



TERASEN GAS INC.  
2004 – 2007 PERFORMANCE BASED RATE  
SETTLEMENT AGREEMENT

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2005 ANNUAL REVIEW  
November 10, 2005



# AGENDA REVIEW

**Scott Thomson**

# AGENDA - TGI

- **Agenda**
  - **Welcome / Introduction**
  - **Terasen Opening Remarks & Report**
    - 2005 Priorities
    - 2006 Priorities
  - **2005 Summary Results**
  - **Gas Commodity and Midstream Cost Outlook**
  - **2006 PBR Cost Drivers**
    - Customers, Volumes and Margin
    - Formula Driven Rate Base and Plant Additions
    - Formula O&M Expenses
    - Vehicle Lease
  - **2006 Revenue Requirements and Rate Outlook**
    - Revenue Requirement Results
    - Overall Customer Rate Impacts
- **Scott Thomson**
  - **Philip Nakoneshny**
  - **Randy Jespersen**
  
  - **Scott Thomson**
  - **David Bennett**
  
  - **Hans Mertins**
  - **Tom Loski**
  - **Tom Loski**
  - **Tom Loski**
  
  - **Tom Loski**
  - **Tom Loski**

## ■ Other Information Pertaining to the TGI 2004-2007 PBR Settlement

- Customer Care & SQI's
  - 5 Year Major Capital Plan
  - Code of Conduct & Transfer Pricing Policy
  - CEO/CFO Certification (M152-109/111)
- Danielle Wensink
  - Dwain Bell
  - Doug Cruickshank
  - Doug Cruickshank

## ■ Conclusions

# **Welcome/Introduction**

**Philip Nakoneshny**



# **Terasen Gas Opening Remarks**

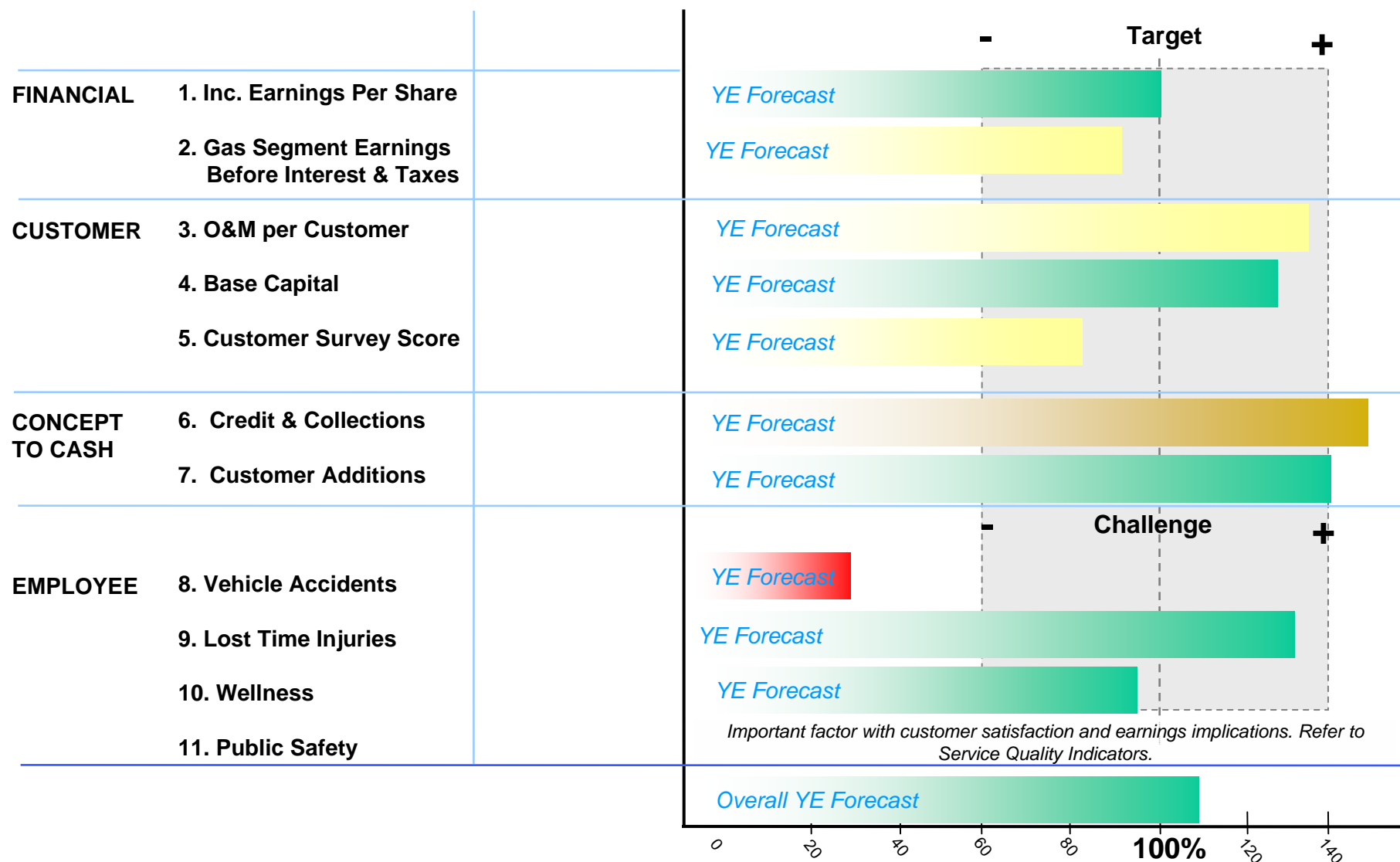
**Randy Jespersen  
President**

## Terasen Gas 2005 Priorities

- Continued Focus on Operational Excellence
  - Safety, Customer Satisfaction, Cost Containment, Environmental Performance
  
- Cost of Capital Hearing
  - Improved ROE and increased equity thickness
  
- Increased Market Share of Multi-Family
  
- Improved Employee Engagement
  
- TGVI Settlement Renegotiation
  
- Advance Vancouver Island, Whistler and other Projects

# Terasen Gas Group 2005 Scorecard

## September 2005 Results





## Terasen Gas 2006 Priorities

- Continued Focus on Operational Excellence
  - Safety, Customer Satisfaction, Cost Containment, Environmental Responsibility
  
- Energy Policy
  - Multi energy association push for integrated energy policy
    - Supply and infrastructure development
    - Siting approvals
    - Clearer price signals and market choice/response
    - Clarity on Kyoto/efficiency policy implementation
  - BCH/Fortis coordination (DSM, other)
  - Comparable rate design for gas and electric in B.C.

## Terasen Gas 2006 Priorities (cont'd)

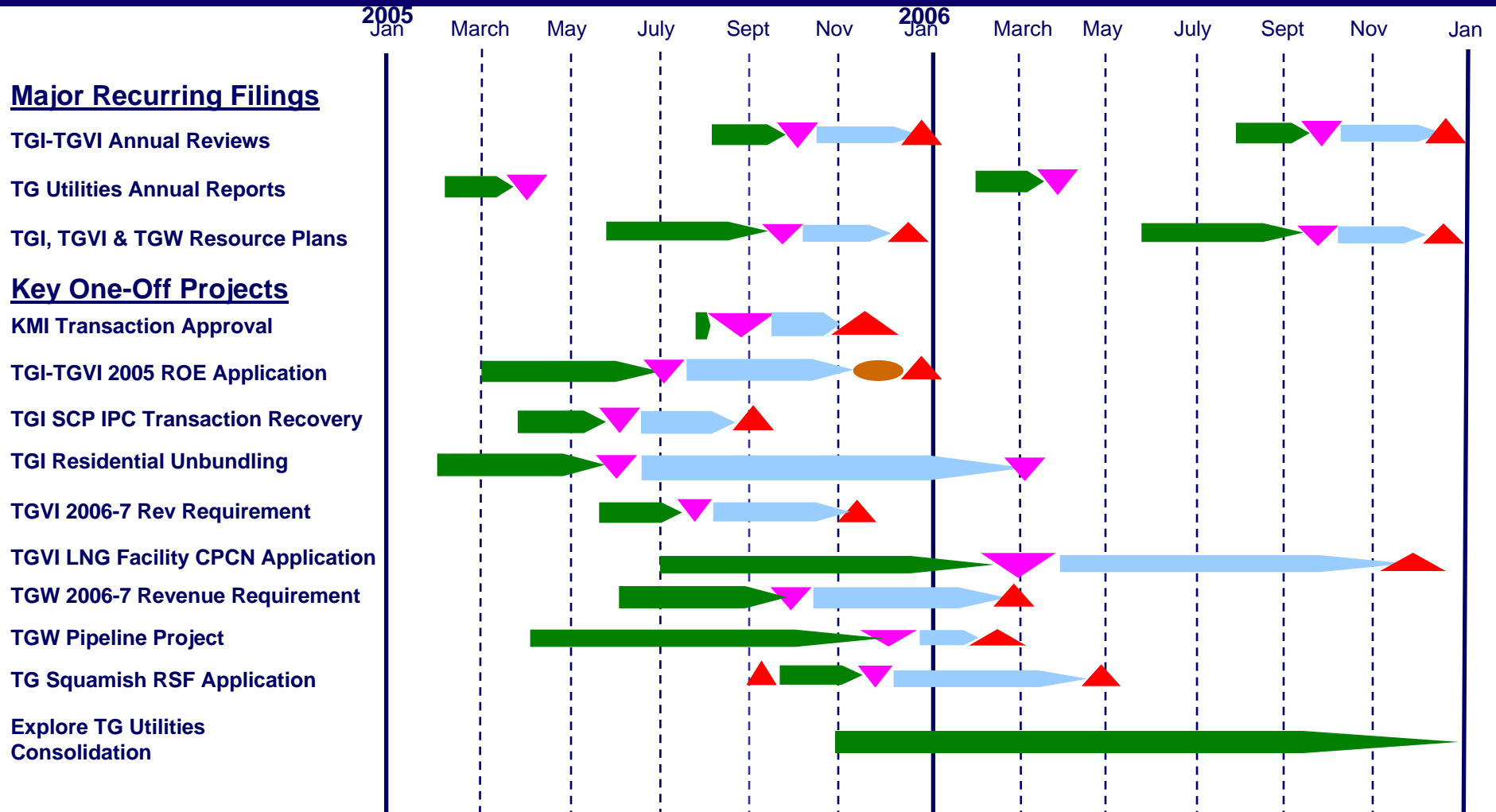
- Successful IBEW Contract Negotiations
  
- Project Development
  - Whistler Pipeline CPCN
  - District Energy Utilities (Whistler, East False Creek)
  - LNG Storage or ?
  - Other
  
