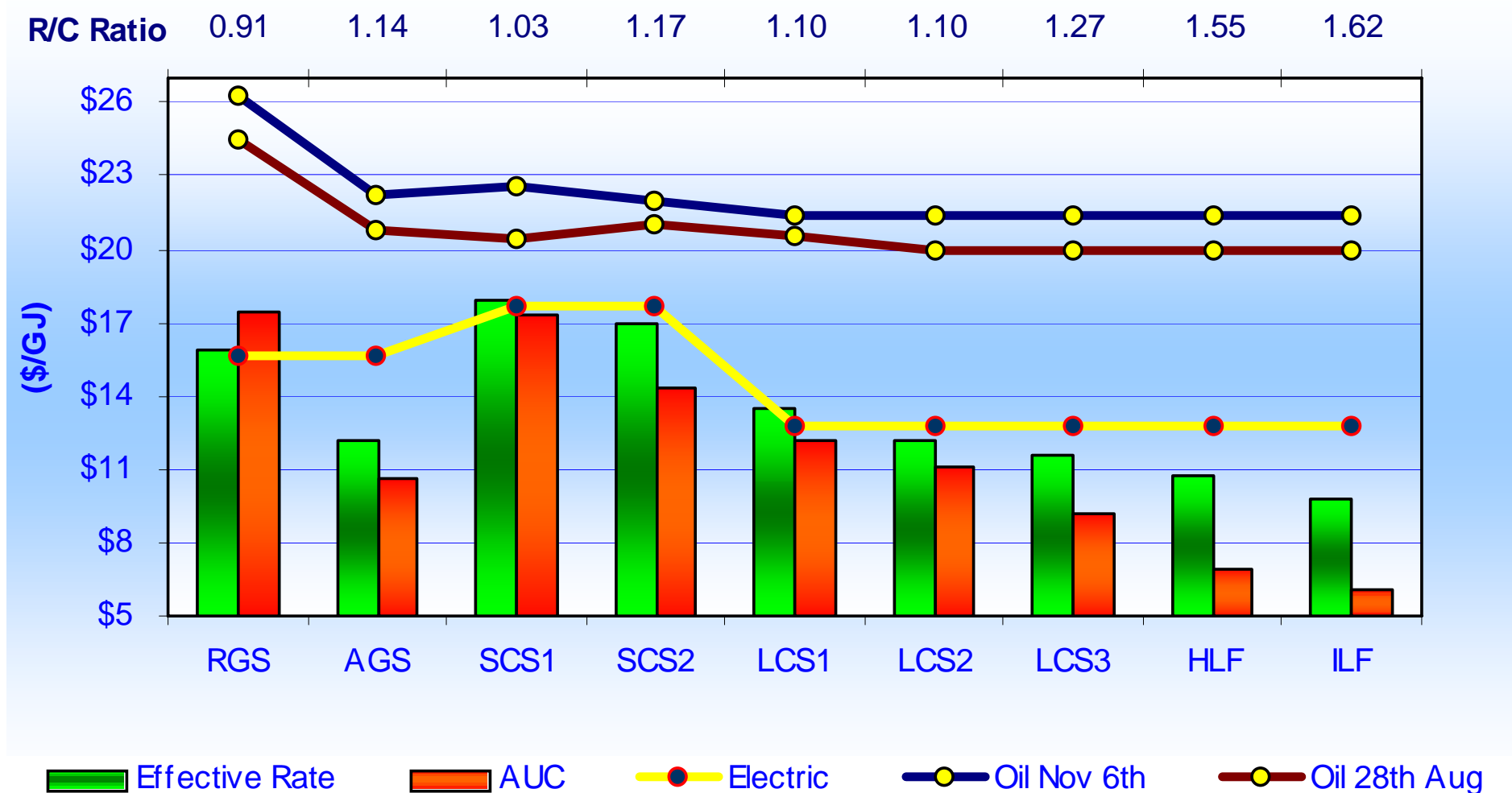
- Set out per Negotiated Settlement Extension
- BCUC Order No. G-34-07, Appendix A, Item 4 (Table 1), Gross OM&A
- 2008 set at \$30.847 million
- O&M Capitalization of 16%
- 2008 Net O&M of \$25.671 million

