



Scott A. Thomson
Vice President,
Finance & Regulatory Affairs

16705 Fraser Highway
Surrey, B.C. V3S 2X7
Tel: (604) 592-7784
Fax: (604) 592-7890
Email: scott.thomson@terasen.com
www.terasen.com

October 10, 2003

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

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

Dear Sirs:

**RE: Terasen Gas Inc.
2004 Revenue Requirement Application for the Fort Nelson Service Area**

Terasen Gas Inc. respectfully submits, for Commission review and approval, the enclosed 2004 Revenue Requirement Application for the Fort Nelson Service Area. In support of this Application, the Company files herewith information relating to business drivers, capital expenditures and operating and maintenance requirements.

Based on the Company's forecasts of the 2004 Fort Nelson Service Area cost of service and revenues, it has determined that a revenue requirement increase of \$89,000 or 1.96% of total revenues is required in order to provide the Company the opportunity to recover the costs of providing safe, reliable and efficient service to the Fort Nelson customers and earn a fair and reasonable return on its invested capital.

An important element of this Application is that the Company also seeks, for the Fort Nelson Service Area, Commission approval of the establishment of a Revenue Stabilization Adjustment Mechanism ("RSAM") similar to that approved and in effect since 1994 for Terasen Gas' other service areas.

We trust the enclosed is satisfactory. Should further information be required, please contact the undersigned.

Yours very truly,

TERASEN GAS INC.

Original signed by

Scott Thomson

Encl.

TERASEN GAS INC.

2004 REVENUE REQUIREMENT FOR THE FORT NELSON SERVICE AREA

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**IN THE MATTER OF THE “UTILITIES COMMISSION ACT”
R.S.B.C. 1996, CHAPTER 473**

**AND IN THE MATTER OF AN APPLICATION BY
TERASEN GAS INC. – FORT NELSON SERVICE AREA
TO AMEND ITS SCHEDULE OF RATES**

**To: British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, British Columbia
V6Z 2N3**

APPLICATION

Terasen Gas Inc. (“Terasen Gas” or the “Company”) hereby applies pursuant to the provisions of the *Utilities Commission Act*, R.S.B.C. 1996, Chapter 473 and amendments thereto (the “Act”), and in particular sections 58 and 61, to amend the Rate Schedules in its Fort Nelson Service Area filed pursuant to the provisions of the Act in accordance with this Application (the “Application”); such amendments to be effective January 1, 2004.

Terasen Gas applies to amend its Fort Nelson Rate Schedules on the basis that the existing Schedules of Rates will be insufficient to allow the Company the opportunity to recover in the Fort Nelson Service Area its cost of service and earn a fair and reasonable return on its invested capital.

In respect of this Application, Terasen Gas submits that:

- A. Terasen Gas is incorporated under the laws of the Province of British Columbia. Terasen Gas’ head office is located at 1111 West Georgia Street, Vancouver, B.C.
- B. Terasen Gas is the largest natural gas distribution utility in British Columbia, providing sales and transportation services to more than 765,000 residential, commercial and industrial customers in over 100 communities throughout the Province. Terasen Gas’ distribution network delivers gas to approximately 90 percent of the natural gas customers in British Columbia.
- C. The Fort Nelson Service Area consists of the Fort Nelson and Prophet River areas of north-eastern B.C. where the Company provides sales and transportation service to approximately 2,100 customers (see System Map attached).

- D. The Fort Nelson Service Area was acquired in 1985 as Fort Nelson Gas Ltd. by Inland Natural Gas Ltd., a predecessor company now part of Terasen Gas Inc. Fort Nelson Gas Ltd. was amalgamated in 1989 with Inland Natural Gas Ltd., Columbia Natural Gas Ltd. and the Lower Mainland Gas Division of BC Hydro to form BC Gas Inc. (later BC Gas Utility Ltd.) and ceased to be a separate legal entity at that time.
- E. Rates have been set separately for the Fort Nelson Service Area from the date of acquisition to the present. Terasen Gas (as BC Gas) sought regulatory consolidation of the Fort Nelson Service Area with the remainder of the Company in its 1992 Revenue Requirement Application but this was denied by the Commission in its Decision dated August 5, 1992. Since then the Fort Nelson Service Area has been excluded from the Company's general revenue requirement applications and Performance Based Ratemaking ("PBR") plans.
- F. The most recent revenue requirement change affecting the rates for delivery service in Fort Nelson was a decrease of \$165,000 approved by BCUC Order No. G-2-95 leading to a 15.04% decrease in delivery rates effective January 1, 1995. Prior to the 1995 rate decrease the delivery rates had been unchanged since 1985. Other than the 1995 delivery rate decrease, rate changes have been limited to those approved from time to time for the flow-through of cost of gas increases or decreases.
- G. Terasen Gas has determined that its current Fort Nelson rates are insufficient and accordingly an amendment to the schedule of rates to provide a revenue requirement increase is required. In the materials filed herewith, Terasen Gas seeks Commission approval for the following:
1. Terasen Gas seeks an increase in its Fort Nelson rates effective January 1, 2004 of \$89,000 in annual revenue, or 1.96% as a function of overall revenue. As a percentage of delivery margin, the increase being sought is 7.45%.

2. Terasen Gas seeks approvals from the Commission with regard to deferral accounts:
- Establishment of a Rate Stabilization Adjustment Mechanism (“RSAM”) account to function in the same manner as the RSAM approved for the rest of the Terasen Gas system. This means that delivery margin variations arising from higher or lower use per customer than forecast for residential and commercial customers will give rise to amounts being deferred in the Fort Nelson RSAM account. In distinction from the Lower Mainland, Inland and Columbia Service Areas’ RSAM, Terasen Gas seeks to include its Rate 25 customers in the Fort Nelson RSAM also. The RSAM for Fort Nelson Rate 25 customers will be based on total forecast delivery margin rather than on a use per customer basis. Amounts deferred, whether debits or credits, will be amortized over the subsequent three-year period by a positive or negative rider on the rates. As approved by the BCUC Decision dated February 4, 2003 (Page 11) for the Terasen Gas RSAM account, the Company also seeks to record interest on Fort Nelson RSAM balance variances from forecast at the Company’s short-term interest rate to be credited or debited, as appropriate, against the RSAM account;
 - Deferral accounts the same as those established for Terasen Gas to collect:
 - Variances between actual and forecast property taxes;
 - Variances in utility interest expense due to short-term debt interest rate variances and long-term debt rate, timing and principal variances from those embedded in the rates approved as a result of this Application.
3. Terasen Gas seeks approval to implement effective January 1, 2004 in the Fort Nelson Service Area the same depreciation rate increases as approved for Terasen Gas Inc. by the BCUC Decision dated February 4, 2003 (Page 38). These are:
- Meters, regulators and meter installations increased from 3% to 3.57%;

- Miscellaneous (i.e. non-infrastructure) computer software increased from 12.5% to 20%;
 - The amortization of software tax savings (recorded in Account 211 - Contributions-in-aid-of-construction) of non-infrastructure software is also to be increased from 12.5% to 20% providing a partial offset to the revenue requirement effect of the software depreciation increase.
4. Terasen Gas seeks confirmation that the Overheads Capitalization rate of 16% of gross operating and maintenance expenses is applicable for the Fort Nelson Service Area as approved by the BCUC Decision dated February 4, 2003 for the other service areas of Terasen Gas.
 5. The Commission has established a separate procedure for setting the rate of return on common equity for Terasen Gas and other public utilities regulated by the Commission through the Commission's Return on Common Equity Adjustment Mechanism. With respect to Fort Nelson, the Commission in its Decision dated August 5, 1992 directed the Company to adopt a common capital structure across all service areas. The materials filed with this Application utilize a return on common equity ("ROE") of 9.0%, a recent estimate of the ROE that would be in effect if ROE were set using current Long Canada Bond yields. Further revisions to the rates of the Fort Nelson service area relating to the approved return on common equity for 2004 varying from 9.0% will be separate from and in addition to the rate adjustments reflected in this Application.

All of which is respectfully submitted.

Dated this 10th day of October, 2003.

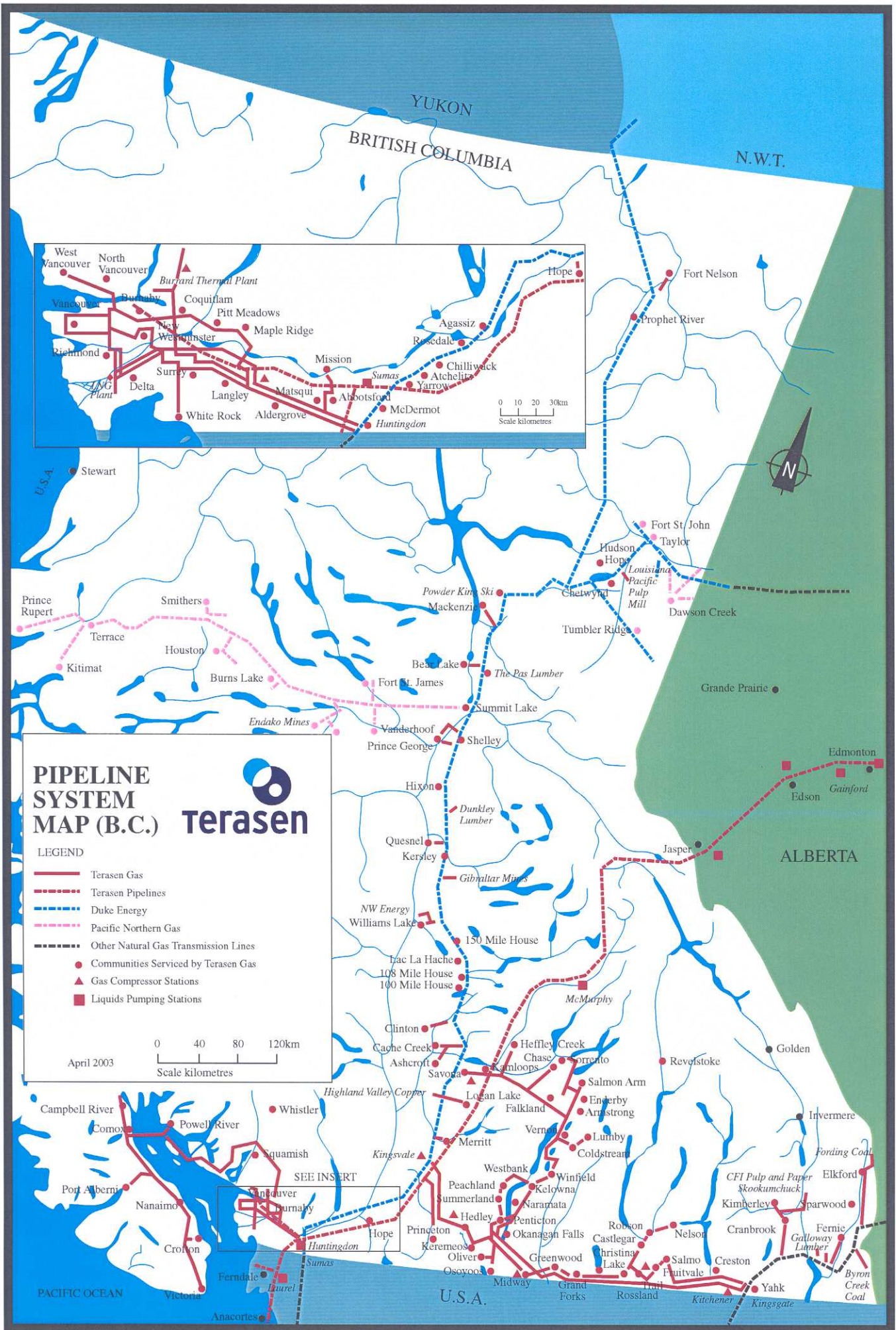
TERASEN GAS INC.

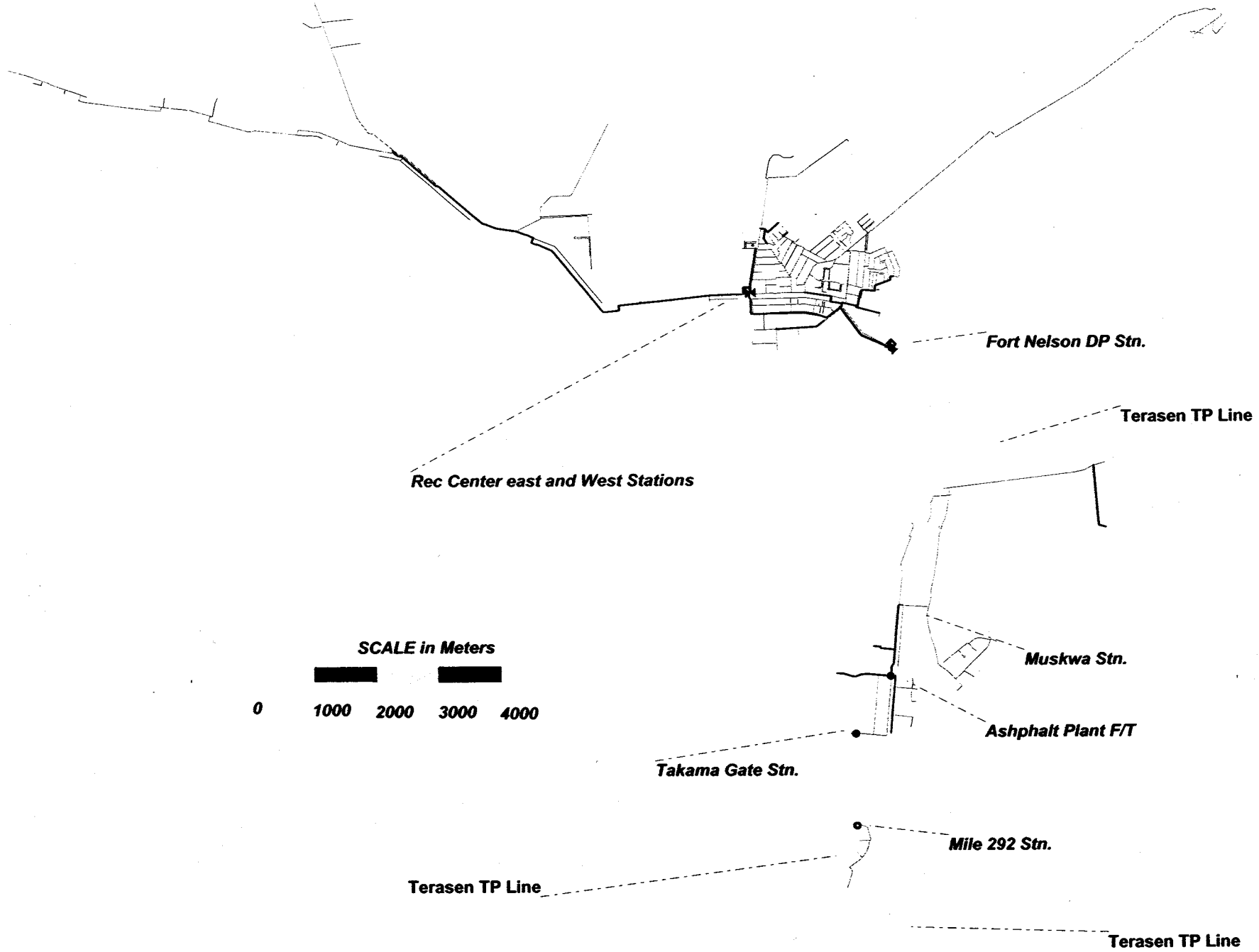
Scott Thomson, Vice President
Finance and Regulatory Affairs

All Notices and communications in connection with this Application should be directed to:

Scott Thomson, Vice President
Finance and Regulatory Affairs
Terasen Gas Inc.
16705 Fraser Highway
Surrey, B.C. V3S 2X7

Telephone: (604) 592-7784
Fax: (604) 592-7890





SCALE in Meters



Duke Energy Plant

**9.42 kilometers south
of Mile 292 Station**

B. APPLICATION OVERVIEW

1. INTRODUCTION

Terasen Gas Utility Ltd. (“Terasen Gas” or “the Company”) is seeking an increase in its rates for delivery service in the Fort Nelson Service Area of 1.96% on total revenues, effective January 1, 2004. This increase is required to ensure that the Company’s revenues recover the costs of serving customers. This Application includes a detailed discussion of the components influencing the need for a revenue requirement increase for 2004.