- Increase Market Share of Multi-Family units
  
- Financial Performance
  
- Expedient Integration with KMI
  - Practices and Philosophies
  - Best Practice Sharing




# 2005 Summary Results

**Scott Thomson**

# Regulatory Projects in 2005 & 2006



## LEGEND

 Application Preparation  
 Oral Hearing

 Filing  
 Decision

 Review & Decision Process

## Customer Additions and Capital Expenditures

	<u>2005 Test Yr</u>	<u>2005 Projected</u>
■ Customer Additions	10,144	12,676
■ Customers – End of Year	797,072	799,696
■ Average Customer Count	790,385	791,647
■ Capital Expenditures	\$90,611	\$77,390

- Due to productivity improvements made possible by the integration activities of TGI and TGVI under the PBR settlement, Terasen Gas will distribute \$7.3 million to customers in 2006 via a rider.

# **Gas Commodity & Midstream Cost Outlook**

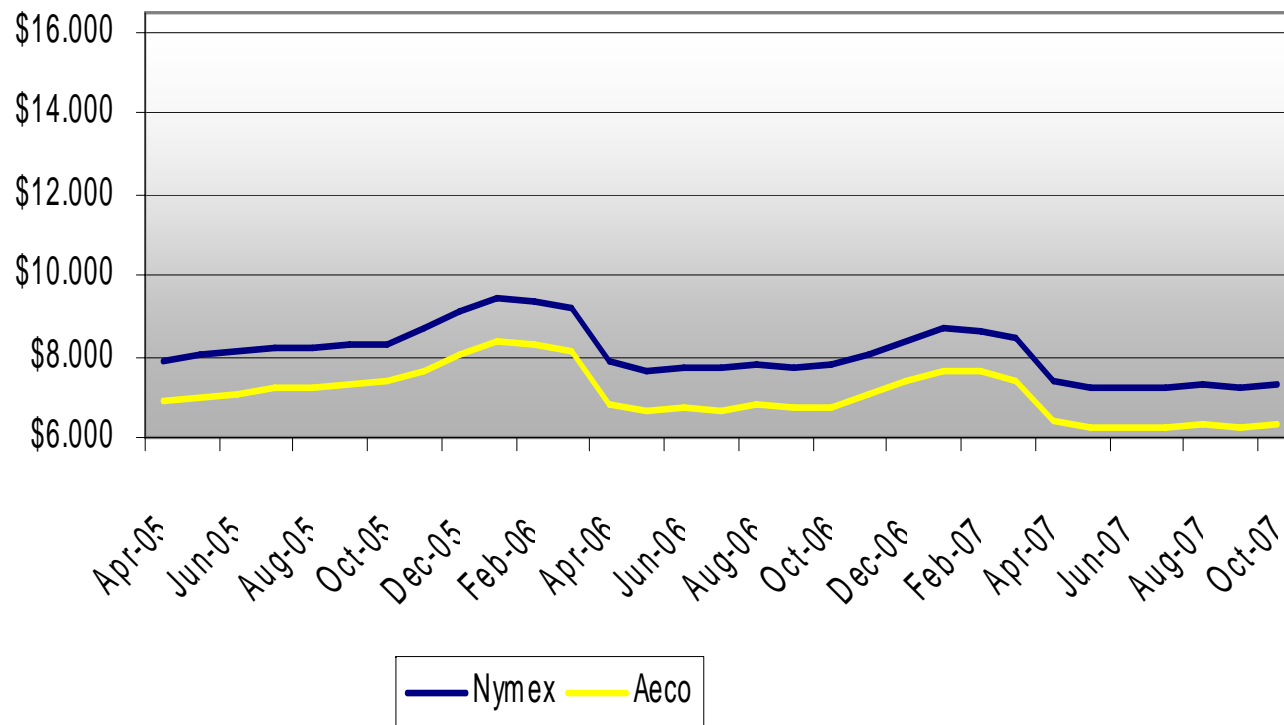
**David Bennett**

- Market Overview and Impact on Terasen Rates
  - Commodity
  - Midstream
  
- Gas Supply Activities to Mitigate Cost Pressures



# Forward Prices (March 3, 2005)

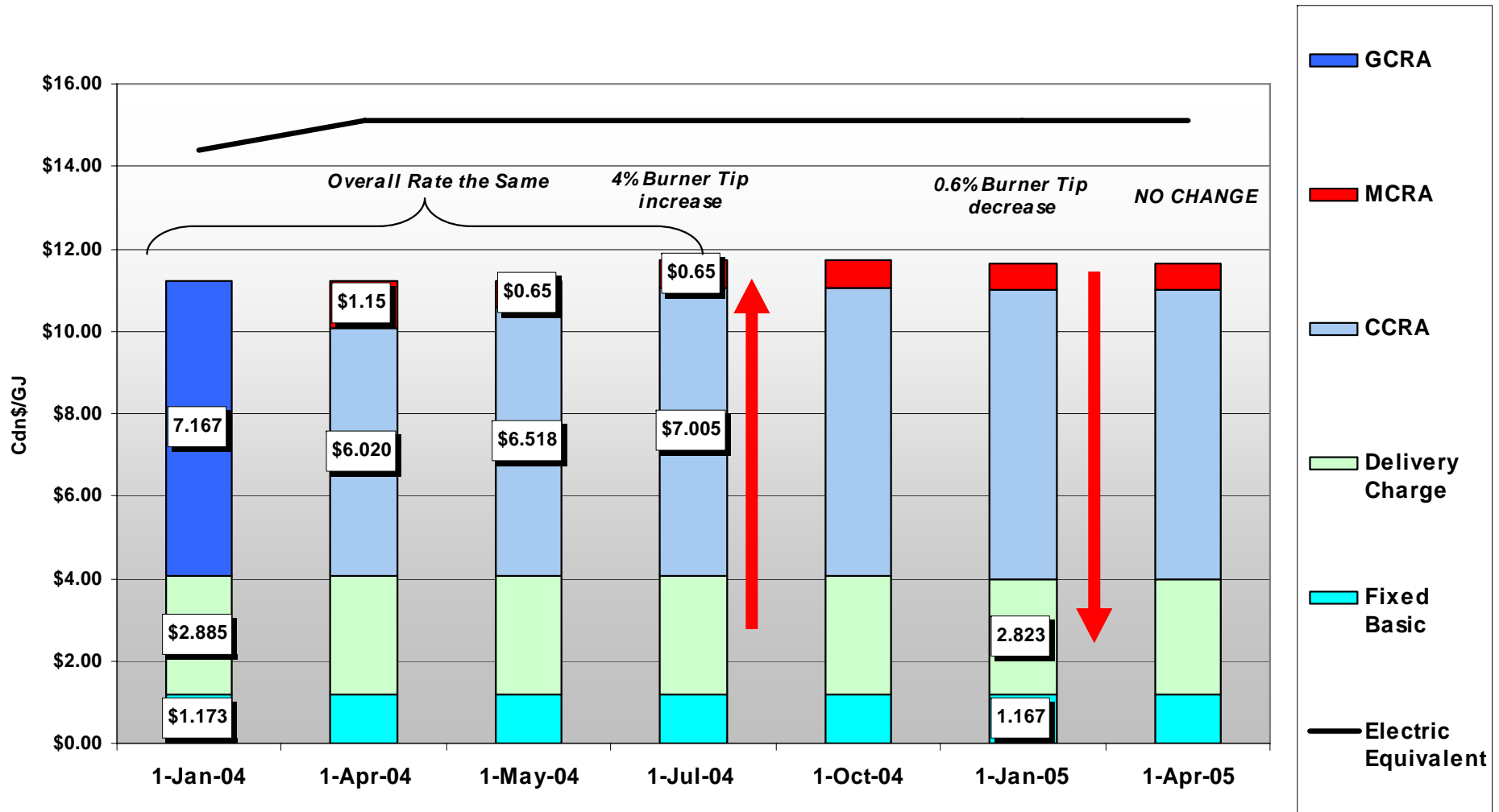
Forward Prices as of March 3, 2005 (\$Cdn/GJ)