Revenue Requirement



	2007 Year- end Projection	2008 Forecast
RACOG	\$ 65,252	\$ 62,431
Net O&M	25,167	25,671
TGI Wheeling	4,101	4,266
BCH Capacity Right		250
Lease Payments for Equipment	1,748	1,748
Depreciation	16,347	18,161
Deamortization/(Amortization) - CIAC	995	1,991
Amortization of Deferreds	4,858	2,729
Taxes (muni, motor fuel and PST on meter statn. fuel)	8,118	8,585
Proposed Return on Rate Base	30,833	33,938
Income Tax Expense	14,179	15,672
Total	\$ 171,600	\$ 175,442

2008 Rate Comparison to Alternative Fuels and Allocated Unit Cost



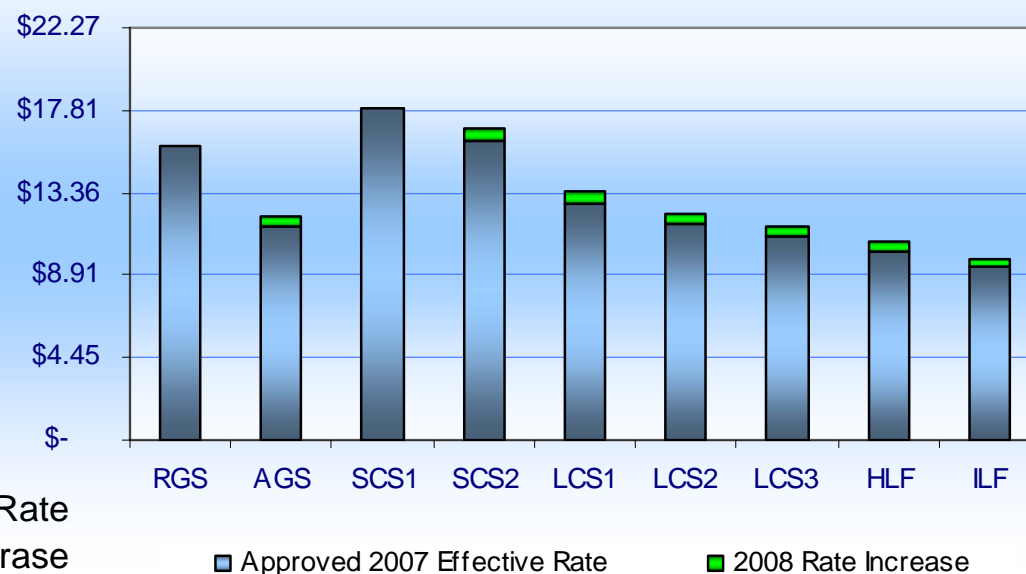
- Electric based on the approved 2007 rates
- Fuel Oil Prices reflect NYMEX Market prices dated August 28th, and November 6th, 2007

Effective Rate Changes 2008

- Set out per Negotiated Settlement Extension
- BCUC Order No. G-34-07, Appendix A, Item 17, Rate Design
 - *“Rate increases to core market customer classes should continue to be limited by the alternate fuel prices in the soft cap methodology.”*
 - *“Rate increases to core market customer classes in each year of the settlement extension should be no more than 5% if the revenue to cost ratio of the class (based on the previous years effective rate) is greater than 1.0, and no more than 10% if the revenue to cost ratio of the class (based on the previous years effective rate) is less than 1.0.”*

Effective Rate Changes 2008

2008 Effective Core Market Rates



	Approved 2007 ⁽¹⁾	Proposed 2008 ⁽²⁾	% Rate Increase
RGS	\$ 15.90	\$ 15.90	0.00%
AGS	\$ 11.54	\$ 12.12	5.00%
SCS1	\$ 17.88	\$ 17.88	0.00%
SCS2	\$ 16.09	\$ 16.90	5.00%
LCS1	\$ 12.83	\$ 13.47	5.00%
LCS2	\$ 11.62	\$ 12.20	5.00%
LCS3	\$ 11.02	\$ 11.57	5.00%
HLF	\$ 10.21	\$ 10.72	5.00%
ILF	\$ 9.34	\$ 9.81	5.00%