In support of this Application, Terasen Gas has provided discussion of the business drivers, capital expenditures and operating and maintenance requirements of the Fort Nelson Service Area for 2004. Terasen Gas has maintained a high standard of providing safe, reliable, and efficient service to Fort Nelson customers during its term of ownership of the Fort Nelson Service Area.

2. TERASEN GAS BACKGROUND

Terasen Gas is one of the largest natural gas distribution companies in Canada, based on the number of customers and service area. Predecessor companies have delivered manufactured gas since the 1800s and natural gas in British Columbia since the late 1950s. Terasen Gas is an investor owned utility through its parent company Terasen Inc. and raises capital in Canadian capital markets.

Operations in the Fort Nelson service area consist of a transmission lateral from the nearby Duke processing plant to the town of Fort Nelson together with a gas distribution system. Also included in the service area is the distribution system in Prophet River. Customers’ rates in the service areas other than Fort Nelson are not affected by this Application.

Terasen Gas is responsible for the procurement and supply of natural gas to the majority of its customers. For customers in all of its service areas, the Company purchases its supply of gas from a number of producers, aggregators, and marketers. Terasen Gas also contracts with various providers for service on upstream pipelines, capacity in underground storage facilities and various types of peaking and gas supply cost mitigation arrangements. For the Fort Nelson service area the gas supply has been obtained typically from one contract but in recent years the Company has used a small portion of its contracted gas storage capacity at Aitken Creek to improve the load factor of the Fort Nelson load and to mitigate the impact of gas price volatility on Fort Nelson customers. The diversity of Terasen Gas’ overall gas supply portfolio has

assisted over the years in providing favourable gas supply arrangements for the Fort Nelson service area.

The gas supply, transmission and distribution functions of Terasen Gas are underpinned by activities that are integral to the safe, reliable and efficient running of its utility operations. Beyond such front line activities as responding to emergencies, constructing, installing, and operating the transmission and distribution system, there are a number of key support functions. They include planning and designing facilities, corrosion control, metering, meter reading, leak surveying, right of way management and materials management and distribution.

Also important are the systems and services that allow Terasen Gas to meet its responsibilities effectively in today's dynamic business environment. These supporting systems include customer billing and customer care, marketing, information technology, municipal, community and aboriginal relations, legal, risk management, environment, health and safety, regulatory, human resources, and finance/accounting. Terasen Gas' Fort Nelson operations have benefited by being able to draw upon company-wide resources and expertise in areas such as these..

A specific example of the benefits to Fort Nelson of being part of a larger organization occurred in the fall of 1999 when an act of mischief resulted in the gas supply being shut off to virtually the entire town. In this situation a key valve near the town's recreation centre had been turned off by someone in an act of vandalism and the pressure in the system had dissipated. The process of bringing the system back up involved first shutting off every valve in town before the system was repressured and then after getting the system up to pressure reopening the valves and relighting pilot lights of appliances for every gas customer in Fort Nelson. In addition to the commendable efforts of Terasen Fort Nelson staff and other local assistance, emergency response support was provided from Prince George and work crews were dispatched to deal with the situation from the interior and Lower Mainland. All of the shutoffs and initial relights to essential services, main street commercial operations and approximately one quarter of the town were accomplished in the first day. Restoration of service to the entire town was completed in the next two days with the exception of a small number of premises that were vacant or where customers were away from town at the time of the incident. The Company received a number of positive comments regarding the orderly, timely and professional manner in which the incident was dealt with.

3. FORT NELSON SERVICE AREA BACKGROUND

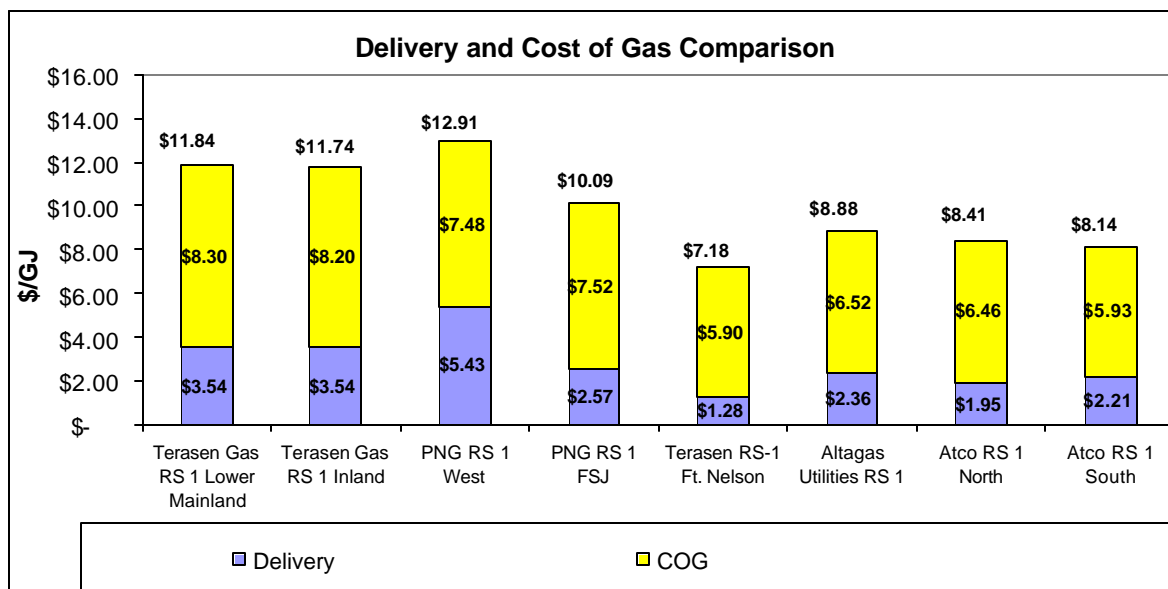
The Fort Nelson Service Area was acquired in 1985 as Fort Nelson Gas Ltd. by Inland Natural Gas Ltd., a predecessor company now part of Terasen Gas Inc. Fort Nelson Gas Ltd. was amalgamated in 1989 with Inland Natural Gas Ltd., Columbia Natural Gas Ltd. and the Lower Mainland Gas Division of BC Hydro to form BC Gas Inc. (later BC Gas Utility Ltd.) and ceased to be a separate legal entity at that time.

Rates have been set separately for the Fort Nelson Service Area from the date the company was acquired to the present. Terasen Gas (as BC Gas) sought regulatory consolidation of the Fort Nelson Service Area with the remainder of the Company in its 1992 Revenue Requirement Application but this was denied by the Commission in its Decision dated August 5, 1992. Since then the Fort Nelson Service Area has been excluded from the Company's general revenue requirement applications and Performance Based Ratemaking ("PBR") plans.

Customers' gas rates in Fort Nelson are among the lowest anywhere in North America. This is true for both the commodity and delivery portions of the rates. The chart below supports this fact by comparison to other nearby rate jurisdictions. The commodity portion of the rate is the lowest of the sample by a small margin but the delivery charges are lower than other utilities in the sample by a significant margin.

**Current Residential Average Unit Rates (Delivery and Cost of Gas)
Terasen Gas and other BC / Alberta Utilities**

Sep-03



Assumed Annual Gas Use Rate 158GJ
 Rates include all applicable riders
 Altagas and Atco use 12 month rolling averages for rates

The most recent revenue requirement change affecting the rates for delivery service in Fort Nelson was a decrease of \$165,000 approved by BCUC Order No. G-2-95 leading to a 15.04% decrease in delivery rates effective January 1, 1995. Prior to the 1995 rate decrease the delivery rates had been unchanged since 1985. This means that in 2003 the delivery rates in the Fort Nelson Service Area are fifteen percent lower in nominal terms than they were eighteen years ago. After adjusting for inflation current delivery rates are more than 45% lower on a real basis than they were in 1985. Other than the 1995 delivery rate decrease, rate changes have been limited to those approved from time to time for the flow-through of cost of gas increases or decreases.

The August 5, 1992 BCUC Decision on the Company's 1992 Revenue Requirement Application directed that a common capital structure apply across all Terasen Gas' service areas. This has meant that, as part of a much larger organization, the Fort Nelson service area has benefited from an overall lower cost of capital. The returns achieved by the Company on its investment in infrastructure in the Fort Nelson service area were in line with the BCUC-allowed returns on equity ("ROE") until the late 1990s. In the past several years the achieved ROE for the Fort Nelson service area has been below the BCUC-allowed level, particularly for 2001 and 2002 where achieved ROEs were near zero percent.

Customers in the Fort Nelson Service Area have benefited and continue to benefit in various ways from being part of a much larger gas distribution company. Some of these are benefits are as follows:

- Access to the necessary resources, expertise and training in all areas affecting gas distribution utilities such as those listed in section 2 above;
- Access to low cost capital funding;
- Access to the buying power of a larger company reducing the costs of pipe and other materials and supplies
- Access to the commodity-related benefits of being in a company that is a large regional buyer of natural gas and a significant holder of various natural gas storage, transportation, peaking and other gas supply arrangements designed to mitigate and optimize gas supply costs.

4. CUSTOMER BILL IMPACTS

The requested revenue requirement increase of 7.45% on delivery rates will increase residential delivery rates by \$0.096 per gigajoule on average. The annual effect of this increase is about \$15 per residential customer at the average forecast annual consumption of 158 GJ. For commercial customers the delivery rate increase will be about \$0.121 per gigajoule on average. Commercial consumption levels vary quite widely but at the average forecast annual consumption of 799 GJ the annual increase will be about \$97.

While this application deals with the rates for delivery the financial schedules also identify a significant credit balance in the Fort Nelson Gas Cost Reconciliation Account ("GCRA") which will be refunded in 2004 through the cost of gas and GCRA rate setting process. Assuming the outlook for future commodity prices remains fairly stable the refunding of this GCRA credit may mean that overall rates for customers will decline in 2004 in spite of the requested delivery rate increase.

5. CONCLUSION

Terasen Gas has performed efficiently and effectively over many years in delivering value to its Fort Nelson Service Area customers. The Company has absorbed low returns in the past several years on its investment in the rate base employed to provide service to Fort Nelson but the level of service has not been negatively affected by this. The increase sought by the Company reflects rates that are just and reasonable.

TERASEN GAS INC.

2004 REVENUE REQUIREMENT FOR THE FORT NELSON SERVICE AREA

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TERASEN GAS INC. - FORT NELSON SERVICE AREA

Section C

Tab 1

Page 1

SUMMARY OF RATE INCREASE REQUIRED
FOR THE YEAR ENDING DECEMBER 31, 2004
(\$000)

Line No.	Description	Sales Rates 1, 2.1 & 2.2	Transportation Rate 25	Total
	(1)	(2)	(3)	(4)
1	RATE INCREASE REQUIRED			
2				
3	Gas Sales and Transportation Revenue,			
4	At Prior Year's Rates	\$4,203	\$349	\$4,552
5				
6	Less - Cost of Gas	<u>(3,367)</u>	<u>10</u>	<u>(3,357)</u>
7				
8	Gross Margin	<u>\$836</u>	<u>\$359</u>	<u>\$1,195</u>
9				
10	Revenue Deficiency	\$62	\$27	\$89
11				
12	Revenue Deficiency as a % of Gross Margin	7.45%	7.45%	7.45%
13				
14	Revenue Deficiency as a % of Total Revenue	1.48%	7.74%	1.96%

TERASEN GAS INC. - FORT NELSON SERVICE AREA
UTILITY RATE BASE
FOR THE YEAR ENDING DECEMBER 31, 2004
(\$000)

Section C
Tab 2
Page 1

Line No.	Particulars (1)	2004				Change (6)	Reference (7)
		2002 Normal (2)	Present Rates (3)	Adjustments (4)	Revised Rates (5)		
1	Plant in service, Beginning	\$6,754	\$6,920	\$0	\$6,920	\$166	- Tab 3, Page 3.1
2	Opening Adjustments (CPCNs)	0	0	0	0	0	- Tab 3, Page 3.1
3							
4	Additions	244	347	0	347	103	- Tab 3, Page 3.1
5	Disposals	(230)	(26)	0	(26)	204	- Tab 3, Page 3.1
6	Plant in service, Ending	6,768	7,241	0	7,241	473	
7							
8	Add - Intangible plant	0	0	0	0	0	
9		6,768	7,241	0	7,241	473	
10							
11	Contributions in aid of construction	(980)	(992)	0	(992)	(12)	- Tab 3, Page 4
12							
13	Less - Accumulated depreciation/ amortization	(1,268)	(1,601)	0	(1,601)	(333)	- Tab 4, Page 2
14							
15							
16	Net plant in service, Ending	<u>\$4,520</u>	<u>\$4,648</u>	<u>\$0</u>	<u>\$4,648</u>	<u>\$128</u>	
17							
18	Net plant in service, Beginning	<u>\$4,485</u>	<u>\$4,495</u>	<u>\$0</u>	<u>\$4,495</u>	<u>\$10</u>	- Tab 3, Page 5
19							
20	Net plant in service, Mid-year	\$4,503	\$4,572	0	\$4,572	\$69	
21	Adjustment to 13-month average	(33)	0	0	0	33	
22	Work in progress, no AFUDC	63	63	0	63	0	
23							
24	Sub-total	4,533	4,635	0	4,635	102	
25							
26	Construction advances	(80)	(80)	0	(80)	0	
27	Unamortized deferred charges	(56)	(117)	0	(117)	(61)	- Tab 3, Page 6.1
28	Cash working capital	(161)	(176)	1	(175)	(14)	- Tab 5, Page 2
29	Other working capital	8	8	0	8	0	- Tab 5, Page 2
30	Deferred income tax, mid-year	0	0	0	0	0	
31							
32	Utility rate base	<u>\$4,244</u>	<u>\$4,270</u>	<u>\$1</u>	<u>\$4,271</u>	<u>\$27</u>	

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 UTILITY INCOME AND EARNED RETURN
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Section C
 Tab 2
 Page 2

Line No.	Particulars	2004				Change	Reference
		2002 Normal	Present Rates	Revised Rates	Total		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	ENERGY VOLUMES (TJ)						
2	Sales	525	571	0	571	46	
3	Transportation	416	412	0	412	(4)	
4	Total	<u>941</u>	<u>983</u>	<u>0</u>	<u>983</u>	<u>42</u>	
5							
6	Average Rate per GJ						
7	Sales	\$5.718	\$7.363		\$7.363	\$1.645	
8	Transportation	\$0.844	\$0.846		\$0.846	\$0.002	
9	Average	<u>\$3.563</u>	<u>\$4.630</u>		<u>\$4.721</u>	<u>\$1.158</u>	
10							
11	UTILITY REVENUE						
12	Sales - Present Rates	\$3,002	\$4,203	\$0	\$4,203	\$1,201	- Tab 7, Page 5
13	- Increase	0	0	62	62	62	
14	Transportation - Present Rates	351	349	0	349	(2)	- Tab 7, Page 5
15	- Increase	0	0	27	27	27	
16	Total Revenue	<u>3,353</u>	<u>4,552</u>	<u>89</u>	<u>4,641</u>	<u>1,288</u>	- Tab 7, Page 6
17	Cost of Gas Sold (Including Gas Lost)	<u>2,260</u>	<u>3,357</u>	<u>0</u>	<u>3,357</u>	<u>1,097</u>	- Tab 8, Page 2
18	Gross Margin	<u>1,093</u>	<u>1,195</u>	<u>89</u>	<u>1,284</u>	<u>191</u>	
19							
20	Operation & Maintenance	634	604	0	604	(30)	- Tab 9, Page 2
21	Vehicle / Coastal Facilities Lease	0	0	0	0	0	
22	Property Tax	84	98	0	98	14	- Tab 10, Page 3
23	Franchise Fees	0	0	0	0	0	
24	Corporate Capital Tax	4	0	0	0	(4)	- Tab 10, Page 3
25	Depreciation and Amortization	190	191	0	191	1	- Tab 11, Page 2
26	Other Operating Revenue	<u>(28)</u>	<u>(28)</u>	<u>0</u>	<u>(28)</u>	<u>0</u>	- Tab 12, Page 2
27		<u>884</u>	<u>865</u>	<u>0</u>	<u>865</u>	<u>(19)</u>	
28							
29	Utility Income before Income Taxes	209	330	89	419	210	
30	Income Taxes	<u>42</u>	<u>59</u>	<u>31</u>	<u>90</u>	<u>48</u>	
31							
32	EARNED RETURN	<u>\$167</u>	<u>\$271</u>	<u>\$58</u>	<u>\$329</u>	<u>\$162</u>	
33							
34	UTILITY RATE BASE	<u>\$4,244</u>	<u>\$4,270</u>	<u>\$1</u>	<u>\$4,271</u>	<u>\$27</u>	
35							
36	RETURN ON RATE BASE	<u>3.93%</u>	<u>6.35%</u>		<u>7.71%</u>	<u>3.78%</u>	