**Key factors affecting prices:**

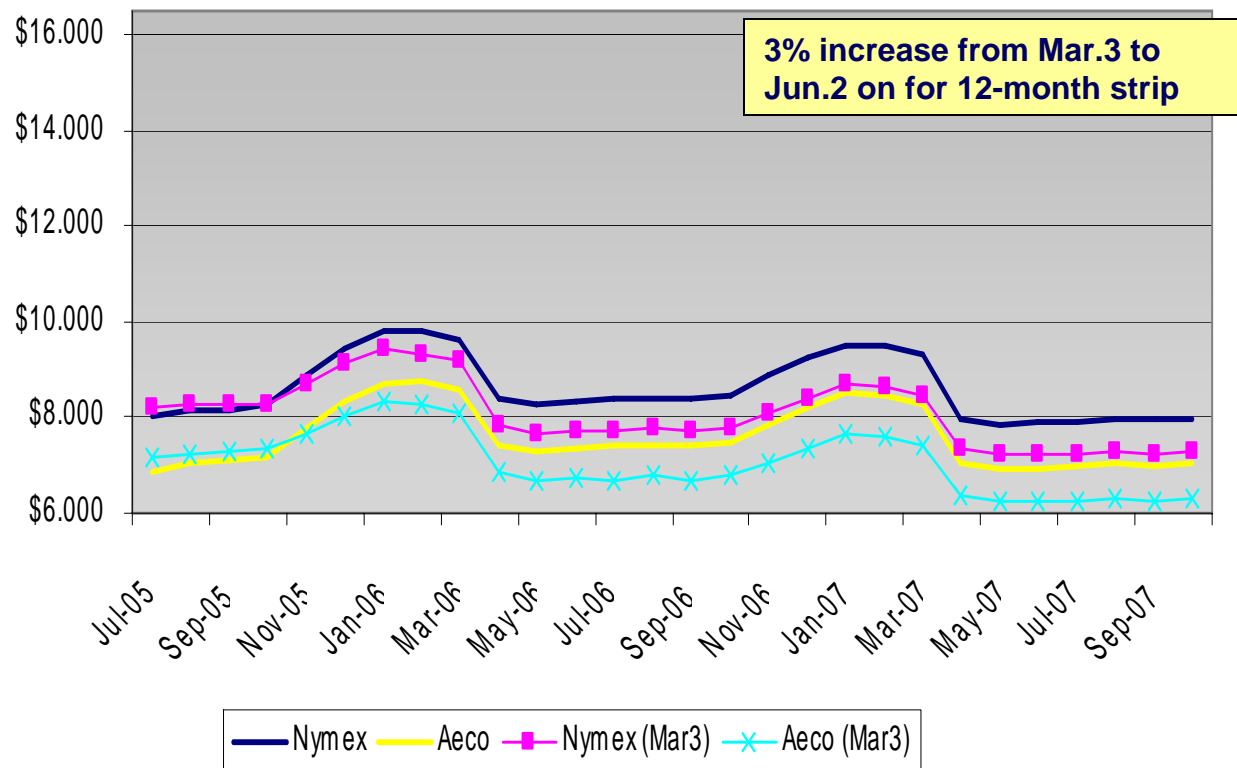
1. Anticipation of warmer summer weather and low hydro in PNW
2. Strength in crude oil and its derivative products (i.e. gasoline and heating oil)

# TGI Lower Mainland Residential Rates (as of March 3)



# Forward Prices on June 2, 2005

**Forward Prices as of June 2, 2005 (\$Cdn/GJ)**



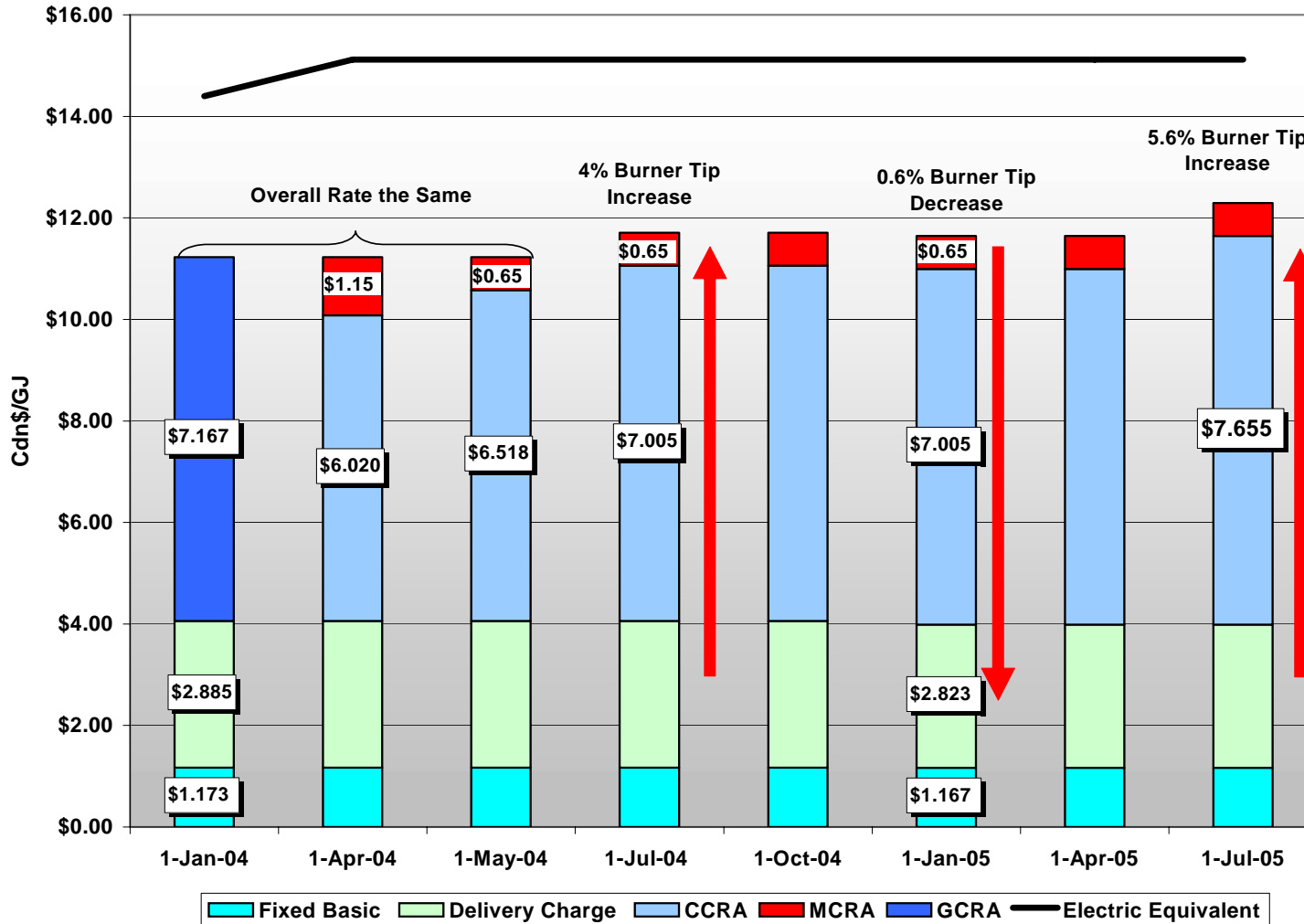
**Key factors affecting 2005 prices:**

1. Weather
2. Crude oil and its derivative products (i.e. gasoline and heating oil)

**Significant changes from Q1:**

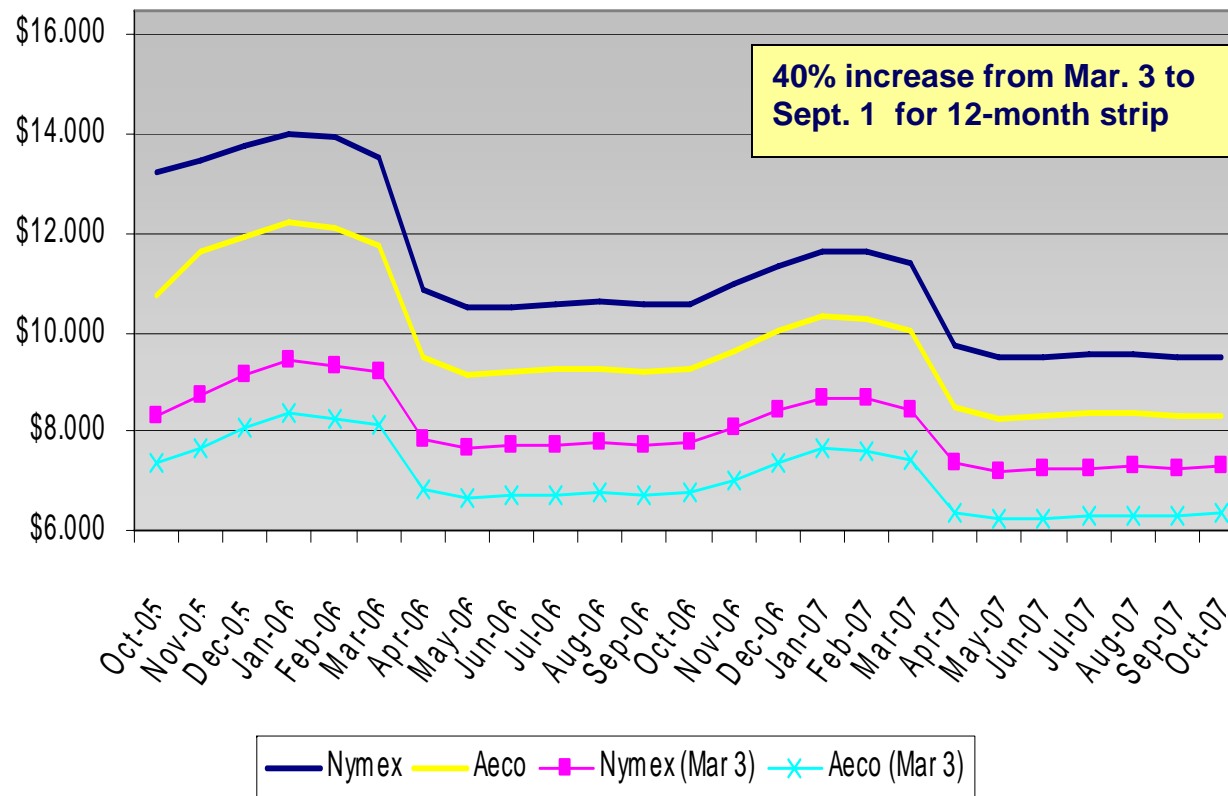
1. Improved hydro situation although still below average.
2. Crude oil prices extremely volatile in Q2, reaching a new record high on April 1 and softening \$10 in May.
3. Natural gas futures followed crude oil, declining over \$1.60 US/MMBtu between April and May.