■ Approved 2007 Effective Rate

■ 2008 Rate Increase

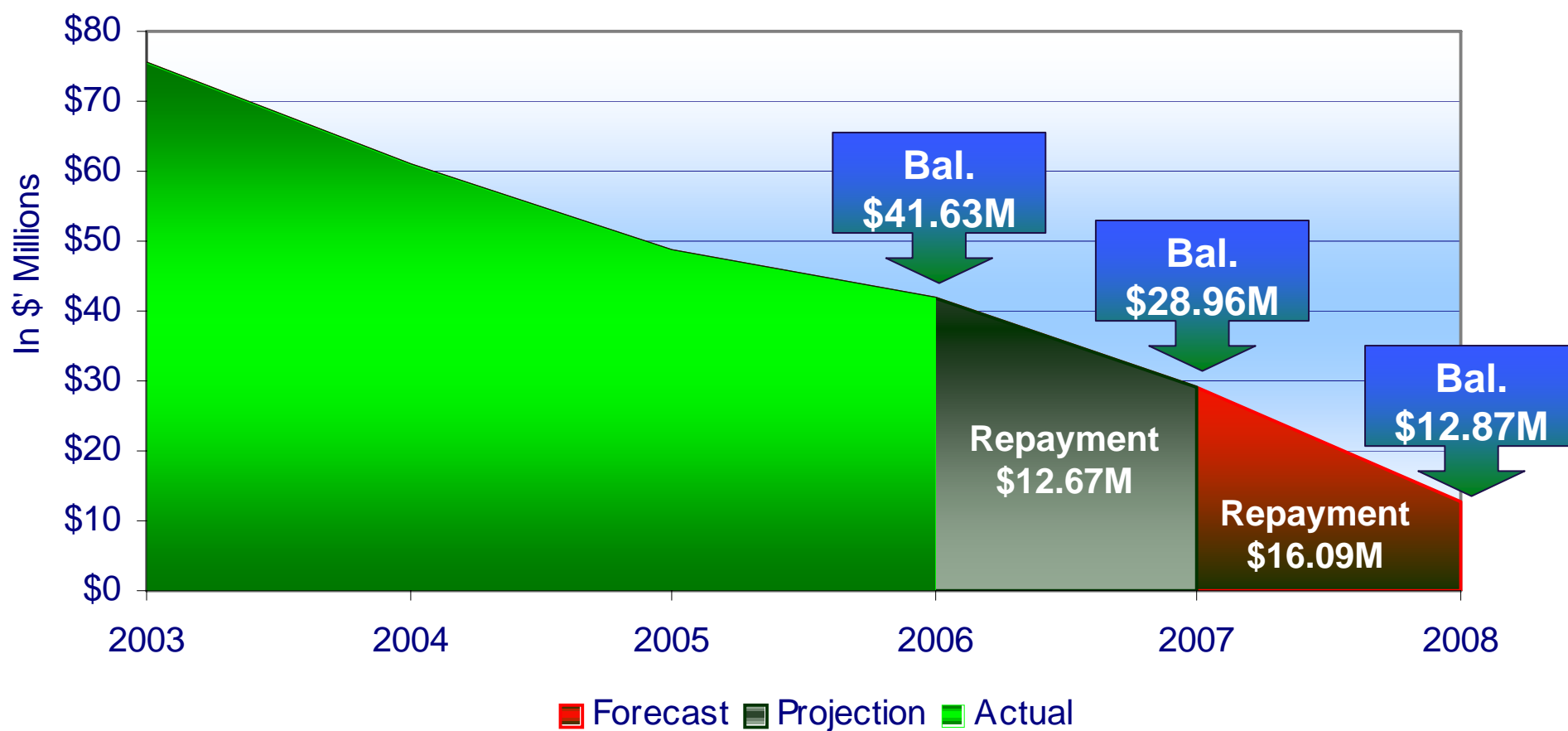
■ ¹ Per BCUC Order # G-161-06

■ ² Based on the November 2, 2007 Revised Settlement Update Submission

2008 Transport Tolls

- VIGJV toll of \$0.918/GJ/day – based on the VIGJV TSA and includes an inflation multiplier (Per Stats. Canada Catalogue no. 62-001, for the year end September 30, 2007, for Vancouver All-items CPI rate)
- TGI(Squamish) toll of \$1.05/GJ – based on the TSA
- BCH toll of \$0.945/GJ/day – 2008 allocated cost X 1.25
- TGW toll* of \$1.087/GJ/day – based on BCH toll plus allocation of TGI wheeling charge
 - **If Whistler Pipeline goes into service in 2008*

RDDA Paydown and Balance



Conclusion

Scott Thomson

Conclusion

■ Questions?

■ Next Steps