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 INCOME TAXES / REVENUE DEFICIENCY
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Section C
 Tab 2
 Page 3

Line No.	Particulars	2004				Change	Reference
		2002 Normal	Present Rates	Revised Revenue	Total		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1							
2	CALCULATION OF INCOME TAXES						
3	Earned Return	\$167	\$271	\$58	\$329	\$162	- Tab 2, Page 2
4	Deduct - Interest on Debt	(189)	(202)	0	(202)	(13)	- Tab 13, Page 3
5	Add - Non-Tax Deductible Expense (Net)	5	6	0	6	1	- Tab 13, Page 4
6							
7	Accounting Income After Tax	(17)	75	58	133	150	
8	Deduct: Timing Differences	65	13	0	13	(52)	- Tab 13, Page 4
9	Add: Large Corporation Tax	8	7	(1)	6	(2)	- Tab 13, Page 6
10							
11	Taxable Income After Tax	<u>\$56</u>	<u>\$95</u>	<u>\$57</u>	<u>\$152</u>	<u>\$96</u>	
12							
13	Income Tax Rate (Current Tax)	39.620%	35.620%	35.620%	35.620%	-4.000%	
14	1 - Current Income Tax Rate	60.380%	64.380%	64.380%	64.380%	4.000%	
15							
16	Taxable Income Before Income Tax (L10:L13)	\$87	\$147	89	236	149	
17	Add: Amount Required to Provide for						
18	Deferred Income Tax	0	0	0	0	0	
19							
20	Taxable Income (L10:L13)	<u>\$87</u>	<u>\$147</u>	<u>\$89</u>	<u>\$236</u>	<u>\$149</u>	
21							
22	Income Tax						
23	Current	\$34	\$52	32	\$84	\$50	
24	Deferred Income Tax (Fort Nelson)	0	0	0	0	0	
25	Large Corporation Tax	8	7	(1)	6	(2)	- Tab 13, Page 6
26							
27							
28	Total	<u>\$42</u>	<u>\$59</u>	<u>\$31</u>	<u>\$90</u>	<u>\$48</u>	- Tab 2, Page 2
29							
30							
31	REVENUE DEFICIENCY						
32	Earned Return			\$58	\$329		
33	Add - Income Taxes			31	90		- Tab 13, Page 2
34	Deduct - Utility Income Before Taxes,						
35	Present Rates			0	(330)		
36	Corporate Capital Tax			0	0		- Tab 10, Page 3
37							
38	Deficiency			<u>\$89</u>	<u>\$89</u>		

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 RETURN ON CAPITAL
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Section C
 Tab 2
 Page 4

Line No.	Particulars	Reference	----- Capitalization -----		Average Embedded Cost	Cost Component	Earned Return	
			Amount	%				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	2004 PRESENT RATES							
2	Long-Term Debt			\$2,535	59.35%	7.472%	4.435%	
3	Unfunded Debt			326	7.65%	4.000%	0.306%	
4	Preference Shares			\$0	0.00%	0.000%	0.000%	
5	Common Equity			1,409	33.00%	4.876%	1.609%	
6								
7				<u>\$4,270</u>	<u>100.00%</u>		<u>6.35%</u>	
8								
9	2004 REVISED RATES							
10	Long-Term Debt			\$2,535	59.34%	7.472%	4.434%	\$189
11	Unfunded Debt		\$326					
12	Adjustment, Revised Rates		1	327	7.66%	4.000%	0.306%	13
13	Preference Shares			0	0.00%	0.000%	0.000%	0
14	Common Equity			1,409	33.00%	9.000%	2.970%	127
15								
16				<u>\$4,271</u>	<u>100.00%</u>		<u>7.71%</u>	<u>\$329</u>

TERASEN GAS INC.
FORT NELSON SERVICE AREA
RATE BASE AND CAPITAL REQUIREMENTS
FOR THE YEAR ENDING DECEMBER 31, 2004

Under the provisions of the *Utilities Commission Act*, Terasen Gas has an obligation to serve the requirements of its existing customers and to provide service to new customers within its service areas. Continuation of safe and reliable service to Terasen Gas' Fort Nelson service area base of more than 2,100 customers, and providing service to new customers, requires ongoing capital additions. New customer additions are a driver of capital additions and the system age also drive replacement of existing depreciated plant. The high cost of replacement plant relative to depreciated plant recorded at historic values puts pressure on revenue requirements to serve existing customers. While Terasen Gas takes every effort to minimize the costs of those additions, the maintenance and expansion of the Company's facilities still requires new plant be placed in service each year.

The costs associated with the investment in plant and facilities are a large portion of the revenue requirement of Terasen Gas. The increase in rates required for a particular year are affected not just by the capital additions in that year, but also by capital additions that went into service in prior years. Plant going into service in 2004 affects 2004 rates by the cost of capital and income tax associated with the plant being in service for only part of the year. Plant that goes into service in 2003 has the cost of capital and associated taxes based on the plant being in service for the full year 2004 together with depreciation expense for the year. In other words, plant that went into service in 2003 has a greater impact on the rates paid by customers in 2004 than does plant put into service in 2004.

The Fort Nelson Service Area Transmission and Distribution account balances arise from direct Fort Nelson capital additions. In addition to direct costs the Fort Nelson Service Area General Equipment accounts (e.g. office furniture and equipment, computer hardware and software, tools and other work equipment) are allocated a portion of corporate Terasen Gas costs. A summary of these gas plant additions for 2002 to 2004 is shown in Section C, Tab 3, Page 2.1.

This Section provides details of the forecast capital additions of Terasen Gas Fort Nelson Service Area during the period of 2004.

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 UTILITY RATE BASE
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Section C
 Tab 3
 Page 2

Line No.	Particulars	2004				Change	Reference
		2002 Normal	Present Rates	Adjustments	Revised Rates		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Plant in service, Beginning	\$6,754	\$6,920	\$0	\$6,920	\$166	- Tab 3, Page 3.1
2	Opening Adjustments (CPCNs)	0	0	0	0	0	- Tab 3, Page 3.1
3							
4	Additions	244	347	0	347	103	- Tab 3, Page 3.1
5	Disposals	(230)	(26)	0	(26)	204	- Tab 3, Page 3.1
6	Plant in service, Ending	6,768	7,241	0	7,241	473	
7							
8	Add - Intangible plant	0	0	0	0	0	
9		6,768	7,241	0	7,241	473	
10							
11	Contributions in aid of construction	(980)	(992)	0	(992)	(12)	- Tab 3, Page 4
12							
13	Less - Accumulated depreciation/ amortization	(1,268)	(1,601)	0	(1,601)	(333)	- Tab 4, Page 2
14							
15							
16	Net plant in service, Ending	<u>\$4,520</u>	<u>\$4,648</u>	<u>\$0</u>	<u>\$4,648</u>	<u>\$128</u>	
17							
18	Net plant in service, Beginning	<u>\$4,485</u>	<u>\$4,495</u>	<u>\$0</u>	<u>\$4,495</u>	<u>\$10</u>	- Tab 3, Page 5
19							
20	Net plant in service, Mid-year	\$4,503	\$4,572	0	\$4,572	\$69	
21	Adjustment to 13-month average	(33)	0	0	0	33	
22	Work in progress, no AFUDC	63	63	0	63	0	
23							
24	Sub-total	4,533	4,635	0	4,635	102	
25							
26	Construction advances	(80)	(80)	0	(80)	0	
27	Unamortized deferred charges	(56)	(117)	0	(117)	(61)	- Tab 3, Page 6.1
28	Cash working capital	(161)	(176)	1	(175)	(14)	- Tab 5, Page 2
29	Other working capital	8	8	0	8	0	- Tab 5, Page 2
30	Deferred income tax, mid-year	0	0	0	0	0	
31							
32	Utility rate base	<u>\$4,244</u>	<u>\$4,270</u>	<u>\$1</u>	<u>\$4,271</u>	<u>\$27</u>	

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 ADDITIONS TO GAS PLANT IN SERVICE
 FOR THE YEARS ENDING DECEMBER 31, 2002 TO 2004
 (\$000)

Section C
 Tab 3
 Page 2.1

Line No.	Particulars (1)	2002 Normal (2)	2003 Projected (3)	2004 Forecast (4)	Reference (5)
1	Additions to Gas Plant in Service				
2					
3	<u>Direct Costs (excl. Overhead)</u>				
4	Customer Related Additions				
5	Services	\$51	\$70	\$20	
6	Meters / Meter Installations / Regulators	27	8	3	
7		<u>78</u>	<u>78</u>	<u>23</u>	
8	Engineering Projects				
9	Transmission Pipe Improvements	55	0	40	
10	Distribution Main Improvements	18	15	64	
11	Measurement/Regulating Additions ¹	0	9	100	
12	Sub-Total Direct Costs	<u>151</u>	<u>102</u>	<u>227</u>	
13					
14	<u>Allocated Costs (excl. Overhead)</u>				
15	All Other	26	19	5	
16	Sub-Total	<u>177</u>	<u>121</u>	<u>232</u>	
17					
18	Overhead	67	67	115	
19					
20	Total Additions to Gas Plant in Service	<u>\$244</u>	<u>\$188</u>	<u>\$347</u>	Tab 3 Page 2 / Tab 3 Page 3.3
21					
22					
23	¹ 2004 addition related to replacement of odourizer as part of hazardous liquids containment program				

TERASEN GAS INC. - FORT NELSON SERVICE AREA
GAS PLANT IN SERVICE
FOR THE YEAR ENDING DECEMBER 31, 2004
(\$000)

Section C
Tab 3
Page 3

Line No.	B.C.U.C. Account (1)	2002 Normal (2)	Balance 12/31/2003 (3)	Opening Adjustments (4)	2004				Balance 12/31/2004 (9)
					Adjs. (5)	Additions (6)	Retirements (7)	Transfers/ Recovery (8)	
1	401 Franchise Consents	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	402 Other Intangible Plant	0	0	0	0	0	0	0	0
3	TOTAL INTANGIBLE PLANT	0	0	0	0	0	0	0	0
4									
5	430 Manufactured Gas - Land	0	0	0	0	0	0	0	0
6	432 Manufactured Gas - Structures and Improvements	0	0	0	0	0	0	0	0
7	433 Manufacturing Equipment	0	0	0	0	0	0	0	0
8	434 Gas Holders - Manufacturing	0	0	0	0	0	0	0	0
9	436 Compressor Equipment	0	0	0	0	0	0	0	0
10	437 Measuring and Regulating Equipment	0	0	0	0	0	0	0	0
11	440/441 Land in Fee Simple and Land Rights	0	0	0	0	0	0	0	0
12	442 Structures and Improvements	0	0	0	0	0	0	0	0
13	443 Gas Holders - Storage	0	0	0	0	0	0	0	0
14	449 Local Storage Equipment	0	0	0	0	0	0	0	0
15	TOTAL MANUFACTURED GAS / LOCAL STORAGE	0	0	0	0	0	0	0	0
16									
17	460/461 Land in Fee Simple / Land Rights	8	8	0	0	0	0	0	8
18	462 Compressor Structures	0	0	0	0	0	0	0	0
19	463 Measuring Structures	0	0	0	0	0	0	0	0
20	464 Other Structures and Improvements	7	9	0	0	0	0	0	9
21	465 Mains	1,163	1,280	0	0	60	0	0	1,340
22	466 Compressor Equipment	0	0	0	0	0	0	0	0
23	467 Measuring and Regulating Equipment	73	80	0	0	0	0	0	80
24	468 Communication Structures and Equipment	0	0	0	0	0	0	0	0
25	469 Other Transmission Equipment	0	0	0	0	0	0	0	0
26	TOTAL TRANSMISSION PLANT	1,251	1,377	0	0	60	0	0	1,437
27									
28	470 Land	0	0	0	0	0	0	0	0
29	471 Land Rights	20	22	0	0	0	0	0	22
30	472 Structures and Improvements	89	102	0	0	0	0	0	102
31	473 Services	1,621	1,895	0	0	30	(4)	0	1,921
32	474 House Regulators and Meter Installations	533	585	0	0	5	(15)	0	575
33	475 Mains	1,162	1,304	0	0	96	0	0	1,400
34	476 Compressor Equipment	0	0	0	0	0	0	0	0
35	477 Measuring and Regulating Equipment	706	792	0	0	151	0	0	943
36	478 Meters	52	51	0	0	0	(6)	0	45
37	479 Other Distribution Equipment	0	0	0	0	0	0	0	0
38	TOTAL DISTRIBUTION PLANT	4,183	4,751	0	0	282	(25)	0	5,008

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 GAS PLANT IN SERVICE
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Section C
 Tab 3
 Page 3.1

Line No.	B.C.U.C. Account (1)	2002 Normal (2)	Balance 12/31/2003 (3)	Opening Adjustments (4)	2004				Balance 12/31/2004 (9)
					Adjs. (5)	Additions (6)	Retirements (7)	Transfers/ Recovery (8)	
1	480 Land	\$1	\$1	\$0	\$0	\$0	\$0	\$0	\$1
2	481 Land Rights	0	0	0	0	0	0	0	0
3									
4	482 Structures and Improvements	234	236	0	0	3	(1)	0	238
5									
6	483 Office Furniture and Equipment								
7	-Furniture & Equipment	41	47	0	0	0	0	0	47
8	-Computers - Hardware	184	174	0	0	0	0	0	174
9	-Computers - Software - Non-Infrastructure	112	112	0	0	0	0	0	112
10	-Computers - Software - Infrastructure / Custom	75	77	0	0	2	0	0	79
11									
12	484 Transportation Equipment	10	10	0	0	0	0	0	10
13	485 Heavy Work Equipment	3	3	0	0	0	0	0	3
14	486 Tools and Work Equipment	105	105	0	0	0	0	0	105
15	487 Equipment on Customer's Premises	0	0	0	0	0	0	0	0
16	488 Communication Equipment	22	27	0	0	0	0	0	27
17	489 Other General Equipment	0	0	0	0	0	0	0	0
18	TOTAL GENERAL EQUIPMENT	<u>787</u>	<u>792</u>	<u>0</u>	<u>0</u>	<u>5</u>	<u>(1)</u>	<u>0</u>	<u>796</u>
19									
20	496 Unclassified Plant	0	0	0	0	0	0	0	0
21	497 Allowance for Funds Used During Construction	0	0	0	0	0	0	0	0
22	498 Overhead Charged To Construction	547	0	0	0	0	0	0	0
23	499 Plant Suspense	0	0	0	0	0	0	0	0
24	TOTAL UNCLASSIFIED PLANT	<u>547</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
25									
26	Less - Disallowed Plant Costs	0	0	0					0
27									
28	TOTAL CAPITAL	<u>\$6,768</u>	<u>\$6,920</u>	<u>\$0</u>	<u>\$0</u>	<u>\$347</u>	<u>(\$26)</u>	<u>\$0</u>	<u>\$7,241</u>