# TGI Lower Mainland Residential Rates (as of June 2005)



# Forward Prices on September 1, 2005

Forward Prices as of September 1, 2005 (\$Cdn/GJ)



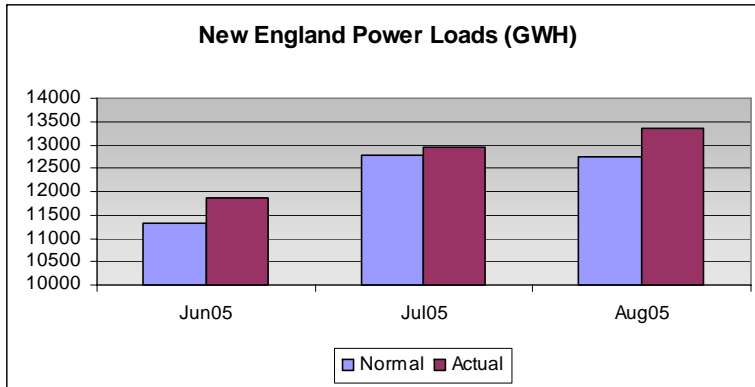
**Key factors affecting prices:**

1. Weather
2. Crude oil and its derivative products (i.e. gasoline and heating oil)

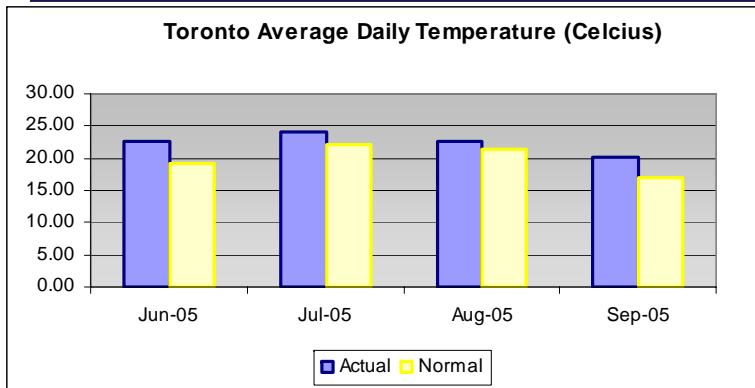
**Significant changes from Q2:**

1. Hurricane Katrina
2. Erosion of natural gas storage inventories.
3. Unprecedented price volatility in the futures market (\$2 daily price fluctuation in Nymex gas prices)

# Summer 2005 Higher Demand / Lower Supply

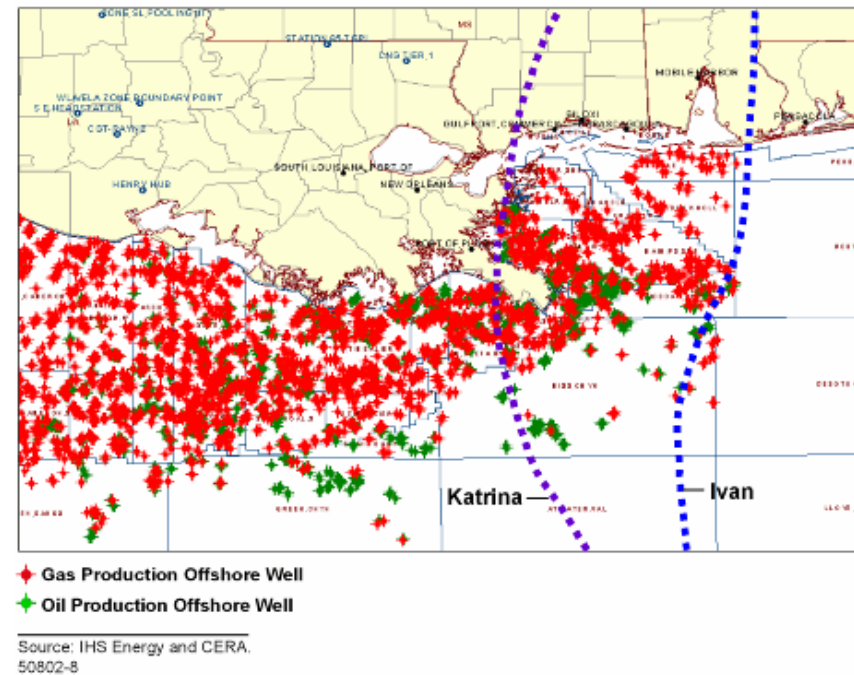


**Power Loads 4% higher than Normal**



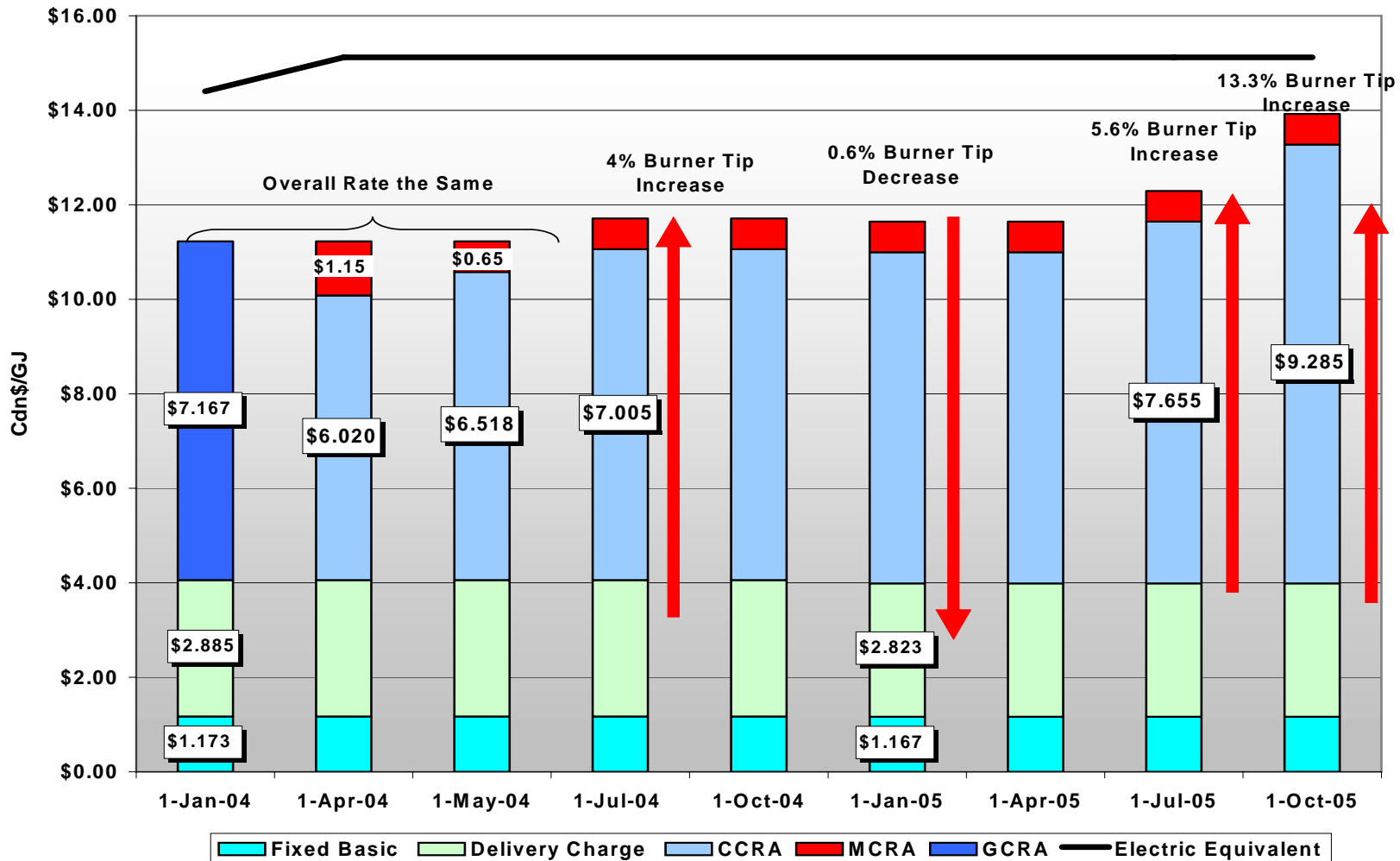
**Temperatures 12% higher than Normal**

**Figure 1  
Hurricane Paths and Gulf of Mexico Production**



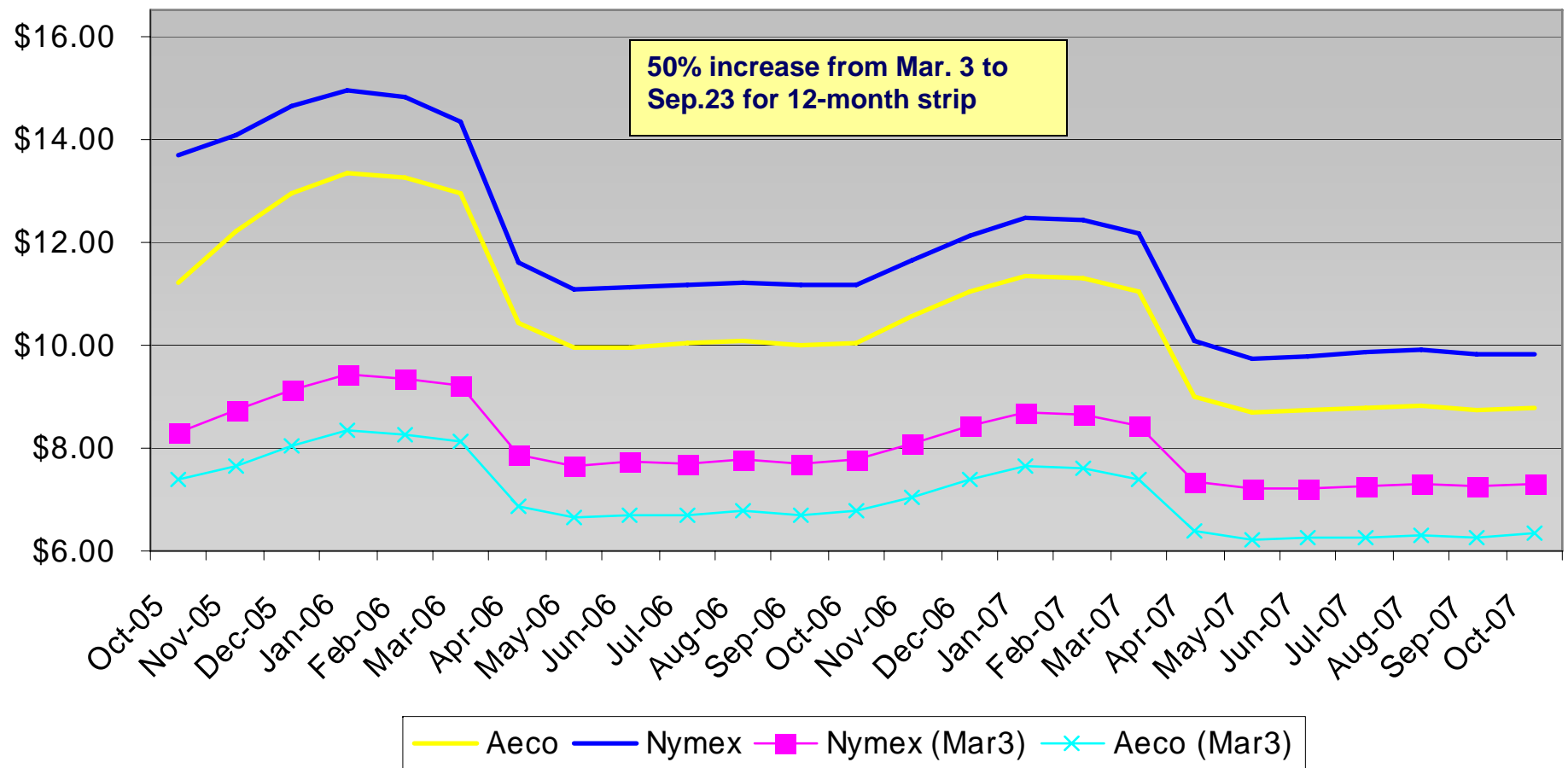
**Over 80% of Gulf Gas Production Cut  
(20% of North American Supply)**