TERASEN GAS INC. - FORT NELSON SERVICE AREA
CONTINUITY OF GAS PLANT IN SERVICE
FOR THE YEAR ENDING DECEMBER 31, 2003
(\$000)

Section C
Tab 3
Page 3.2

Line No.	B.C.U.C. Account (1)	Balance 12/31/2002 (2)	Opening Adjustments (3)	Projected 2003			Transfers/ Recovery (7)	Balance 12/31/2003 (8)
				Adjs. (4)	Additions (5)	Retirements (6)		
1	401 Franchise Consents	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	402 Other Intangible Plant	0	0	0	0	0	0	0
3	TOTAL INTANGIBLE PLANT	0	0	0	0	0	0	0
4								
5	430 Manufactured Gas - Land	0	0	0	0	0	0	0
6	432 Manufactured Gas - Structures and Improvements	0	0	0	0	0	0	0
7	433 Manufacturing Equipment	0	0	0	0	0	0	0
8	434 Gas Holders - Manufacturing	0	0	0	0	0	0	0
9	436 Compressor Equipment	0	0	0	0	0	0	0
10	437 Measuring and Regulating Equipment	0	0	0	0	0	0	0
11	440/441 Land in Fee Simple and Land Rights	0	0	0	0	0	0	0
12	442 Structures and Improvements	0	0	0	0	0	0	0
13	443 Gas Holders - Storage	0	0	0	0	0	0	0
14	449 Local Storage Equipment	0	0	0	0	0	0	0
15	TOTAL MANUFACTURED GAS / LOCAL STORAGE	0	0	0	0	0	0	0
16								
17	460/461 Land in Fee Simple / Land Rights	8	0	0	0	0	0	8
18	462 Compressor Structures	0	0	0	0	0	0	0
19	463 Measuring Structures	0	0	0	0	0	0	0
20	464 Other Structures and Improvements	7	2	0	0	0	0	9
21	465 Mains	1,163	117	0	0	0	0	1,280
22	466 Compressor Equipment	0	0	0	0	0	0	0
23	467 Measuring and Regulating Equipment	73	7	0	0	0	0	80
24	468 Communication Structures and Equipment	0	0	0	0	0	0	0
25	469 Other Transmission Equipment	0	0	0	0	0	0	0
26	TOTAL TRANSMISSION PLANT	1,251	126	0	0	0	0	1,377
27								
28	470 Land	0	0	0	0	0	0	0
29	471 Land Rights	20	2	0	0	0	0	22
30	472 Structures and Improvements	89	9	0	4	0	0	102
31	473 Services	1,621	163	0	115	(4)	0	1,895
32	474 House Regulators and Meter Installations	533	54	0	13	(15)	0	585
33	475 Mains	1,162	117	0	25	0	0	1,304
34	476 Compressor Equipment	0	0	0	0	0	0	0
35	477 Measuring and Regulating Equipment	706	71	0	15	0	0	792
36	478 Meters	52	5	0	0	(6)	0	51
37	479 Other Distribution Equipment	0	0	0	0	0	0	0
38	TOTAL DISTRIBUTION PLANT	4,183	421	0	172	(25)	0	4,751

TERASEN GAS INC. - FORT NELSON SERVICE AREA
CONTINUITY OF GAS PLANT IN SERVICE
FOR THE YEAR ENDING DECEMBER 31, 2003
(\$000)

Section C
Tab 3
Page 3.3

Line No.	Particulars (1)	Balance 12/31/2002 (3)	Opening Adjustments (4)	Projected 2003			Transfers/ Recovery (8)	Balance 12/31/2003 (9)
				Adj. (5)	Additions (6)	Retirements (7)		
1	480 Land	\$1	\$0	\$0	\$0	\$0	\$0	\$1
2	481 Land Rights	0	0	0	0	0	0	0
3								
4	482 Structures and Improvements	234	0	0	3	(1)	0	236
5								
6	483 Office Furniture and Equipment							
7	-Furniture & Equipment	41	0	0	6	0	0	47
8	-Computers - Hardware	184	0	0	0	(10)	0	174
9	-Computers - Software - Non-Infrastructure	112	0	0	0	0	0	112
10	-Computers - Software - Infrastructure / Custom	75	0	0	2	0	0	77
11								
12	484 Transportation Equipment	10	0	0	0	0	0	10
13	485 Heavy Work Equipment	3	0	0	0	0	0	3
14	486 Tools and Work Equipment	105	0	0	0	0	0	105
15	487 Equipment on Customer's Premises	0	0	0	0	0	0	0
16	488 Communication Equipment	22	0	0	5	0	0	27
17	489 Other General Equipment	0	0	0	0	0	0	0
18	TOTAL GENERAL EQUIPMENT	<u>787</u>	<u>0</u>	<u>0</u>	<u>16</u>	<u>(11)</u>	<u>0</u>	<u>792</u>
19								
20	496 Unclassified Plant	0	0	0	0	0	0	0
21	497 Allowance for Funds Used During Construction	0	0	0	0	0	0	0
22	498 Overhead Charged To Construction	547	(547)	0	0	0	0	0
23	499 Plant Suspense	0	0	0	0	0	0	0
24	TOTAL UNCLASSIFIED PLANT	<u>547</u>	<u>(547)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
25								
26	Less - Disallowed Plant Costs	0	0					0
27								
28	TOTAL CAPITAL	<u>\$6,768</u>	<u>\$0</u>	<u>\$0</u>	<u>\$188</u>	<u>(\$36)</u>	<u>\$0</u>	<u>\$6,920</u>

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 AVERAGE CONTRIBUTIONS IN AID OF CONSTRUCTION
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Section C
 Tab 3
 Page 4

Line No.	Particulars	B.C.U.C. Account	2002 Normal	Balance 12/31/2003	Adjustments	2004 Additions	Retirements	Balance 12/31/2004
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	DSEP/GEAP	211-06	\$248	\$248	\$0	\$0	\$0	\$248
2								
3	Natural Gas Vehicle							
4	Conversion Grants	211-07	0	0	0	0	0	0
5								
6	Natural Gas Vehicle							
7	Station Grants	211-08	0	0	0	0	0	0
8								
9	Leasehold Alterations	211-09	0	0	0	0	0	0
10								
11	Furniture & Equipment	211-10	0	0	0	0	0	0
12	Computer Software Tax Credit							
13	- Non-Infrastructure	211-11	93	93	0	0	0	93
14								
15	- Infrastructure	211-11	63	64	0	1	0	65
16								
17	Other	211-00 to 05	576	583	0	3	0	586
18								
19			980	988	0	4	0	992
20								
21	Amortization	211-15 to 20	(392)	(439)	0	(39)	0	(478)
22								
23								
24	TOTAL	211	\$588	\$549	\$0	(\$35)	\$0	\$514

TERASEN GAS INC. - FORT NELSON SERVICE AREA
CONTINUITY OF AVERAGE CONTRIBUTIONS IN AID OF CONSTRUCTION
FOR THE YEAR ENDING DECEMBER 31, 2003
(\$000)

Line No.	Particulars (1)	B.C.U.C. Account (2)	Balance 12/31/2002 (3)	Adjustments (4)	2003 Additions (5)	Retirements (6)	Balance 12/31/2003 (7)	Difference (8)
1	DSEP/GEAP	211-06	\$248	\$0	\$0	\$0	\$248	\$0
2								
3	Natural Gas Vehicle							
4	Conversion Grants	211-07	0	0	0	0	0	0
5								
6	Natural Gas Vehicle							
7	Station Grants	211-08	0	0	0	0	0	0
8								
9	Leasehold Alterations	211-09	0	0	0	0	0	0
10								
11	Furniture & Equipment	211-10	0	0	0	0	0	0
12								
13	Computer Software Tax Credit - Non-Infrastructure	211-11	93	0	0	0	93	0
14								
15	Computer Software Tax Credit - Infrastructure	211-11	63	0	1	0	64	1
16								
17	Other	211-00 to 05	576	0	7	0	583	7
18								
19			980	0	8	0	988	8
20								
21	Amortization	211-15 to 20	(392)	0	(47)	0	(439)	(47)
22								
23								
24	TOTAL	211	\$588	\$0	(\$39)	\$0	\$549	(\$39)

TERASEN GAS INC. - FORT NELSON SERVICE AREA
NET GAS PLANT IN SERVICE
FOR THE YEARS ENDING DECEMBER 31, 2002 TO 2004
(\$000)

Section C
Tab 3
Page 5

Line No.	Particulars (1)	2002 Normal (2)	2003 Projected (3)	2004 Forecast (4)	Reference (5)
1	Gas Plant in Service - December 31, Previous Year	\$6,754	\$6,768	\$6,920	
2					
3	Add: CPCNs on January 1, Beginning of Year	0	0	0	
4					
5	Adjusted Opening Gas Plant in Service	<u>6,754</u>	<u>6,768</u>	<u>6,920</u>	
6					
7	Intangible Plant	0	0	0	- Tab 3, Page 2
8					
9	Less: Contribution in Aid of Construction	(1,041)	(980)	(988)	- Tab 3, Page 2
10					
11	Less: Accumulated Depreciation and Amortization	(1,228)	(1,268)	(1,437)	- Tab 4, Pages 2 & 2.1
12					
13	Net Gas Plant in Service as at January 1,	<u>\$4,485</u>	<u>\$4,520</u>	<u>\$4,495</u>	- Tab 3, Page 2

TERASEN GAS INC.
FORT NELSON SERVICE AREA
UNAMORTIZED DEFERRED CHARGES
FOR THE YEAR ENDING DECEMBER 31, 2004

Unamortized Deferred Charges are carried in the regulatory schedules on a net-of-tax basis.
Tab 3, page 6.1 shows the 2004 forecast Unamortized Deferred Charges and Amortization.

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 UNAMORTIZED DEFERRED CHARGES AND AMORTIZATION
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Line No.	Particulars	Account	Mid-Year Average 2002	Balance 12/31/2003	Gross Additions	Less-Taxes	Net Additions	Amortization		Balance 12/31/2004	Mid-Year Average 2004
								Expense	Other		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	Deferred Interest	#17904	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2											
3											
4	Market Rebate Incentive	#17909									
5	- Water Heater Grants		1	1	0	0	0	(1)	0	0	1
6											
7											
8	Gas Cost Reconciliation Account	#17926	(57)	(235)	0	0	0	0	235	0	(118)
9											
10											
11											
12	Total Deferred Charges in Rate Base		<u>(\$56)</u>	<u>(\$234)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$1)</u>	<u>\$235</u>	<u>\$0</u>	<u>(\$117)</u>

TERASEN GAS INC. - FORT NELSON SERVICE AREA
CONTINUITY OF UNAMORTIZED DEFERRED CHARGES AND AMORTIZATION
PROJECTED FOR THE YEAR ENDED DECEMBER 31, 2003
(\$000)

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Tab 3
Page 6.2

Line No.	Particulars	Account	Balance 12/31/2002	Gross Additions	Less- Taxes	Net Additions	Amortization		Balance 12/31/2003
							Expense	Other	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Deferred Interest	#17904	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2									
3									
4	Market Rebate Incentive								
5	- Water Heater Grants	#17909	1	0	0	0	0	0	1
6									
7									
8	Gas Cost Reconciliation Account	#17926	(199)	(57)	21	(36)	0	0	(235)
9									
10									
11									
12	Total Deferred Charges in Rate Base		<u>(\$198)</u>	<u>(\$57)</u>	<u>\$21</u>	<u>(\$36)</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$234)</u>

TERASEN GAS INC.
FORT NELSON SERVICE AREA
FORECAST ACCUMULATED DEPRECIATION
FOR THE YEAR ENDING DECEMBER 31, 2004

Accumulated Depreciation for 2004 has been updated for the 2003 projected closing balance. BCUC-approved depreciation rates and amortization periods are used for all accounts. Depreciation rates affecting measurement and computer software accounts have been increased effective January 1, 2004, to reflect the approved changes in Section 7.1 of the BCUC February 4, 2003 Decision. Software would be depreciated over 5 years at 20% per year, rather than 8 years at 12.5% per year. Meters would be depreciated over two 14-year cycles resulting in an increase in depreciation from 3% per year to 3.57% per year.

The Fort Nelson Service Area plant accounts are a subset of the Terasen Gas plant accounts. Fort Nelson plant balances include both direct and allocated costs. Since Fort Nelson shares the plant account structure as the rest of Terasen Gas, the Company seeks approval in this Application for the same rate changes to the measurement and computer software accounts consistent with Terasen Gas' other three service areas.

TERASEN GAS INC. - FORT NELSON SERVICE AREA
CONTINUITY OF ACCUMULATED DEPRECIATION
FOR THE YEAR ENDING DECEMBER 31, 2004
(\$000)

Section C
Tab 4
Page 2

Line No.	Particulars	Balance 12/31/2002	Projected Balance 12/31/2003	Opening Adjust- ments	2004				Proceeds on Disposal	Balance 12/31/2004	Reference
					Depreciation Provision For Year	Adjustments	Retirements	Retirement Costs			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	Intangible Plant	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
2	Gas Plant Held for Future Use	0	0	0	0	0	0	0	0	0	
3	Manufactured Gas Production Plant	0	0	0	0	0	0	0	0	0	
4	Transmission Plant	459	524	10	29	0	0	0	0	563	
5	Distribution Plant	801	885	32	114	0	(25)	0	0	1,006	
6	General Plant	358	425	0	87	(1)	(1)	0	0	510	
7	Unclassified Plant	42	42	(42)	0	0	0	0	0	0	
8											
9		1,660	1,876	0	230	(1)	(26)	0	0	2,079	
10	Retirement Work in Progress	0	0							0	
11											
12	Subtotal	1,660	1,876							2,079	
13	Less-Gas Plant Held For Future Use	0	0							0	
14											
15	Total Accumulated Depreciation	<u>\$1,660</u>	<u>\$1,876</u>							<u>\$2,079</u>	- Tab 4, Page 3.2
16											
17											
18	Contributions in Aid of Construction	<u>(392)</u>	<u>(439)</u>	0	(39)	0	0	0	0	<u>(478)</u>	- Tab 3, Page 4
19											
20	Total Accumulated Depreciation and Amort.	<u>\$1,268</u>	<u>\$1,437</u>							<u>\$1,601</u>	- Tab 2, Page 1

TERASEN GAS INC. - FORT NELSON SERVICE AREA
CONTINUITY OF ACCUMULATED DEPRECIATION
FOR THE YEAR ENDING DECEMBER 31, 2003
(\$000)

Section C
Tab 4
Page 2.1

Line No.	Description	Balance 12/31/2002 (2)	Opening Adjust- ments (3)	Projected 2003				Balance 12/31/2003 (9)	Reference (10)
				Depreciation Provision For Year (4)	Adjustments (5)	Retirements (6)	Retirement Costs (7)		
1	Intangible Plant	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
2	Gas Plant Held for Future Use	0	0	0	0	0	0	0	
3	Manufactured Gas Production Plant	0	0	0	0	0	0	0	
4	Transmission Plant	459	0	65	0	0	0	524	
5	Distribution Plant	801	0	109	0	(25)	0	885	
6	General Plant	358	0	77	(1)	(11)	2	425	
7	Unclassified Plant	42	0	0	0	0	0	42	
8									
9		1,660	0	251	(1)	(36)	2	1,876	
10	Retirement Work in Progress	0						0	
11									
12	Subtotal	1,660						1,876	
13	Less-Gas Plant Held For Future Use	0						0	
14									
15	Total Accumulated Depreciation	<u>\$1,660</u>						<u>\$1,876</u>	- Tab 4, Page 4.2
16									
17									
18	Contributions in Aid of Construction	(392)	0	(47)	0	0	0	(439)	- Tab 3, Page 4.1
19									
20	Total Accumulated Depreciation and Amortization	<u>\$1,268</u>						<u>\$1,437</u>	- Tab 4, Page 2

TERASEN GAS INC. - FORT NELSON SERVICE AREA
DEPRECIATION AND AMORTIZATION WORKSHEET (CONT'D)
FOR THE YEAR ENDING DECEMBER 31, 2004
(\$000)

Line No.	Account (1)	Plant 12/31/2003 (2)	Annual Depreciation Rate % (3)	Opening Adjust- ments (4)	Provision					Accumulated	
					2004 (5)	Adjust- ments (6)	Retirements (7)	Retirement Costs (8)	Proceeds on Disposal (9)	12/31/2003 (10)	12/31/2004 (11)
1	<u>TRANSMISSION PLANT</u>										
2	462-00 Structures and Improvements										
3	- Compressor Stations	0	3.00%	0	0	0	0	0	0	0	0
4	463-00 - Measuring & Regulating	0	3.00%	0	0	0	0	0	0	0	0
5	464-00 - Other	9	3.00%	0	0	0	0	0	0	1	1
6											
7	465-00 Mains & Crossings	1,280	2.00%	9	26	0	0	0	0	469	504
8	466-00 Compressor Equipment	0	3.00%	0	0	0	0	0	0	0	0
9											
10	467-00 Measuring & Regulating	70	3.00%	1	2	0	0	0	0	57	60
11	467-10 Telemetering	10	10.00%	0	1	0	0	0	0	(3)	(2)
12	468-00 Communication Equipment	0	10.00%/5.00%	0	0	0	0	0	0	0	0
13	469-00 Other Transmission Equipment	0	5.00%	0	0	0	0	0	0	0	0
14		<u>1,369</u>		<u>10</u>	<u>29</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>524</u>	<u>563</u>
15											
16	<u>DISTRIBUTION PLANT</u>										
17	472-00 Structures & Improvements										
18	- Leasehold Alterations	0	Term - Lease	0	0	0	0	0	0	0	0
19	- Frame Buildings	102	3.00%	1	3	0	0	0	0	21	25
20	- Masonry Buildings	0	1.50%	0	0	0	0	0	0	0	0
21											
22	473-00 Services	1,895	2.00%	13	38	0	(4)	0	0	542	589
23	474-00 House Regulator & Meter Installation	585	3.57%	4	21	0	(15)	0	0	50	60
24	475-00 Mains	1,304	2.00%	9	26	0	0	0	0	243	278
25	476-00 Compressed Natural Gas	0	6.67%	0	0	0	0	0	0	(97)	(97)
26											
27	477-00 Measuring & Regulating	780	3.00%	5	23	0	0	0	0	111	139
28	477-10 Telemetering	12	10.00%	0	1	0	0	0	0	4	5
29											
30	478 Meters	51	3.57%	0	2	0	(6)	0	0	11	7
31	479 Other Distribution Equipment	0	3.00%/5.00%	0	0	0	0	0	0	0	0
32		<u>4,729</u>		<u>32</u>	<u>114</u>	<u>0</u>	<u>(25)</u>	<u>0</u>	<u>0</u>	<u>885</u>	<u>1,006</u>

TERASEN GAS INC. - FORT NELSON SERVICE AREA
DEPRECIATION AND AMORTIZATION WORKSHEET (CONT'D)
FOR THE YEAR ENDING DECEMBER 31, 2004
(\$000)

Section C
Tab 4
Page 3.2

Line No.	Account (1)	Balance 12/31/2003 (2)	Annual Depreciation Rate % (3)	Opening Adjust- ments (4)	Provision					Accumulated	
					2004 (5)	Adjust- ments (6)	Retirements (7)	Retirement Costs (8)	Proceeds on Disposal (9)	12/31/2003 (10)	12/31/2004 (11)
1	<u>GENERAL PLANT</u>										
2	482-00 Structures & Improvements										
3	-Leasehold Alterations	\$0	Term - Lease	\$0	\$0	\$0	\$0	\$0	\$0	\$7	\$7
4	-All Other - Frame Buildings	236	3.00%	0	7	0	(1)	0	0	131	137
5	-All Other - Masonry Buildings	0	1.50%	0	0	0	0	0	0	0	0
6											
7	483-00 Office Furniture & Equipment										
8	-Furniture & Equipment	47	5.00%	0	2	0	0	0	0	15	17
9	-Computers - Hardware	174	20.00%	0	35	0	0	0	0	232	267
10	-Computers - Software - Non-Infrastructure	112	20.00%	0	22	0	0	0	0	40	62
11	-Computers - Software - Infrastr/Custom	77	12.50%	0	10	0	0	0	0	9	19
12									0		
13	484-00 Transportation Equipment	10	15.00%	0	2	0	0	0	0	(23)	(21)
14	485-00 Maintenance & Repair Equipment	3	5.00%	0	3	0	0	0	0	(52)	(49)
15	486-00 Tools & Work Equipment	105	5.00%	0	5	0	0	0	0	57	62
16	487-00 Equipment on Customers' Premises	0	5.00%	0	0	0	0	0	0	0	0
17	488-00 Communication - Structures & Equip.	26	5.00%	0	1	(1)	0	0	0	(4)	(4)
18	488-00 Communication - Radios	1	10.00%	0	0	0	0	0	0	13	13
19	489 Other General Equipment	0	5.00%	0	0	0	0	0	0	0	0
20		<u>791</u>		<u>0</u>	<u>87</u>	<u>(1)</u>	<u>(1)</u>	<u>0</u>	<u>0</u>	<u>425</u>	<u>510</u>
21	UNCLASSIFIED PLANT										
22	498-00 Overhead	0	2.27%	(42)	0	0	0	0	0	42	0
23											
24	TOTAL AMORTIZATION									7	7
25	TOTAL DEPRECIATION									1,869	2,072
26											
27		<u>\$6,889</u>		<u>\$0</u>	<u>\$230</u>	<u>(\$1)</u>	<u>(\$26)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,876</u>	<u>\$2,079</u>

TERASEN GAS INC. - FORT NELSON SERVICE AREA
CONTINUITY OF DEPRECIATION AND AMORTIZATION WORKSHEET (CONT'D)
FOR THE YEAR ENDING DECEMBER 31, 2003
(\$000)

Section C
Tab 4
Page 4.1

Line No.	Account	Plant 12/31/2002	Annual Depreciation Rate %	Opening Adjustments	Projected 2003					Accumulated	
					2003	Adjustments	Retirements	Retirement Costs	Proceeds on Disposal	12/31/2002	12/31/2003
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	<u>TRANSMISSION PLANT</u>										
2	462-00 Structures and Improvements										
3	- Compressor Stations	0	3.00%	0	0	0	0	0	0	0	0
4	463-00 - Measuring & Regulating	0	3.00%	0	0	0	0	0	0	0	0
5	464-00 - Other	9	3.00%	0	0	0	0	0	0	1	1
6											
7	465-00 Mains & Crossings	1,280	2.00%	0	26	0	0	0	0	443	469
8	466-00 Compressor Equipment	0	3.00%	0	0	0	0	0	0	0	0
9											
10	467-00 Measuring & Regulating	1,270	3.00%	0	38	0	0	0	0	19	57
11	467-10 Telemetry	10	10.00%	0	1	0	0	0	0	(4)	(3)
12	468-00 Communication Equipment	0	10.00%/5.00%	0	0	0	0	0	0	0	0
13	469-00 Other Transmission Equipment	0	5.00%	0	0	0	0	0	0	0	0
14		<u>2,569</u>		<u>0</u>	<u>65</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>459</u>	<u>524</u>
15											
16	<u>DISTRIBUTION PLANT</u>										
17	472-00 Structures & Improvements										
18	- Leasehold Alterations	0	Term - Lease	0	0	0	0	0	0	0	0
19	- Frame Buildings	98	3.00%	0	3	0	0	0	0	18	21
20	- Masonry Buildings	0	1.50%	0	0	0	0	0	0	0	0
21											
22	473-00 Services	1,784	2.00%	0	36	0	(4)	0	0	510	542
23	474-00 House Regulator & Meter Installation	587	3.00%	0	18	0	(15)	0	0	47	50
24	475-00 Mains	1,279	2.00%	0	26	0	0	0	0	217	243
25	476-00 Compressed Natural Gas	0	6.67%	0	0	0	0	0	0	(97)	(97)
26											
27	477-00 Measuring & Regulating	765	3.00%	0	23	0	0	0	0	88	111
28	477-10 Telemetry	12	10.00%	0	1	0	0	0	0	3	4
29											
30	478 Meters	57	3.00%	0	2	0	(6)	0	0	15	11
31	479 Other Distribution Equipment	0	3.00%/5.00%	0	0	0	0	0	0	0	0
32		<u>4,582</u>		<u>0</u>	<u>109</u>	<u>0</u>	<u>(25)</u>	<u>0</u>	<u>0</u>	<u>801</u>	<u>885</u>

TERASEN GAS INC. - FORT NELSON SERVICE AREA
DEPRECIATION AND AMORTIZATION WORKSHEET (CONT'D)
FOR THE YEAR ENDING DECEMBER 31, 2003
(\$000)

Section C
Tab 4
Page 4.2

Line No.	Account	Plant 12/31/2002 (2)	Annual Depreciation Rate % (3)	Opening Adjust- ments (4)	Projected 2003					Accumulated	
					2003 (5)	Adjust- ments (6)	Retirements (7)	Retirement Costs (8)	Proceeds on Disposal (9)	12/31/2002 (10)	12/31/2003 (11)
1	<u>GENERAL PLANT</u>										
2	482-00 Structures & Improvements										
3	-Leasehold Alterations	\$0	Term - Lease	\$0	\$0	\$0	\$0	\$0	\$0	\$7	\$7
4	-All Other - Frame Buildings	234	3.00%	0	7	0	(1)	0	0	125	131
5	-All Other - Masonry Buildings	0	1.50%	0	0	0	0	0	0	0	0
6											
7	483-00 Office Furniture & Equipment										
8	-Furniture & Equipment	41	5.00%	0	2	0	0	0	0	13	15
9	-Computers - Hardware	184	20.00%	0	37	0	(10)	0	0	205	232
10	-Computers - Software - Non-Infrastructure	112	12.50%	0	14	0	0	0	0	26	40
11	-Computers - Software - Infrastructure / Custom	75	12.50%	0	9	0	0	0	0	0	9
12											
13	484-00 Transportation Equipment	10	15.00%	0	2	0	0	0	0	(25)	(23)
14	485-00 Maintenance & Repair Equipment	3	5.00%	0	0	0	0	0	0	(52)	(52)
15	486-00 Tools & Work Equipment	105	5.00%	0	5	0	0	0	0	52	57
16	487-00 Equipment on Customers' Premises	0	5.00%	0	0	0	0	0	0	0	0
17	488-00 Communication - Structures & Equip.	21	5.00%	0	1	(1)	0	0	0	(4)	(4)
18	488-00 Communication - Radios	1	10.00%	0	0	0	0	2	0	11	13
19	489 Other General Equipment	0	5.00%	0	0	0	0	0	0	0	0
20		<u>786</u>		<u>0</u>	<u>77</u>	<u>(1)</u>	<u>(11)</u>	<u>2</u>	<u>0</u>	<u>358</u>	<u>425</u>
21	UNCLASSIFIED PLANT										
22	498-00 Overhead	0	2.20%	0	0	0	0	0	0	42	42
23											
24	TOTAL AMORTIZATION									7	7
25	TOTAL DEPRECIATION									1,653	1,869
26											
27		<u>\$7,937</u>		<u>\$0</u>	<u>\$251</u>	<u>(\$1)</u>	<u>(\$36)</u>	<u>\$2</u>	<u>\$0</u>	<u>\$1,660</u>	<u>\$1,876</u>

TERASEN GAS INC.
FORT NELSON SERVICE AREA
WORKING CAPITAL ALLOWANCE
FOR THE YEAR ENDING DECEMBER 31, 2004

The major components of the working capital allowance have been divided into the following categories.

- Cash Required for Operating Expenses
- All Other Working Capital items

Cash Required for Operating Expenses (Tab 5, Page 2)

Cash Required for Operating Expenses will continue to be determined using the lead/lag methodology established in 1992 with BC Gas' 1992 Revenue Requirement Application.

The revenue lead days for Fort Nelson customers reflect the billing service provided by CustomerWorks.

All Other Working Capital (Tab 5, Page 2, Lines 4, 7, 8, and 14)

Other working capital items include minimum cash balances, customer deposits, reserve for bad debts, employee withholdings, and inventories. The forecast 2004 costs for these items have been reasonably estimated.

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 WORKING CAPITAL ALLOWANCE
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Section C
 Tab 5
 Page 2

Line No.	Particulars (1)	2002 Normal (2)	2004		Change (5)	Reference (6)
			Present Rates (3)	Revised Revenue (4)		
1	<u>Cash Working Capital</u>					
2	Cash Required for Operating Expenses	\$0	(\$15)	(\$14)	(\$14)	- Tab 5, Page 3
3						
4	Minimum Cash Balances / Customer Deposits	(147)	(147)	(147)	0	
5						
6	Less - Funds Available:					
7	Reserve for Bad Debts	(2)	(2)	(2)	0	
8	Withholdings From Employees	(12)	(12)	(12)	0	
9						
10	Average	(161)	(176)	(175)	(14)	- Tab 2, Page 1
11						
12						
13	<u>Other Working Capital Items</u>					
14	Inventories	8	8	8	0	
15						
16						
17						
18						
19	Average	8	8	8	0	- Tab 2, Page 1
20						
21	Total	<u>(\$153)</u>	<u>(\$168)</u>	<u>(\$167)</u>	<u>(\$14)</u>	

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 CASH WORKING CAPITAL
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Section C
 Tab 5
 Page 3

Line No.	Particulars	2004			Reference
		Days	Expenses	Cash Working Capital	
	(1)	(2)	(3)	(4)	(5)
1	WORKING CAPITAL				
2					
3	Revenue Lead Days	35.6			- Tab 5, Page 4
4	Expense Lag Days	<u>(36.8)</u>			- Tab 5, Page 5
5					
6	Net Lead / (Lag) Days	<u>(1.2)</u>	\$4,449	<u>(\$15)</u>	- Tab 5, Page 2
7					
8					
9					
10	WORKING CAPITAL CHANGE			<u>\$1</u>	
11					
12					
13	WORKING CAPITAL, REVISED RATES				
14					
15	Revenue Lead Days	35.5			- Tab 5, Page 4
16	Expense Lag Days	<u>(36.6)</u>			- Tab 5, Page 5
17					
18	Net Lead / (Lag) Days	<u>(1.1)</u>	\$4,480	<u>(\$14)</u>	- Tab 5, Page 2

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 CASH WORKING CAPITAL
 LEAD TIME FROM DATE OF PAYMENT TO RECEIPT OF CASH
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Section C
 Tab 5
 Page 4

Line No.	Particulars	Revenue	Lead Days Service to Collection	Dollar Days	Reference
	(1)	(2)	(3)	(4)	(5)
1	REVENUE, PRESENT RATES				
2	Gas Sale and Transportation Service Revenue				
3	Residential and Commercial	\$4,203	34.6	\$145,424	
4	Seasonal	0	0.0	0	
5	Small Industrial	349	47.2	16,473	
6	NGV Fuel - Stations	0	0.0	0	
7	- Vehicle Refuelling Appliance	0	0.0	0	
8	Large Industrials	0	32.0	0	
9	Total Gas Sales	4,552	35.6	161,897	
10					
11	Other Revenues				
12	Late Payment Charges	16	26.7	427	
13	Returned Cheque Charges	1	35.6	36	
14	Connection Charges	11	41.9	461	
15	Other Utility Income	0	35.6	0	
16	NGV Tank Rental	0	0.0	0	
17	Total	4,580	35.6	162,821	
18					
19	REVENUE, REVISED RATES				
20	Gas Sale and Transportation Service Revenue				
21	Residential and Commercial	\$4,265	34.6	\$147,569	
22	Seasonal	0	0.0	0	
23	Small Industrial	349	47.2	16,473	
24	NGV Fuel - Stations	0	0.0	0	
25	- Vehicle Refuelling Appliance	0	0.0	0	
26	Large Industrials	0	32.0	0	
27	Total Gas Sales	4,614	35.6	164,042	
28					
29	Other Revenues				
30	Late Payment Charges	16	26.7	427	
31	Returned Cheque Charges	1	35.6	36	
32	Connection Charges	11	41.9	461	
33	Other Utility Income	0	35.6	0	
34	NGV Tank Rental	0	0.0	0	
35	Total	4,642	35.5	164,966	
36					

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 CASH WORKING CAPITAL
 LAG TIME IN PAYMENT OF EXPENSES
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

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Line No.	Particulars (1)	Amount (2)	Lag Days Expense to Payment (3)	Dollar Days (4)	Reference (4)
1	EXPENSES, PRESENT RATES				
2					
3	Operating and Maintenance				
4	Expenses	\$604	19.3	\$11,657	
5	Gas Purchases	3,357	40.7	136,630	
6					
7	Taxes other than income				
8	Property taxes	98	4.0	392	
9	Franchise Fees	0	0.0	0	
10	Goods and Service Tax	237	41.7	9,883	
11	S. S. Tax	94	43.8	4,117	
12	Income Tax	59	15.2	897	
13					
14	Total	<u>\$4,449</u>	<u>36.8</u>	<u>\$163,576</u>	
15					
16					
17	EXPENSES, REVISED RATES				
18					
19	Operating and Maintenance				
20	Expenses	\$604	19.3	\$11,657	
21	Gas Purchases	3,357	40.7	136,630	
22					
23	Taxes other than income				
24	Property taxes	98	4.0	392	
25	Franchise Fees	0	0.0	0	
26	Goods and Service Tax	237	41.7	9,883	
27	S. S. Tax	94	43.8	4,117	
28	Income Tax	90	15.2	1,368	
29					
30	Total	<u>\$4,480</u>	<u>36.6</u>	<u>\$164,047</u>	

TERASEN GAS INC.
FORT NELSON SERVICE AREA
GAS SALES & TRANSPORTATION VOLUMES FOR 2004

This Section addresses the forecast of gas sales and transportation volumes for 2004. Included is a review of the energy-forecast methodology, the key factors influencing customer additions and use per customer plus an outline of residential, commercial and industrial margin and revenue.