# TGI Lower Mainland Residential Rates (as of September 1, 2005)



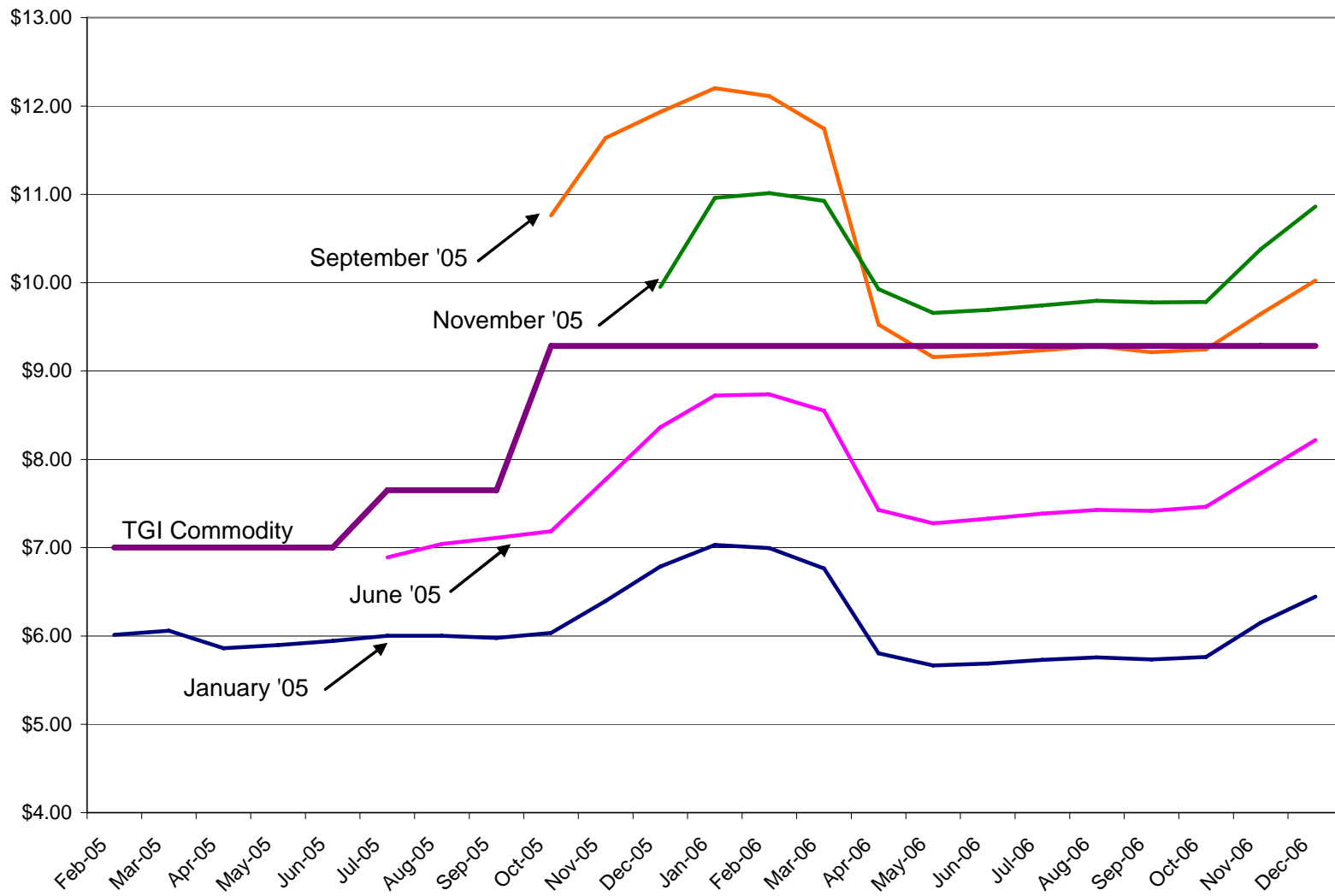
# Prices Rose Again after Rita

**Forward Prices as of September 23, 2005 (\$Cdn/GJ)**



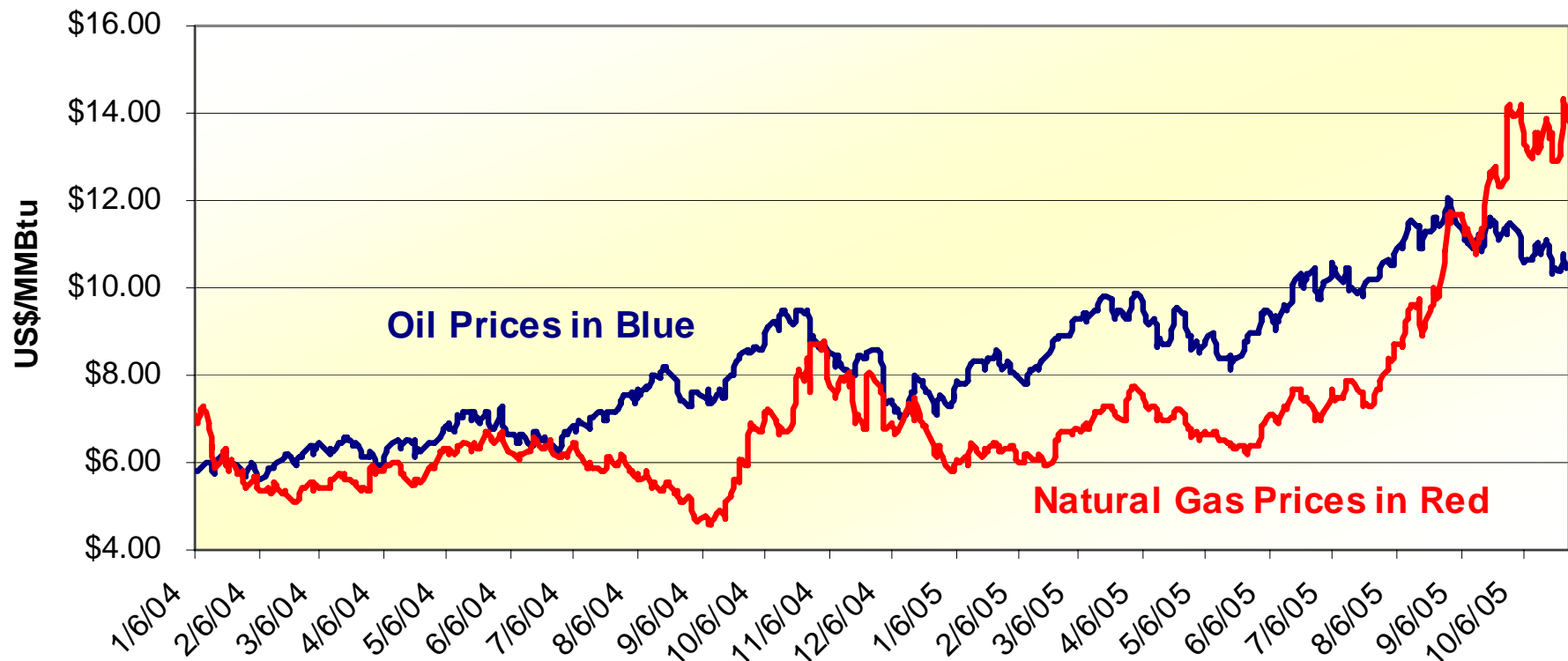


# Natural Gas Price Impact on TGI Rates

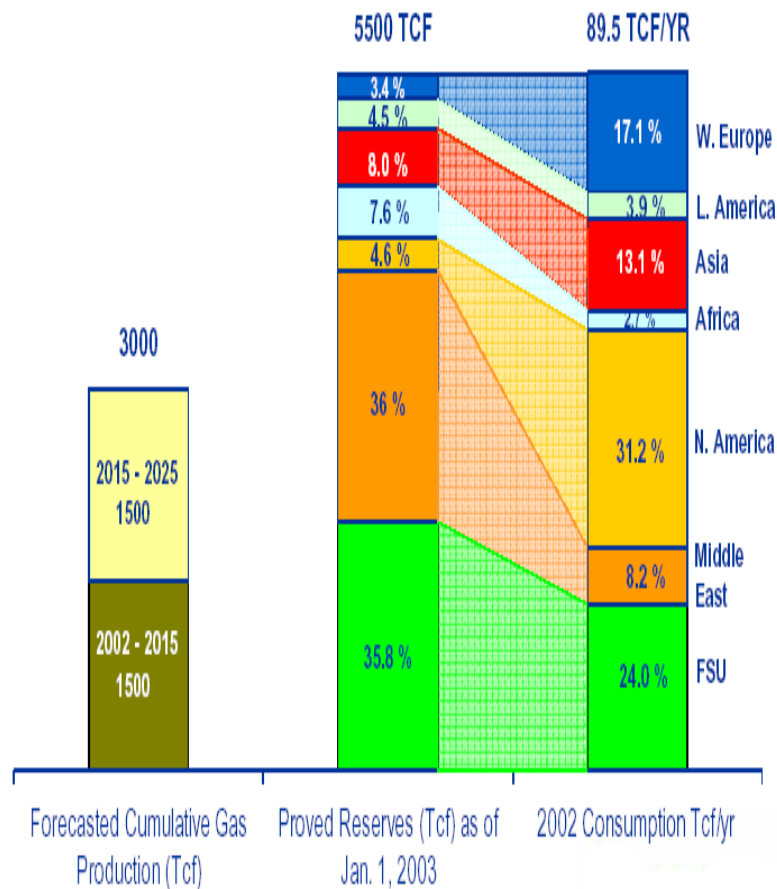


# Relationship Between Oil and Gas Prices

## Nymex Natural Gas vs Oil 2004-05 Prompt Month Prices



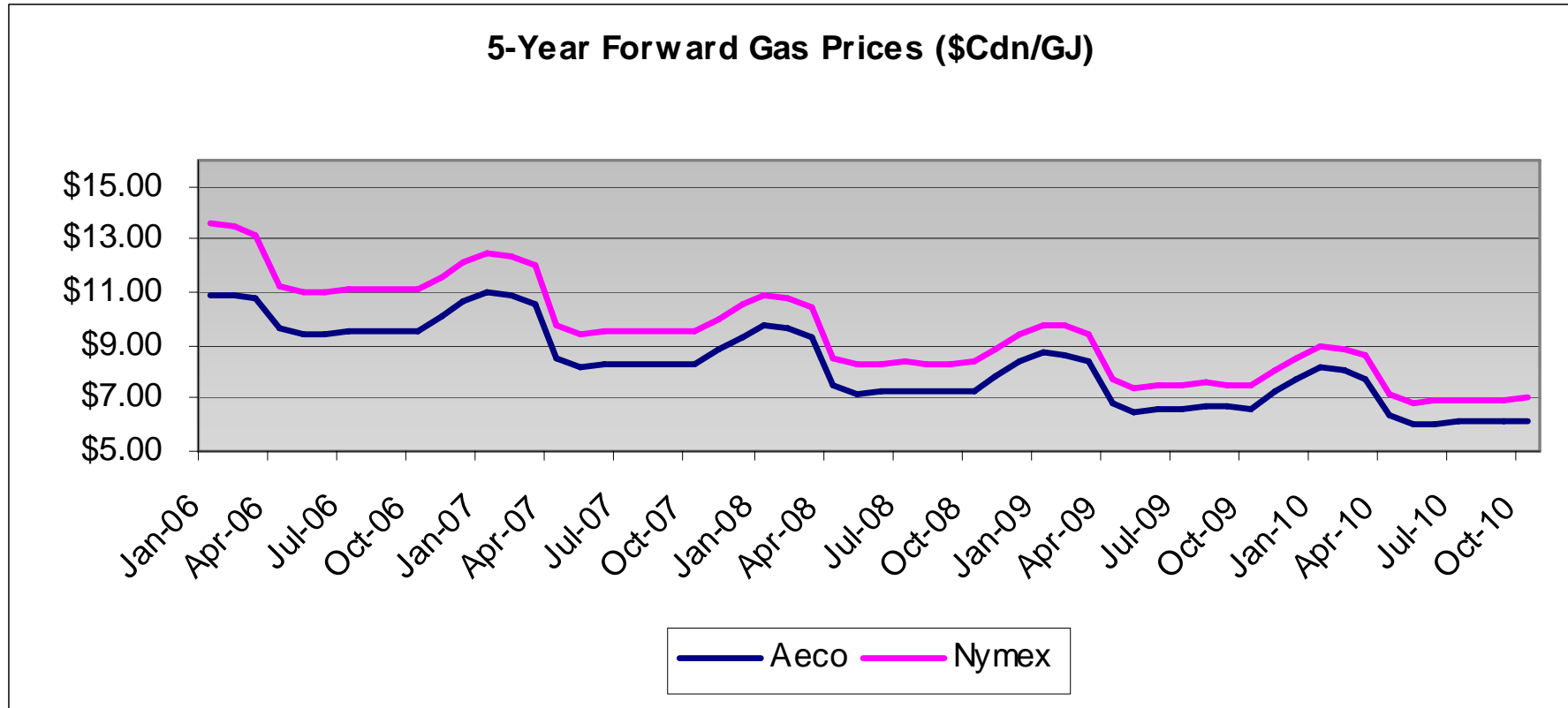
# Are we running out of gas?



- World proved reserves (inventory) are greater than 60 years of supply
- North America has 5% of the reserves and 30% of demand
- Disconnect between reserves and market locations
- Markets move to reserves (industrial migration)
- Reserves move to market (LNG trade)
- Ultimate globalization of natural gas markets similar to crude oil