This forecast is a Terasen Gas best current estimate. Under the proposed plan, projections of customer accounts and use per account used to derive rates for each forecast year reflect the best information available at the time of filing the application, including an update of confirmed numbers of customers at the end of the current year.

The underlying methodology used to forecast customer accounts and account usage in the 2004 Fort Nelson Revenue Requirement Application is sound. Residential and Commercial account additions and use per account as well as industrial volume are projected from the most recent Year to Date Actuals (July, 2003).

The revenue and margin forecast for all rate schedules reflects the most recently approved transport rates and cost of gas flow-through (April 1, 2003).

1. FORECAST METHODOLOGY

Customer additions and energy throughput volumes are two of the drivers of the operating, maintenance and capital costs incurred by the Company in serving its customers. Forecasting these items establishes the variance between the Company's costs and the revenues that would accrue from existing rates. The energy and customer additions forecast also determine the unit rates necessary for the recovery of the total revenue requirement.

The information provided in this Application reflects the best information available at this time. Consistent with previous years, the forecasting process is separated into three main components:

- Customer Additions,
- Average Residential & Commercial Use per Account, and
- Industrial forecasts.

The residential and commercial energy forecast incorporates rate classes 1, 2.1, and 2.2 and is driven by the respective account and use per customer forecasts. The industrial energy forecast consists of survey data adjusted as appropriate for industry specific developments.

The customer additions forecast incorporates regional factors like household growth that affect residential and commercial customers while the industrial forecast assumes no increase in the customer base.

As in prior years, the average use per customer is estimated for residential and commercial classes (Rates 1, 2.1, and 2.2) and multiplied by the corresponding number of customers in each respective class to derive the energy forecast by rate class. As Rate 2.1 and 2.2 have had the same rates for a number of years, commercial results are aggregated.

The industrial transportation customer throughput forecast relies primarily on historical data and information provided by discussions with the customers.

Applicable up-to-date rates are then applied against the energy and customer additions forecast to determine the overall revenue forecast. The underlying assumptions and components of that forecast are discussed below.

2. UNDERLYING ASSUMPTIONS

Terasen Gas believes that it is reasonable to expect some rebound from historically low use rates in the near term. However, in the longer-term, Terasen Gas expects continued investment in energy efficiency measures such as appliance upgrades, setback thermostats, improved insulation and demand side management (DSM) and other conservation measures.

The Terasen Gas forecast also assumes that the regional economy will remain relatively flat. Major economic inhibitors such as the softwood lumber dispute are assumed to be unresolved before the end of 2003. Since Terasen Gas industrial customers in the Fort Nelson region export forest products, continued delays in the resolution of this dispute, further retrenchment in the U.S. economy (or both), could slow growth below that anticipated in this Application. If industrial customers are so impacted, residential and commercial consumption might also be negatively affected.

The primary considerations of the energy forecast are summarised below.

- Natural gas commodity prices will continue to be subject to some price volatility – although some rebound in overall usage is expected as prices moderate and customers adjust to changing energy markets.
- Energy efficiency will continue to improve through appliance renewal and technological improvement in conjunction with DSM programs, but for 2003 and 2004 at least, no meaningful impact is assumed on use per customer.
- Key industrial and transportation sectors will experience limited technical improvement in energy efficiency.

3. CUSTOMER ADDITIONS FORECAST

Terasen Gas has updated the number of customers in each Fort Nelson rate class to reflect actual counts on July 31, 2003. In general, the customer addition forecast is derived from information specific to the Fort Nelson region such as annual household and population growth.

The relatively low interest rate environment in 2002 and 2003 coupled with some stimulation of the local natural gas industry resulted in a partial rebound in customer additions. However, the relatively low population base, coupled with limited, regionally depressed employment prospects will work to keep any recovery modest.

The outlook for customer additions sees slight growth in residential and commercial sectors during 2003, followed by another small increase in residential customers in 2004. However, consistent with the small regional market and negligible population increases in the region, commercial customer growth will be flat.

The table below provides a summary of the Residential and Commercial customer additions for the last 3 years, projections for year-end 2003, and a forecast for 2004. The table also shows the year over year changes in household formations.

Fort Nelson Total Customer Additions - Rates 1, 2.1, 2.2

Year	Actual	Actual	Actual	Projected	Forecast
	2000	2001	2002	2003	2004
Total Customers (Beginning of year)	2,061	2,050	2,062	2,101	2,132
Residential Additions	0	14	28	26	18
Commercial Additions	-11	-2	11	5	1
Total Customers (Year End)	2,050	2,062	2,101	2,132	2,151

4. USE PER CUSTOMER FORECAST

Individual use per account projections by rate class considers the following factors:

- The most recent historical normalized use per account;
- Customer migration between rates;
- Forecast use for new customer additions;
- Appliance conversion or replacement effects where applicable; and
- The estimated impact of demand side management programs over the forecast period.

Volatility in natural gas commodity prices over recent years led to some drop in use-rates by account, as customers sought relief from rising costs and realigned expectations concerning the share of energy costs in future budgets. However, normalized actual residential use rates in 2003 are expected to recover about 2.9% from the historical lows of the previous year.

For commercial rate classes, use per account has been generally declining since the last decade. The normalized use per account for Rate 2.1 customers fell from a high of 737 GJ in 2000 to an all-time low of 585 in 2002, while the use per account for rate 2.2 declined from 6,845 to 4,692 over the same period. Much of the fluctuation in use per account may be attributed to migration between the two commercial rate schedules¹. However, overall commercial volumes are still expected to recover by about 6.9% in 2003 and rise slightly the following year in response to a gradually improving regional economy and stable (albeit historically high) commodity prices.

¹ The number of customers in Rate 2.2 has grown from 2 in the year 2000 to the current tally of 28. This lowers the use per account in both rate classes by moving higher consumers in Rate 2.1 to Rate 2.2 where they become relatively low -end consumers.

A summary of historic customer usage and the forecast use per account values are shown below. The forecast use per account values in the table below were used to develop the revenue forecasts in this Application.

Historic and Forecast Usage - Rates 1, 2.1 & 2.2 (GJs)					
	Normal	Normal	Normal	Projected	Forecast
	2000	2001	2002	2003	2004
Rate 1	158.0	167.8	154.2	158.7	157.6
Rate 2.1 / 2.2	780.1	837.1	723.0	773.1	798.8

5. ENERGY FORECAST

a. Residential/Commercial

The residential and commercial energy forecast is calculated by multiplying the estimated customer energy use per account by the total number of customers including customer additions. For 2004, residential consumption is expected to remain stable (less than 1% increase), while commercial is expected to rise about 10 TJ or 3.5% to 293 TJ – due largely to modest improvements in the regional economic outlook.

The forecast for 2004 is provided in the summary table at the end of this section.

b. Industrial

There are currently 2 (Rate 25) industrial customers in the Fort Nelson Region. Both produce forest products. For these customers, Terasen Gas assumes a modest, stable energy demand from 2003 onward.

The strategy generally employed by mills to overcome the countervailing and anti-dumping duties that the U.S. imposed actually involved an increase in production during 2002. This counter-intuitive outcome resulted from a clause in the import duty language that allowed the Canadian companies to decrease the applicable duty in 2003 if they were able to decrease their overall costs per unit of wood in 2002. To decrease their overall costs, mills opted to increase production spreading their fixed costs over a greater number of units, thus reducing their overall unit cost for determining 2003 anti-dumping duties.

Fort Nelson producers have therefore managed to increase gas usage throughout the dispute, but a limited industrial base (2 customers) coupled with uncertainty will work to keep demand relatively flat beyond 2004. Customer surveys also confirm that demand will remain close to 2003 levels, with no new industrial customers expected in 2003 or 2004.

The following table breaks out the energy forecast by Residential (Rate 1), Commercial (Rate 2.1 and 2.2), and Industrial (Rate 25) rate classes. The table shows that 2003 consumption is expected to match 2002 demand, and then grow modestly in 2004.

Energy Forecast (TJ per annum)					
	Normal	Normal	Normal	Projected Forecast	
	2000	2001	2002	2003	2004
Residential	267	285	264	277	278
Commercial	274	293	261	283	293
Industrial	302	321	416	410	412
Total	843	899	941	970	983

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 GAS SALES AND TRANSPORTATION VOLUMES (TJ)
 FOR THE YEAR ENDING DECEMBER 31, 2004

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Line No.	Classification (1)	2002 Normal (2)	2004 Forecast (3)	Change (4)	Reference (5)
1	Sales				
2	Rate 1 - Residential	264	278.0	14.0	
3	Rate 2.1 - Small Commercial	200	202.1	2.1	
4	Rate 2.2 - Small Commercial	61	90.7	29.7	
5	Total Residential/Commercial	<u>525</u>	<u>570.8</u>	<u>45.8</u>	
6					
7	Rate 3.1	0	0.0	0.0	
8	Rate 3.2	0	0.0	0.0	
9	Total Small Industrial	<u>0</u>	<u>0.0</u>	<u>0.0</u>	
10					
11	Rate 3.3 Large Industrial	<u>0</u>	<u>0.0</u>	<u>0.0</u>	
12					
13	Schedule 2.3 - NGV Fuel	0	0.0	0.0	
14					
15	Total Sales	<u>525</u>	<u>570.8</u>	<u>45.8</u>	
16					
17	Transportation				
18	Small Industrial	416	412.3	(3.7)	
19	Large Industrial	0	0.0	0.0	
20					
21	Total Transportation Service	<u>416</u>	<u>412.3</u>	<u>(3.7)</u>	
22					
23	Total Sales and Transportation Service	<u>941</u>	<u>983.1</u>	<u>42.1</u>	- Tab 2, Page 2

TERASEN GAS INC.
 FORT NELSON SERVICE AREA
 GAS SALES & TRANSPORTATION REVENUES FOR 2004

REVENUE & MARGIN FORECAST

a. Revenue Forecast

Revenue forecasts for each customer class are developed from the total energy forecasts and the applicable rates.

The table below summarizes the 2003 – 2004 revenue forecasts by market segment and provides data from 2000 - 2002 for comparison purposes.

Revenue Forecast (\$000's)					
	Normal	Normal	Normal	Projected	Forecast
	2000	2001	2002	2003	2004
Residential	1,177	1,779	1,473	1,810	2,000
Commercial	1,236	1,889	1,529	1,948	2,203
Industrial	335	275	351	347	349
Total	2,748	3,943	3,353	4,105	4,552

b. Margin Forecast

Between 2003 and 2004, total margin is forecast to increase slightly (\$19,000). The table below breaks the forecast between Residential, Commercial, and Industrial Customers. Generally, growth in margin will follow the modest increases in demand and account growth.

Margin Forecast (\$000's)					
	Normal	Normal	Normal	Projected	Forecast
	2000	2001	2002	2003	2004
Residential	359	390	356	364	360
Commercial	399	456	422	456	476
Industrial	288	278	315	356	359
Total	1,046	1,124	1,093	1,176	1,195

c. RSAM Proposal

Terasen Gas - Fort Nelson Service Area seeks the approval from the Commission to implement a Revenue Stabilization Adjustment Mechanism ("RSAM") similar to that used by the Lower Mainland, Inland and Columbia service areas of Terasen Gas.

By way of background, Terasen Gas put forth a proposal for a RSAM as part of the Phase 2 Hearing in 1994. In its Decision dated August 4, 1994, the Commission approved the RSAM as filed, with a slight modification for a zero deadband. In essence, variations in sales on a use per customer basis for the weather sensitive residential and commercial customers were to be placed in a deferral account for future disposition. Since 1994, the Lower Mainland, Inland and Columbia service areas of Terasen Gas have been operating with an RSAM mechanism.

The proposed RSAM for Fort Nelson would record the difference on a use per customer basis between forecast 2004 margin used for rate making purposes and actual margin received from the residential and commercial customers in a deferral account. The deferral account balance will accumulate the annual RSAM debits and credits, and one-third of the net balance will be refunded or recovered in the following year via a positive or negative rate rider.

In distinction from the Lower Mainland, Inland and Columbia Service Area's RSAM, Terasen Gas also seeks to include its Rate 25 customers in the Fort Nelson RSAM. The RSAM for Fort Nelson Rate 25 customers will be based on total forecast delivery margin rather than on a use per customer basis. The rationale for requesting the inclusion of Rate 25 customers in the Fort Nelson RSAM pertains to the specific local circumstances in Fort Nelson relative to the rest of the Terasen Gas system. The Rate 25 margins comprise about 30% of the total forecast delivery margin in Fort Nelson which is a much higher percentage than in the rest of the system where approximately 16% of the delivery margin is general service and industrial load. A second factor pertains to the Fort Nelson rate structure where the margin collection from Rate 25 is entirely volumetric. In the other service areas of the company a considerable percentage of the charges for delivery service in the industrial classes are on a fixed basis making use of demand charges and other fixed rate tariffs. A third factor in Fort Nelson is that the lack of diversity in the Rate 25 load makes margin collection from this class change significantly from year to year. There are only two customers in Rate 25 and they are both forest products companies. In the rest of the Terasen Gas system there are various industries and services represented as well as a large number of customers. These factors lead Terasen to the conclusion that it is

appropriate to include Rate 25 in the RSAM for Fort Nelson. The RSAM rate rider will apply to the Rate 25 customers.

As approved by the BCUC Decision dated February 4, 2003 (Page 11) for the Terasen Gas RSAM, the Company also seeks to record interest on Fort Nelson RSAM balance variations from forecast at the Company's short-term interest rate to be credited or debited, as appropriate, against the RSAM account. The proposed RSAM is appropriate given the fact it is not reasonable for the Company or the Customers to continue to absorb large margin variations resulting from forecast deliveries being much different than actual deliveries as experienced during the past few years. For an entity the size of Fort Nelson, forecast residential, commercial and Rate 25 margin variations have contributed to significant variations to return on common equity which can only be rectified through annual rate adjustments. The use of an RSAM mechanism as proposed will help minimize the year-to-year variability in rates by spreading the accumulated balance over a multi-year period.

The RSAM is a fair and reasonable approach to what is potentially a contentious issue in a revenue requirement application. The existence of an RSAM will simplify the process of establishing the revenue forecast for parties participating in the review of Fort Nelson's revenue requirement applications. A reasonable forecast should be more readily agreed to for the purposes of establishing the test year base margin forecast. The incentive to over or under estimate forecast deliveries will be minimized.

In addition, the adoption of an RSAM mechanism to mitigate risk is consistent with the allowed ROE established for a low risk utility, i.e. it is fair and reasonable that the Fort Nelson Service Area have an RSAM mechanism to shield the Company from revenue volatility given the allowed ROE is the same as that set for the general Terasen Gas service areas that currently have an RSAM and greater customer diversity and have the same low allowed ROE.

In view of the request for Commission approval of an RSAM, the Company considers that in all of the circumstances it is reasonable to base the 2004 forecast deliveries to the residential and commercial classes on the use per account figures, and overall industrial volumes as filed in this Application. The proposed 2004 use per account figures are slightly more than the 2001 and 2002 normalized figures as Terasen Gas considers that gas prices will remain relatively stable over the next 12 months and customers will continue to slowly consume more gas on average. Applying the 2004 use per account figures to the weighted average number of customers in 2004 results in the forecast as filed.

SUMMARY

The forecast supporting the 2004 Revenue Requirement Application includes the following updates:

1. Revenues adjusted to reflect current rates including the approved 2003 permanent delivery rates and the April 1, 2003 gas cost increases; and
2. Customer use per account adjusted to reflect the actual year to date (July 2003) results;
3. Customer counts adjusted to reflect the actual year to date (July 2003) results.

Terasen Gas believes this is a reasonable forecast of revenues for 2004 based on the currently available information.

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 REVENUE
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

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Line No.	Particulars	2002 Normal	2004 Revenue at 2003 Rates	Change	Reference
	(1)	(2)	(3)	(4)	(5)
1	REVENUE				
2	Sales				
3	Residential	\$1,473	\$2,000	\$527	
4	Commercial	1,529	2,203	674	
5	Small Industrial	0	0	0	
6	Large Industrial	0	0	0	
7	NGV Fuel	0	0	0	
8	Intercompany Sales	0	0	0	
9	Total Sales	<u>3,002</u>	<u>4,203</u>	<u>1,201</u>	
10					
11	Transportation				
12	Small Industrial	351	349	(2)	
13	Large Industrial	0	0	0	
14	Total Transportation	<u>351</u>	<u>349</u>	<u>(2)</u>	
15					
16	Total Sales and Transportation	3,353	4,552	1,199	
17	Other - Deferred Revenue Surplus	0	0	0	
18	Total Revenue	<u>3,353</u>	<u>4,552</u>	<u>1,199</u>	
19	Other Adjustments	0	0	0	
20	Total	<u>\$3,353</u>	<u>\$4,552</u>	<u>\$1,199</u>	

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 REVENUE UNDER EXISTING AND REVISED RATES
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Line No.	Particulars	Terajoules	Revenue -- At Existing Rates --		Gross Margin -- At Existing Rates --		Increase		Average Number of Customers	Revenue -- At Revised Rates --	
			Average \$/GJ	Revenue (\$000)	Average \$/GJ	Revenue (\$000)	All Classes \$/GJ	7.45% of Margin Revenue (\$000)		Average \$/GJ	Revenue (\$000)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	<u>Residential and Commercial Sales</u>										
2											
3	Schedule 1 - Residential	278.0	\$7.194	\$2,000	\$1.2950	\$360	\$0.0964	\$27	1,761	\$7.290	\$2,027
4	Schedule 2.1 - Small Commercial	202.1	7.566	1,529	1.6675	337	0.1242	25	335	7.690	1,554
5	Schedule 2.2 - Large Commercial	90.7	7.431	674	1.5325	139	0.1141	10	27	7.545	684
6	Schedule 2.3 - NGV	0.0	0.000	0	0.0000	0	0.0000	0	0	0.000	0
7											
8	Total Residential and Commercial Sales	<u>570.8</u>	<u>7.363</u>	<u>4,203</u>	<u>1.4646</u>	<u>836</u>	<u>0.1091</u>	<u>62</u>	<u>2,123</u>		<u>4,265</u>
9											
10	<u>Industrial Service</u>										
11											
12	Schedule 3.1 - Small Industrial	0.0	0.000	0	0.0000	0	0.0000	0	0	0.000	0
13	Schedule 3.2 - Medium Industrial	0.0	0.000	0	0.0000	0	0.0000	0	0	0.000	0
14	Schedule 3.3 - Large Industrial	0.0	0.000	0	0.0000	0	0.0000	0	0	0.000	0
15											
16	Total Industrial Service	<u>0.0</u>		<u>0</u>		<u>0</u>		<u>0</u>	<u>0</u>		<u>0</u>
17											
18											
19	Total Firm Sales	<u>570.8</u>	<u>7.363</u>	<u>4,203</u>	<u>1.4646</u>	<u>836</u>	<u>0.1091</u>	<u>62</u>	<u>2,123</u>		<u>4,265</u>
20											
21	<u>Transportation Service</u>										
22											
23	Schedule 25 - General Firm T-Service	412.3	0.846	349	0.871	359	0.0648	27	2	0.911	376
24											
25	Total Transportation Service	<u>412.3</u>		<u>349</u>		<u>359</u>		<u>27</u>	<u>2</u>		<u>376</u>
26											
27	Total Sales and Transportation Service	<u>983.1</u>		<u>\$4,552</u>		<u>\$1,195</u>		<u>\$89</u>	<u>2,125</u>		<u>\$4,641</u>

TERASEN GAS INC. - FORT NELSON SERVICE AREA
MARGIN
FOR THE YEAR ENDING DECEMBER 31, 2004
(\$000)

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Line No.	Particulars (1)	2004			Reference (5)
		Existing Rates (2)	Increase (3)	Total (4)	
1	<u>Residential and Commercial Sales</u>				
2					
3	Schedule 1 - Residential	\$360	\$27	\$387	
4	Schedule 2.1 - Small Commercial	337	25	362	
5	Schedule 2.2 - Large Commercial	139	10	149	
6	Schedule 2.3 - NGV	0	0	0	
7					
8	Total Residential and Commercial Sales	<u>836</u>	<u>62</u>	<u>898</u>	
9					
10	<u>Industrial Service</u>				
11					
12	Schedule 3.1 - Small Industrial	0	0	0	
13	Schedule 3.2 - Medium Industrial	0	0	0	
14	Schedule 3.3 - Large Industrial	0	0	0	
15					
16	Total Industrial Service	<u>0</u>	<u>0</u>	<u>0</u>	
17					
18					
19	Total Firm Sales	<u>836</u>	<u>62</u>	<u>898</u>	- Tab 7, Page 3
20					
21	<u>Transportation Service</u>				
22					
23	Schedule 25 - General Firm T-Service	359	27	386	
24					
25	Total Transportation Service	<u>359</u>	<u>27</u>	<u>386</u>	- Tab 7, Page 3
26					
27	Total Sales and Transportation Service	<u>\$1,195</u>	<u>\$89</u>	<u>\$1,284</u>	- Tab 7, Page 3

TERASEN GAS INC.
FORT NELSON SERVICE AREA
COST OF GAS SOLD
FOR THE YEAR ENDING DECEMBER 31, 2004

The cost of gas sold is determined by multiplying forecast sales volumes by the approved forecast unit gas costs for each rate schedule. In the Fort Nelson Service Area, the gas cost is the same for all sales rate classes. An unaccounted for gas cost of -0.4% has been forecast for 2004. The unit costs are those approved by Order G-19-03 for firm natural gas sales and interruptible rate customers. Terasen Gas will continue to apply, on a basis consistent with established BCUC practice for “flow-through” approval of gas supply costs.

<u>Year</u>	<u>Page</u>	<u>Total Gas Costs (\$000)</u>
2004	(Page 2)	\$3,357

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 COST OF GAS BY RATE SCHEDULE
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

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Line No.	Particulars (1)	Energy TJ (2)	Unit Cost \$/GJ (3)	Total (4)	Reference (5)
1	<u>Residential and Commercial Sales</u>				
2					
3	Schedule 1 - Residential	278.0	\$5.9000	\$1,640	
4	Schedule 2.1 - Small Commercial	202.1	\$5.9000	1,192	
5	Schedule 2.2 - Large Commercial	90.7	\$5.9000	535	
6	Schedule 2.3 - NGV	0.0	\$5.9000	0	
7					
8	Total Residential and Commercial Sales	<u>570.8</u>		<u>3,367</u>	
9					
10	<u>Industrial Service</u>				
11					
12	Schedule 3.1 - Small Industrial	0.0	\$5.9000	0	
13	Schedule 3.2 - Medium Industrial	0.0	\$5.9000	0	
14	Schedule 3.3 - Large Industrial	0.0	\$5.9000	0	
15					
16	Total Industrial Service	<u>0.0</u>		<u>0</u>	
17					
18					
19	Total Firm Sales	<u>570.8</u>		<u>3,367</u>	
20					
21	<u>Transportation Service</u>				
22					
23	Schedule 25 - General Firm T-Service	412.3	(\$0.0240)	(10)	
24					
25	Total Transportation Service	<u>412.3</u>		<u>(10)</u>	
26					
27	Total Sales and Transportation Service				
28	Cost of Gas Sold	<u>983.1</u>		<u>\$3,357</u>	- Tab 2, Page 2

TERASEN GAS INC.
FORT NELSON SERVICE AREA
OPERATING AND MAINTENANCE EXPENSES

For financial reporting purposes the operating and maintenance costs of the Fort Nelson service area are included in overall operating and maintenance expenses of Terasen Gas.

For BCUC annual reporting purposes over the past years, the following process has been used to determine the total operating and maintenance costs that are Fort Nelson-related.

- Determine the Fort Nelson system direct operating and maintenance costs through cost centre reporting. These costs consist of labour, vehicle usage, materials and services used in direct system operations.
- Allocate operating and maintenance costs from those Terasen Gas business units that provide functional support to Fort Nelson service area. These shared services costs would include charges related to Marketing, Information Technology, Gas Supply and Transmission, Finance & Regulatory, Facilities and Logistics, Legal and Government Affairs, Human Resources and CEO. The allocation basis used has been Fort Nelson throughput volumes as a percentage of Terasen Gas throughput volumes. Historically, the allocation factor has been at 0.4%.

For 2004 the Company seeks to carry on with the historical process of direct and allocated O&M determination subject to an adjustment associated with the outsourcing of the Terasen Gas customer billing function to CustomerWorks. Customer billing costs, previously included in Fort Nelson O&M through the allocation process have now been categorized as direct cost at \$54.54 per customer consistent with the CustomerWorks contracts. As well, the Company is seeking confirmation of an overhead capitalization rate of 16% for Fort Nelson the same as that found appropriate for Terasen Gas (Lower Mainland, Inland and Columbia Service Areas) in the BCUC Decision dated February 4, 2003.

Based on the methodology described above, the Company estimates that the net operating and maintenance expenses for 2004 to be \$604,000. See Tab 9, Page 2 for details of the calculation.

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 2004 O&M FORECAST
 BASED ON 2003 DECISION
 (\$000)

Line No.	Particulars	(2)	Fort Nelson Costs (3)
	(1)		
1	Direct Fort Nelson Costs	\$242	
2			
3	CustomerWorks (\$54.54 x 2,122 customers in 2003)	<u>116</u>	
4			
5	Total Fort Nelson Direct Costs		\$358
6			
7			
8	2003 Gross O&M per BCUC Decision dated Feb. 4, 2003	\$176,915	
9			
10	Deduct Common Costs accounted for as Direct Costs:		
11			
12	Vehicles	(398)	
13	Distribution	(34,972)	
14	Network Development & Operations Support	(12,480)	
15	CustomerWorks	(42,000)	
16			
17	Common O&M costs for allocation	<u>\$87,065</u>	
18			
19	Fort Nelson Allocation %	0.40%	
20			
21	Costs Allocated to Fort Nelson		<u>348</u>
22			
23	2003 Fort Nelson Gross O&M		706
24			
25	Add estimated 2004 inflation at 1.9%		<u>13</u>
26			
27	2004 Fort Nelson Gross O&M		719
28			
29	less Overheads Capitalized at 16%		<u>(115)</u>
30			
31	2004 Fort Nelson Net O&M		<u><u>\$604</u></u>

TERASEN GAS INC.
FORT NELSON SERVICE AREA
PROPERTY TAXES
FOR THE YEAR ENDING DECEMBER 31, 2004

Property taxes are levied against the Company by Provincial, Municipal and other local governments. A property tax deferral account is requested to collect all variances from the forecast amount included in rates.

1. Property Tax Expense

1% Tax: The 1% tax in lieu of general municipal taxes ("1% tax") is calculated based on the amount of revenues collected within municipal boundaries multiplied by 1%. Payments of the 1% tax to Fort Nelson are lagged relative to increases and decreases in revenues due to provisions in the Local Government Act.

General, School and Other: Property taxes include general, school and other property taxes. For 2004, assessed values are estimated using 2003 actual assessments. The assessments for stations are anticipated to show a general market increase of 1%, and 2% is expected for the Fort Nelson office. These increases are primarily related to expected increases in land values.

Transmission asset assessments are expected to increase by 5% per year for 2004, 2005 and 2006 (based on the outcome of legislated pipeline rate negotiations with the BC Assessment Authority that concluded in 2003). Annual reported additions to distribution assets are expected to be \$34,300, plus a general inflation increase of 2% to the existing assets.

Mill rates for general property tax rates are forecast to remain the same as in 2003. The provincial government sets school tax rate and no change is expected in the 2004. Other property taxes are collected through property taxes on behalf of other taxation authorities for services provided. Other taxes include such entities as regional districts, hospital districts, BC Assessment, Municipal Finance Authority, and specified area charges. These

are expected to increase by 1% in 2004.

2. B.C. Corporation Capital Tax (CCT)

Corporate Capital Tax Expense: On July 30, 2001, the Ministry of Finance of the Province of British Columbia announced that it would phase out the corporate capital tax on non-financial institutions over two years. With the elimination of the CCT by September 1, 2002, no provision for CCT expense has been made for 2004.

TERASEN GAS INC. - FORT NELSON SERVICE AREA
PROPERTY AND SUNDRY TAXES
FOR THE YEAR ENDING DECEMBER 31, 2004
(\$000)

Section C
Tab 10
Page 3

Line No.	Particulars (1)	2002 Normal (2)	2004		Reference (5)
			Total Expenses (3)	Revised Revenue, Total Expenses (4)	
1	Property Taxes				
2					
3	1% in Lieu of General Municipal Tax	\$20	\$31	\$31	
4					
5	General, School and Other	64	67	67	
6					
7	Total Property Tax	84	98	98	- Tab 2, Page 2
8					
9	B.C. Corporation Capital Tax	4	0	0	- Tab 2, Page 2
10					
11	Total Property and Sundry Taxes	\$88	\$98	\$98	

TERASEN GAS INC.
FORT NELSON SERVICE AREA
DEPRECIATION AND AMORTIZATION EXPENSE
FOR THE YEAR ENDING DECEMBER 31, 2004

Depreciation and amortization expense for 2004 is forecast based on actual 2002 closing plant and deferral account balances, and projected 2003 additions or changes to the account balances. BCUC approved depreciation rates and amortization periods are used for all accounts.

Terasen Gas has implemented changes to the depreciation rates as approved in BCUC Order G-7-03. The Fort Nelson Service Area plant accounts are a subset of the Terasen Gas plant accounts. Fort Nelson plant balances include both direct and allocated costs. Since Fort Nelson shares the plant account structure as the rest of Terasen Gas, the Company seeks approval in this Application for the same rate changes to the measurement and computer software accounts consistent with Terasen Gas' other three service areas.