Source: TransCanada Pipeline

# In the Longer Term Prices are Expected to Decline

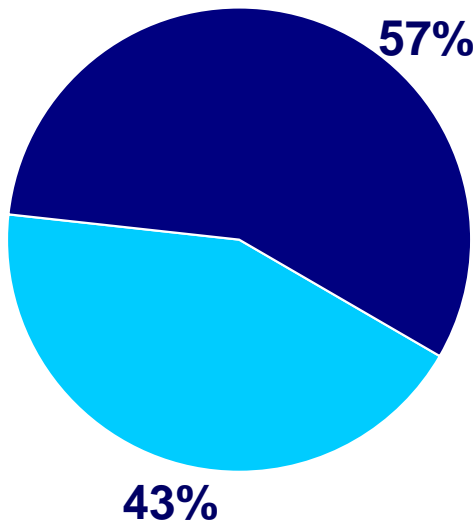


Forward prices as of November 2, 2005

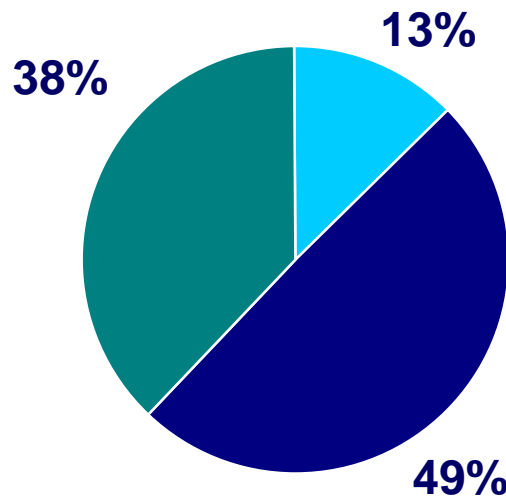
# Transportation Costs

## Shifting Customer Makeup at Huntingdon

**2003/04**



**2005/06**



- Producers & Marketers
- End Users
- Uncontracted

Westcoast toll increases will have added \$10-20 million in costs per year between 2004 and 2006 on a base of approximately \$40 million

# Producers Reducing Downstream Pipeline Commitments



-Supply in BC is still growing and will continue to grow

- Producers are focused on preserving optionality to sell into the best market

- As a result takeaway from Northeastern BC to Alberta has grown. (Total from NE BC now exceeds 4 Bcfd, up from 2.6 Bcfd in 1999).