TERASEN GAS INC. - FORT NELSON SERVICE AREA
DEPRECIATION AND AMORTIZATION EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 2004
(\$000)

Section C
Tab 11
Page 2

Line No.	Particulars	2002 Normal	Year Ending 12/31/2004 Forecast	Difference	Reference
	(1)	(2)	(3)	(4)	(5)
1	<u>Depreciation Provision</u>				
2	Gas Plant Held for Future Use	\$0	\$0	\$0	
3	Manufactured Gas Production Plant	0	0	0	
4	Transmission Plant	25	29	4	
5	Distribution Plant	97	114	17	
6	General Plant	104	86	(18)	
7	Unclassified Plant	11	0	(11)	
8	Intangible Plant	0	0	0	
9	Total Depreciation	<u>237</u>	<u>229</u>	<u>(\$8)</u>	
10					
11					
12	Less - Amortization of Contributions in Aid of Construction	(47)	(39)	8	
13					
14	- Depreciation Charged to Construction	<u>0</u>	<u>0</u>	<u>0</u>	
15		<u>190</u>	<u>190</u>	<u>0</u>	
16					
17	<u>Amortization Expense</u>				
18	Amortization of Deferred Charges	0	1	1	
19					
20		<u>0</u>	<u>1</u>	<u>1</u>	
21					
22	Total	<u>\$190</u>	<u>\$191</u>	<u>\$1</u>	- Tab 2, Page 2

TERASEN GAS INC
FORT NELSON SERVICE AREA
OTHER REVENUES
FOR THE YEAR ENDING DECEMBER 31, 2004

The items within Other Revenues are the, Late Payment Charges, Revenue from Service Work and NSF cheque revenue.

1. **Late Payment Charges**

Late payment charges are 1.5% of the forecast accounts receivables overdue balance. The 2004 forecast is based on the 2003 accounts receivables as a percentage of the 2003 billed revenue, resulting in approximately 0.4% of the residential and commercial revenue forecast for 2004.

2. **Revenue from Service Work**

This revenue is generated primarily from connections charges and transfer fees. Customer additions are levied an \$85 charge per service. As well, account transfers are assessed a \$25 fee.

3. **NSF Cheque**

Revenue from NSF cheques is estimated at one per month times a \$20 per cheque charge.

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 OTHER OPERATING REVENUE
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Section C
 Tab 12
 Page 2

Line No.	Particulars (1)	2002 Normal (2)	2004 Forecast (3)	Change (4)	Reference (5)
1	<u>Other Operating Revenue</u>				
2	Late Payment Charge	\$16	\$16	\$0	
3					
4	Revenue from Service Work	12	12	0	
5					
6	Rent from Gas Plant	0	0	0	
7					
8	Rent from Equipment on Customer Premises	0	0	0	
9					
10	NGV Tank Rental	0	0	0	
11		<u>28</u>	<u>28</u>	<u>0</u>	
12					
13	Other Income	0	0	0	
14					
15	Miscellaneous Revenue/Expense				
16					
17	Appliance Financing	0	0	0	
18	Other	0	0	0	
19					
20	Total Other Operating Revenue	<u>\$28</u>	<u>\$28</u>	<u>\$0</u>	- Tab 2, Page 2

TERASEN GAS INC.
FORT NELSON SERVICE AREA
INCOME TAXES
FOR THE YEAR ENDING DECEMBER 31, 2004

Income tax expense is comprised of the Federal Large Corporations Tax and income taxes accounted for following the taxes payable method.

The 2004 income tax calculations are based on the forecast tax rates.

1. LARGE CORPORATIONS TAX

LCT is calculated based on taxable capital determined pursuant to the applicable sections of the *Income Tax Act* at rates of 0.200% for 2004. LCT is reduced by the Federal corporate surtax calculated in accordance with the applicable provisions of the *Income Tax Act*.

2. 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 2004, the combined corporate income tax rate is forecast to be 35.62%.

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 INCOME TAXES / REVENUE DEFICIENCY
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Line No.	Particulars	2004				Change	Reference
		2002 Normal	Present Rates	Revised Revenue	Total		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1							
2	CALCULATION OF INCOME TAXES						
3	Earned Return	\$167	\$271	\$58	\$329	\$162	- Tab 2, Page 2
4	Deduct - Interest on Debt	(189)	(202)	0	(202)	(13)	- Tab 13, Page 3
5	Add - Non-Tax Deductible Expense (Net)	5	6	0	6	1	- Tab 13, Page 4
6							
7	Accounting Income After Tax	(17)	75	58	133	150	
8	Deduct: Timing Differences	65	13	0	13	(52)	- Tab 13, Page 4
9	Add: Large Corporation Tax	8	7	(1)	6	(2)	- Tab 13, Page 6
10							
11	Taxable Income After Tax	<u>\$56</u>	<u>\$95</u>	<u>\$57</u>	<u>\$152</u>	<u>\$96</u>	
12							
13	Income Tax Rate (Current Tax)	39.620%	35.620%	35.620%	35.620%	-4.000%	
14	1 - Current Income Tax Rate	60.380%	64.380%	64.380%	64.380%	4.000%	
15							
16	Taxable Income Before Income Tax (L10:L13)	\$87	\$147	89	236	149	
17	Add: Amount Required to Provide for						
18	Deferred Income Tax	0	0	0	0	0	
19							
20	Taxable Income (L10:L13)	<u>\$87</u>	<u>\$147</u>	<u>\$89</u>	<u>\$236</u>	<u>\$149</u>	
21							
22	Income Tax						
23	Current	\$34	\$52	32	\$84	\$50	
24	Deferred Income Tax (Fort Nelson)	0	0	0	0	0	
25	Large Corporation Tax	8	7	(1)	6	(2)	- Tab 13, Page 6
26							
27							
28	Total	<u>\$42</u>	<u>\$59</u>	<u>\$31</u>	<u>\$90</u>	<u>\$48</u>	- Tab 2, Page 2
29							
30							
31	REVENUE DEFICIENCY						
32	Earned Return			\$58	\$329		- Tab 2, Page 2
33	Add - Income Taxes			31	90		- Tab 2, Page 2
34	Deduct - Utility Income Before Taxes,						
35	Present Rates			0	(330)		- Tab 2, Page 2
36	Corporate Capital Tax			0	0		- Tab 10, Page 2
37							
38	Deficiency After Corporate Capital Tax			<u>\$89</u>	<u>\$89</u>		

TERASEN GAS INC. - FORT NELSON SERVICE AREA
INTEREST EXPENSE FOR UTILITY PURPOSES
FOR THE YEAR ENDING DECEMBER 31, 2004
(\$000)

Section C
Tab 13
Page 3

Line No.	Particulars	2002 Normal	2004	Change	Reference
	(1)	(2)	(3)	(4)	(4)
	PRESENT RATES				
1	Utility Rate Base	<u>\$4,244</u>	<u>\$4,270</u>	<u>(\$26)</u>	- Tab 2, Page 1
2					
3	Weighted average embedded cost of debt				
4	in the capital structure				
5	Long-term debt	4.010%	4.435%	-0.425%	- Tab 14, Page 2
6	Unfunded debt	<u>0.450%</u>	<u>0.306%</u>	<u>0.144%</u>	- Tab 14, Page 2
7					
8		<u>4.460%</u>	<u>4.741%</u>	<u>-0.281%</u>	
9					
10	Interest expense for income taxes				
11	related to utility operations				
12	(rate base x weighted average				
13	embedded cost of debt)	<u>\$189</u>	<u>\$202</u>	<u>(\$13)</u>	
14					
15					
16	REVISED RATES				
17	Utility Rate Base		<u>\$4,271</u>		- Tab 2, Page 1
18					
19	Weighted average embedded cost of debt				
20	in the capital structure				
21	Long-term debt		4.435%		- Tab 14, Page 2
22	Unfunded debt		<u>0.306%</u>		- Tab 14, Page 2
23					
24			<u>4.741%</u>		
25					
26	Interest expense for income taxes				
27	related to utility operations				
28	(rate base x weighted average				
29	embedded cost of debt)		<u>\$202</u>		

TERASEN GAS INC. - FORT NELSON SERVICE AREA
NON-TAX DEDUCTIBLE EXPENSES (NET) AND TIMNG DIFFERENCES
FOR THE YEAR ENDING DECEMBER 31, 2004
(\$000)

Section C
Tab 13
Page 4

Line No.	Particulars (1)	2002 Normal (2)	2004 Forecast (3)	Change (4)	Reference (5)
1	<u>Items of a Permanent Nature Increasing Taxable Income</u>				
2					
3	Non-tax deductible expenses	\$5	\$5	\$0	
4					
5	Amortization of Deferrals less Deferred Interest	0	1	1	- Tab 11, Page 2
6					
7					
8	<u>Items of a Permanent Nature Decreasing Taxable Income</u>				
9					
10	Amortization of non-tax deductible financing expenses	0	0	0	
11	Plant removal costs	0	0	0	
12					
13	Total Permanent Differences	<u>\$5</u>	<u>\$6</u>	<u>\$1</u>	
14					
15					
16	<u>TIMING DIFFERENCES ADJUSTMENT</u>				
17					
18	Depreciation	\$190	\$190	\$0	- Tab 11, Page 2
19	Less: Depreciation Charged to Construction	0	0	0	
20	Amortization of tax allowable financing expenses	0	0	0	
21	Amortization of debt issue expenses for accounting	6	6	0	
22	Short Term Debt Issue Costs	0	0	0	
23	Debt issue costs / discounts for tax purposes	(5)	(5)	0	
24	Capital cost allowance	(146)	(143)	3	- Tab 13, Page 5
25	Cumulative eligible capital allowance	0	0	0	
26	Expenses charged to construction, claimed for tax purposes	0	(43)	(43)	
27	Bad Debt Provision	12	0	(12)	
28	Pension Reserve	8	8	0	
29					
30	Total Timing Differences	<u>\$65</u>	<u>\$13</u>	<u>(\$52)</u>	

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 CAPITAL COST ALLOWANCE
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Section C
 Tab 13
 Page 5

Class	CCA Rate	UCC	Opening	Net	UCC	CCA	UCC
(1)	%	01/01/2004	Adjustments	Additions	before	(7)	12/31/2004
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	4%	\$2,320	(\$1)	\$296	\$2,615	\$99	\$2,516
2	6%	473	0	0	473	28	445
3	5%	22	0	0	22	1	21
6	10%	2	0	0	2	0	2
8	20%	21	0	0	21	4	17
9	25%	0	0	0	0	0	0
10	30%	34	0	0	34	10	24
10	100.0%	0	0	0	0	0	0
12	100.0%	0	0	0	0	0	0
13	(Manual)	7	0	0	7	1	6
14	(Manual)	0	0	0	0	0	0
22	50%	0	0	0	0	0	0
29	100%	0	0	0	0	0	0
38	30%	0	0	0	0	0	0
39	25%	0	0	0	0	0	0
	Total	<u>\$2,879</u>	<u>(\$1)</u>	<u>\$296</u>	<u>\$3,174</u>	<u>\$143</u>	<u>\$3,031</u>

TERASEN GAS INC. - FORT NELSON SERVICE AREA
CONTINUITY OF CAPITAL COST ALLOWANCE
FOR THE YEAR ENDED DECEMBER 31, 2003

Section C
Tab 13
Page 5.1

Class	CCA Rate %	UCC 01/01/2003	Opening Adjustments	Net Additions	UCC before Allowance	CCA	UCC 12/31/2003
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	4%	\$2,245	\$0	\$168	\$2,413	\$93	\$2,320
2	6%	503	0	0	503	30	473
3	5%	23	0	0	23	1	22
6	10%	2	0	0	2	0	2
8	20%	9	(2)	17	24	3	21
9	25%	0	0	0	0	0	0
10	30%	49	0	0	49	15	34
10	100.0%	0	0	0	0	0	0
12	100.0%	0	0	0	0	0	0
13	(Manual)	8	0	0	8	1	7
14	(Manual)	0	0	0	0	0	0
22	50%	0	0	0	0	0	0
29	100%	0	0	0	0	0	0
38	30%	0	0	0	0	0	0
39	25%	0	0	0	0	0	0
	Total	<u>\$2,839</u>	<u>(\$2)</u>	<u>\$185</u>	<u>\$3,022</u>	<u>\$143</u>	<u>\$2,879</u>

TERASEN GAS INC. - FORT NELSON SERVICE AREA
 CALCULATION OF LARGE CORPORATION TAX
 AND CORPORATE CAPITAL TAX
 FOR THE YEAR ENDING DECEMBER 31, 2004
 (\$000)

Line No.	Particular (1)	Reference (2)	2004		Change (6)	
			2002 Normal (3)	Present Rates (4)		Revised Rates (5)
1	<u>Large Corporation Tax</u>					
2	Utility Capital (Line 22)		\$3,915	\$4,283	\$4,284	\$369
3	Add: Security Deposits		121	121	121	0
4	Long Term Construction Advances		56	56	56	0
5	Deferred Income Tax		0	0	0	0
6	Work in Progress Attracting AFUDC		57	57	57	0
7	Sub-total		4,149	4,517	4,518	369
8	Utility Portion of \$10,000 Deduction					
9	(Line 28 x \$10,000) or (Line 28 x \$50,000)		(17)	(90)	(90)	(73)
10	Taxable Capitalization		<u>\$4,132</u>	<u>\$4,427</u>	<u>\$4,428</u>	<u>\$296</u>
11						
12	Large Corporation Tax Rate		0.225%	0.200%	0.200%	-0.025%
13						
14	Large Corporation Tax		\$9	\$9	\$9	\$0
15	Less: Surtax	1.12%	(1)	(2)	(3)	(2)
16	Commission Adjustment		0	0	0	0
17	Large Corporation Tax		<u>\$8</u>	<u>\$7</u>	<u>\$6</u>	<u>(\$2)</u>
18						
19	Net Plant in Service, Ending		\$4,520	\$4,648	\$4,648	\$128
20	All Other Ending Rate Base Items		(605)	(365)	(364)	241
21	Less: GCRA		0	0	0	0
22	Fort Nelson Utility Capital		3,915	4,283	4,284	369
23						
24	All Other BC Gas Utility Capital		<u>\$2,348,050</u>	<u>\$2,438,580</u>	<u>\$2,442,446</u>	<u>\$94,396</u>
25						
26	Total Capital		<u>\$2,351,965</u>	<u>\$2,442,863</u>	<u>\$2,446,730</u>	<u>\$94,765</u>
27						
28	Proportion of Utility Capital to Total Capital		<u>0.17%</u>	<u>0.18%</u>	<u>0.18%</u>	<u>0.01%</u>
29						
30	<u>Corporate Capital Tax</u>					
31	Total Paid Up Capital		\$4,149	\$4,517	\$4,518	\$369
32	Add: Accrued Interest Payable		0	0	0	0
33			4,149	4,517	4,518	369
34	Corporate Capital Tax Rate		0.1%	0.0%	0.0%	-0.1%
35						
36	Corporate Capital Tax		<u>\$4</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$4)</u>

TERASEN GAS INC
FORT NELSON SERVICE AREA
RETURN ON CAPITAL
FOR THE YEAR ENDING DECEMBER 31, 2004

The Fort Nelson 2004 capital structure is the same as the Terasen Gas Inc. capital structure as filed in the Multi-Year Performance Based Rate Plan for 2004 – 2008 Application, Section H, Tab 14. The Fort Nelson Service Area and the other three service areas (Lower Mainland, Inland and Columbia) share the same debt and equity percentages for its capital structure: 67% debt and 33% equity.

LONG-TERM DEBT

The Fort Nelson Service Area average embedded cost of long-term debt is 7.472% and the capital structure is 59.35% of rate base as per the Multi-Year Performance Based Rate Plan for 2004 – 2008 Application, Section H, Tab 14, Page 2.

UNFUNDED DEBT

The Fort Nelson Service Area unfunded debt cost is 4.00% and the capital structure is 7.65% of rate base as per the Multi-Year Performance Based Rate Plan for 2004 – 2008 Application, Section H, Tab 14, Page 2.

COMMON EQUITY

The calculations in this Application have made use of the currently forecast ROE of 9.00% for 2004. The common equity component of the capital structure is 33%. The 2004 rates applied for in this Application will be adjusted for any changes arising from the BCUC ROE adjustment mechanism, which will be determined by the Commission in December 2003 for the 2004 allowed ROE.