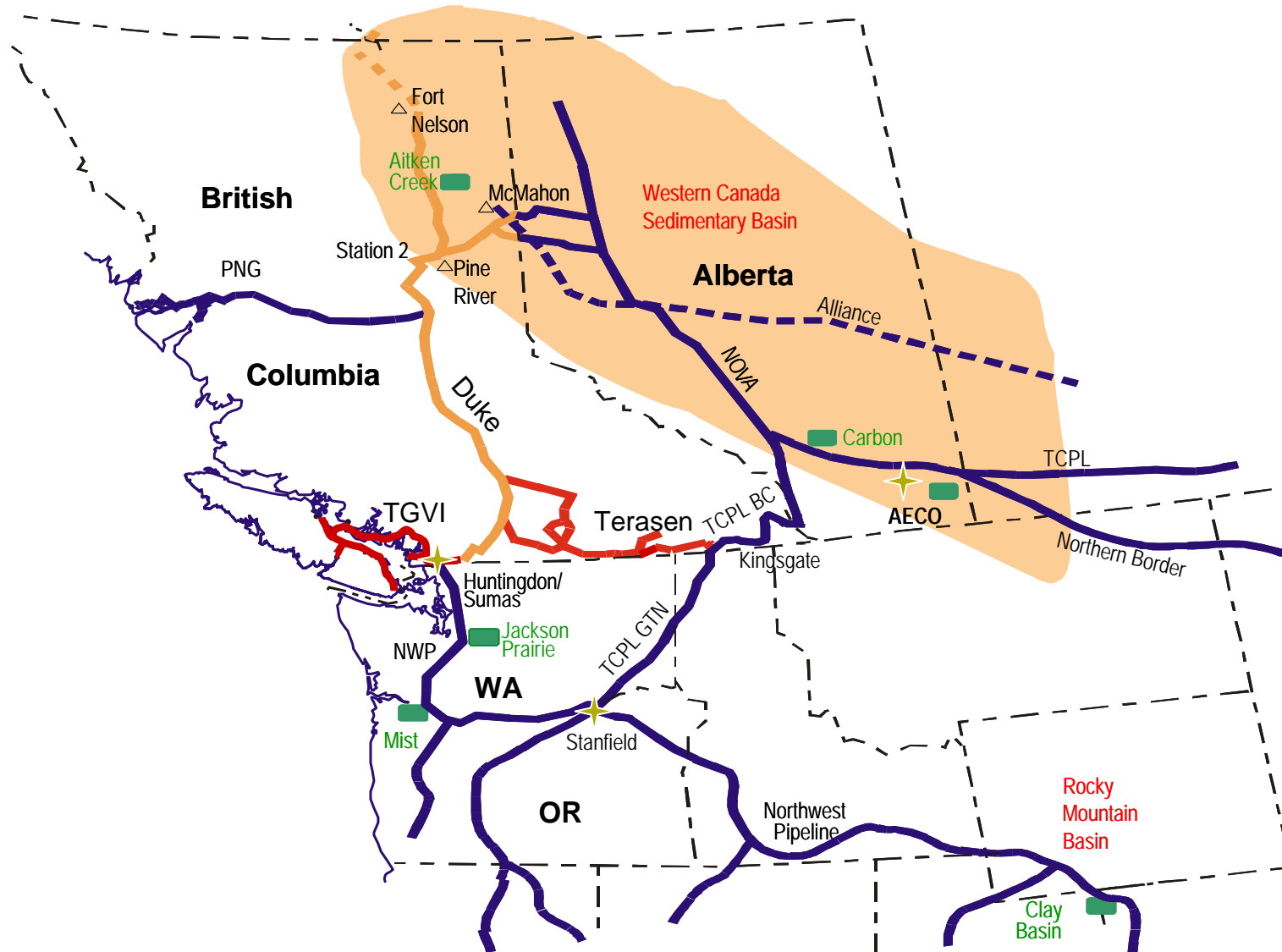
## Gas Cost Mitigation Activities

What are we doing to lessen the impact?

- Contract for Resources
  - Planning - Annual Contract Plan (ACP)
  - Contracting - Commodity/Transport/Storage
- Mitigation of Resources
  - Ongoing activity to reduce cost to the customers
  - Regulatory activities
- Manage Price of Commodity
  - Price Risk Management Plan (PRM)

# Gas Supply Market Considerations

## Regional Market





## Price Risk Management (PRM)

- Focus price risk management activities on capping rates to remain competitive with electric rates
- Manage impacts on customer rates due to commodity price volatility
- Risk management activities have meant that commodity price increase is less than half of market

- In 2005 gas prices and volatility have been pushed by a confluence of circumstances
- Supply is sufficient in the long term
- Terasen is managing the supply portfolio to retain competitiveness to other energy sources and lower rate volatility
- Price risk management activities to date mean lower rate increases than market

# 2006 PBR Cost Drivers

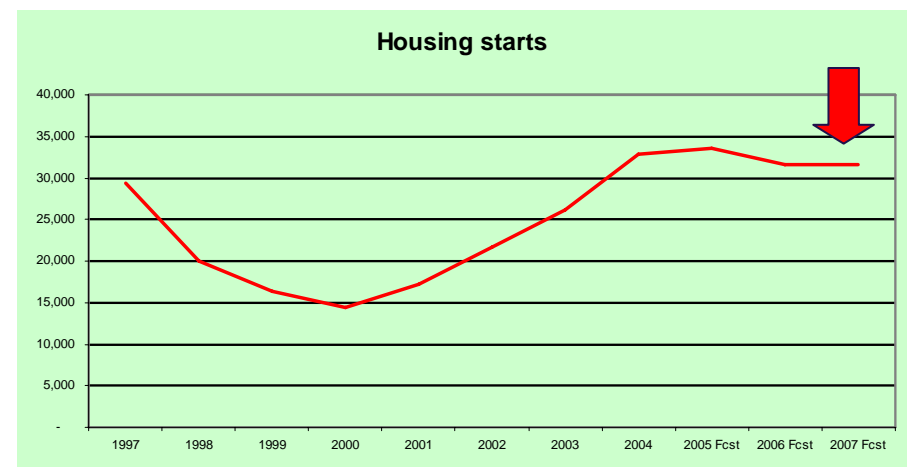
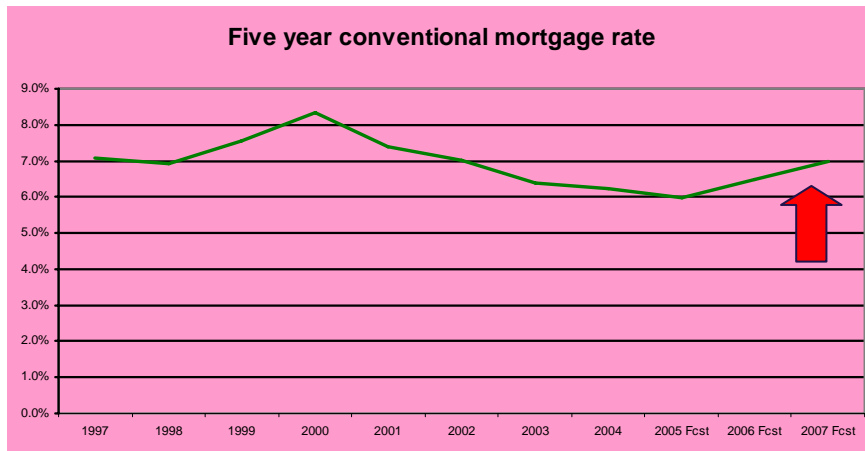
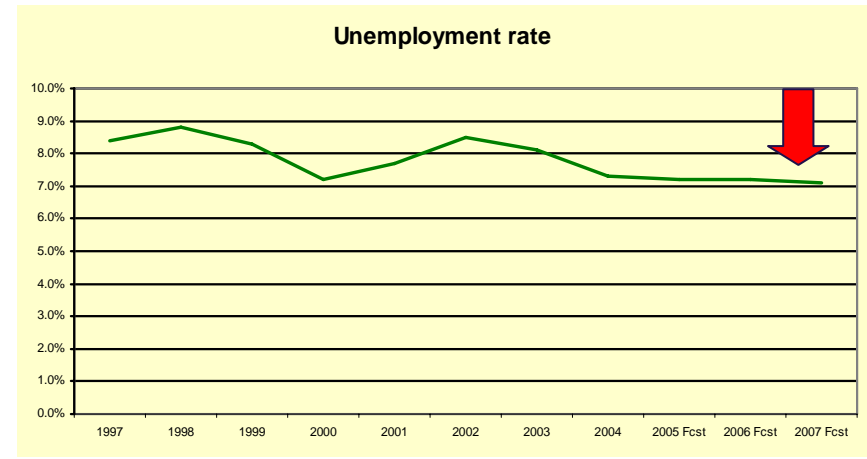
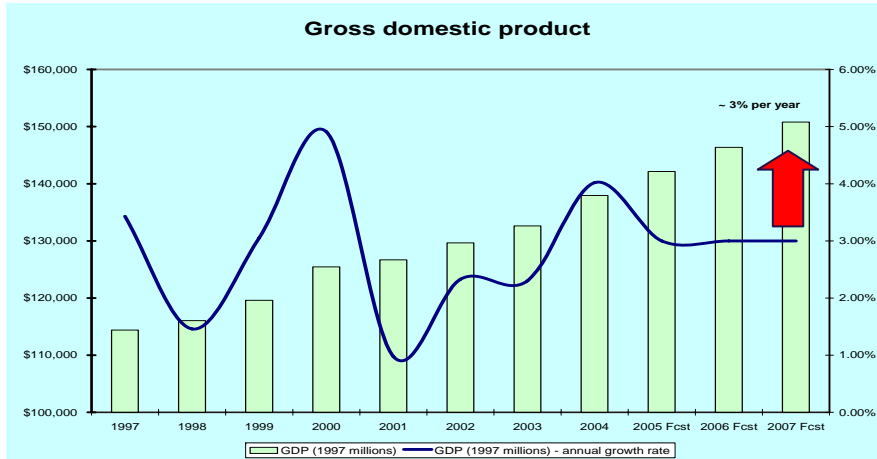
*Customers, Volumes and Margin*

**Hans Mertins**

- The Economic Fundamentals
  - BC Economy
  - New Housing Outlook
- Customer Additions
  - Key Drivers
  - 2005 Projection & 2006 Forecast
- Use Rates
  - Residential & Commercial
- Industrial Volumes & Margin
- Forecast Risks

# The BC Economy

## – the fundamentals

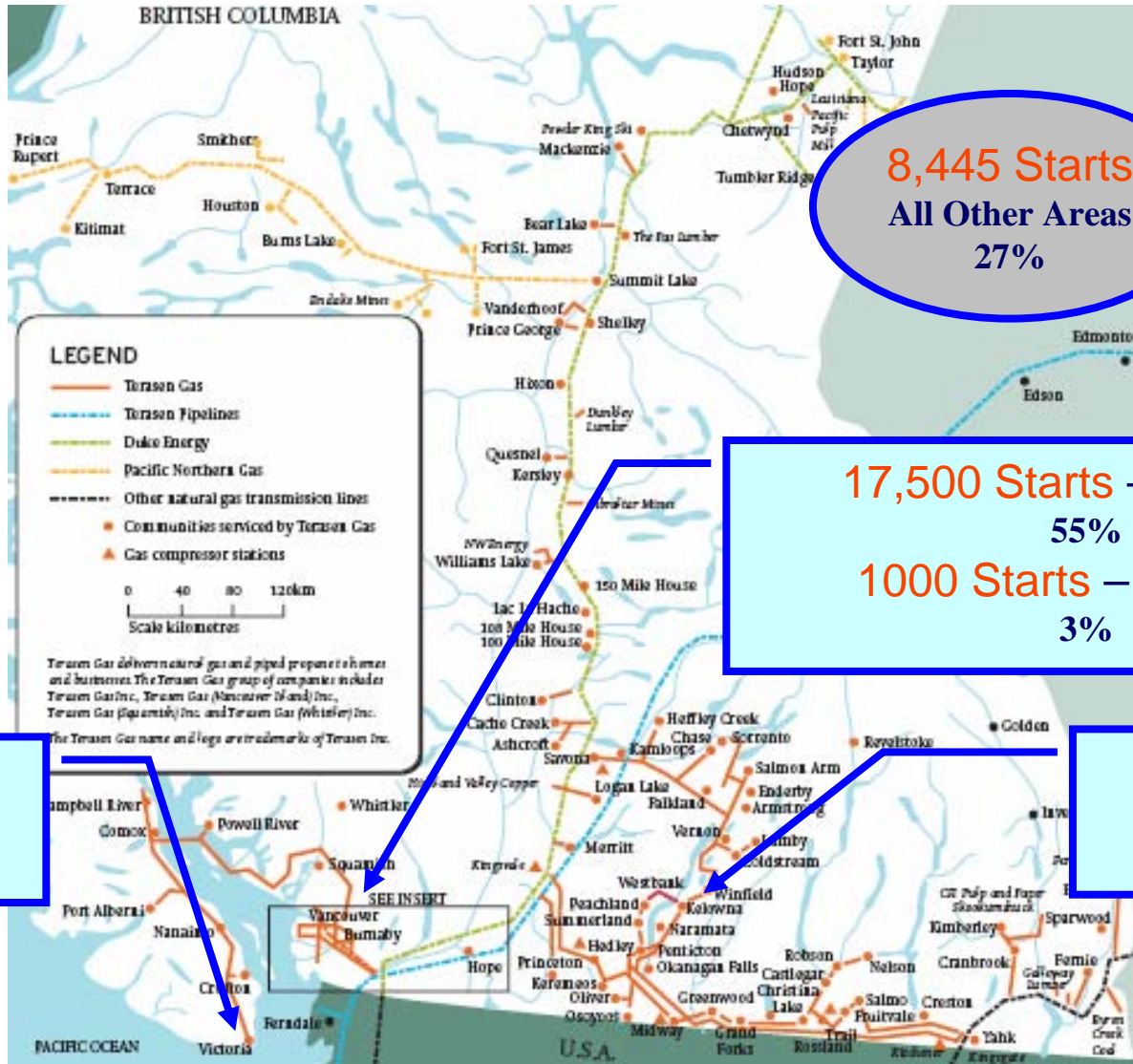


# 2006 CMHC Housing Starts – by region (Fall 2005 Outlook)



**TOTAL  
31,600**

**6%  
decrease**



**8,445 Starts  
All Other Areas  
27%**

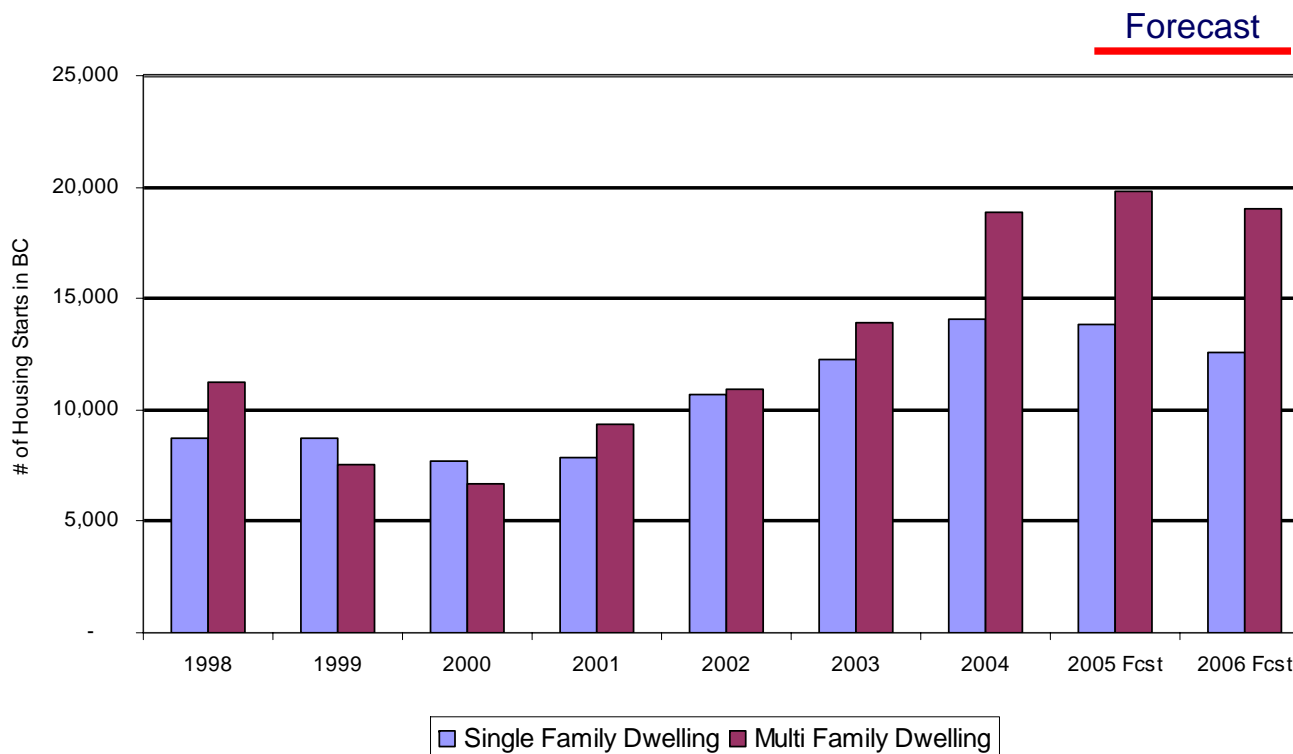
**17,500 Starts – Vancouver  
55%**  
**1000 Starts – Abbotsford  
3%**

**2,255 Starts  
Victoria  
7%**

**2,400 Starts  
Kelowna  
8%**

# BC Housing Starts

- mix of dwellings

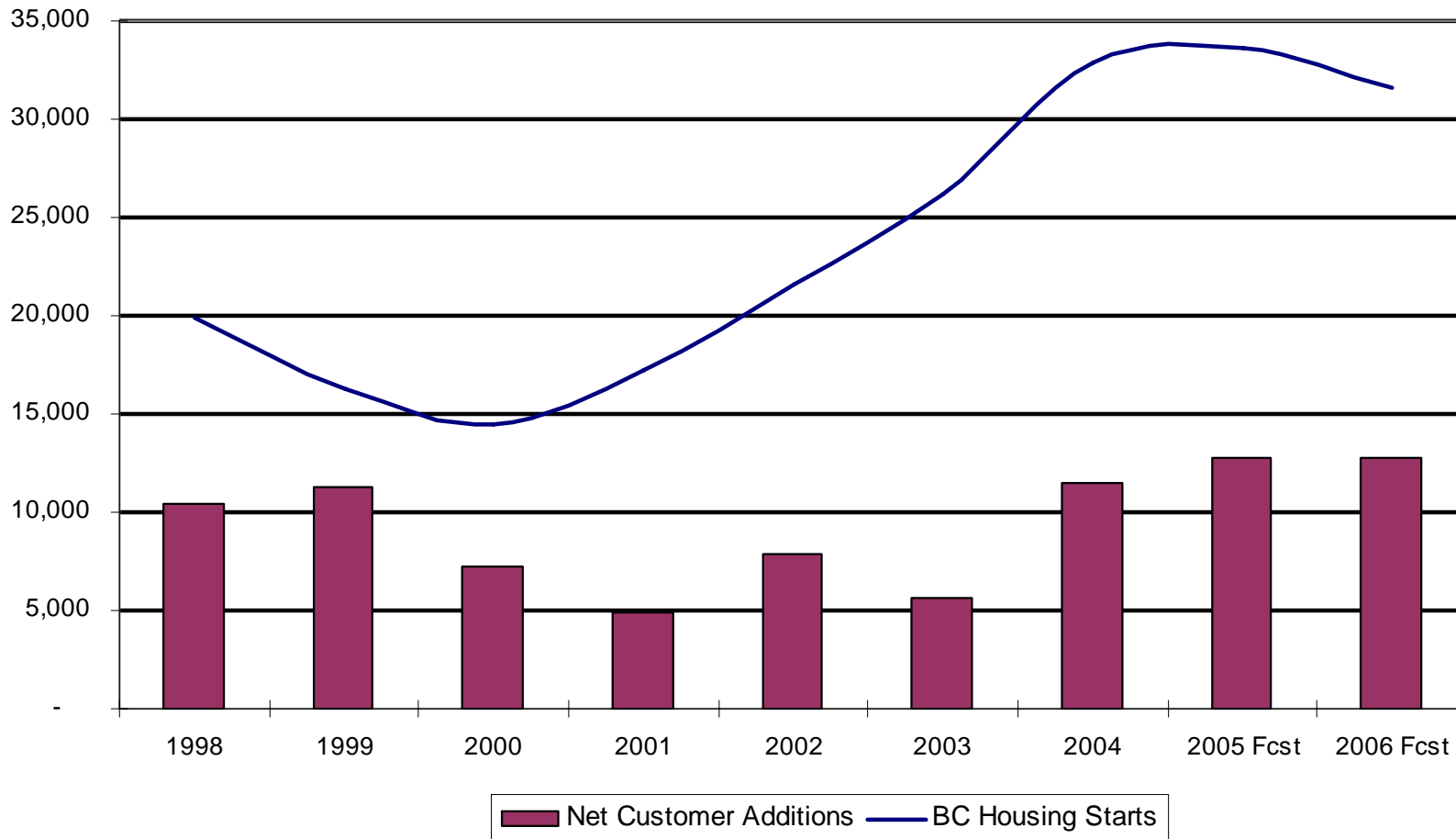


What are the trends?

- Reduced starts
- More MFDs
- Increased commercial activity
- Longer construction lead times
- Gas commodity prices relatively high

2005 MFDs = 59% - 2006 MFDs = 60%

# TGI Customer Additions Forecast



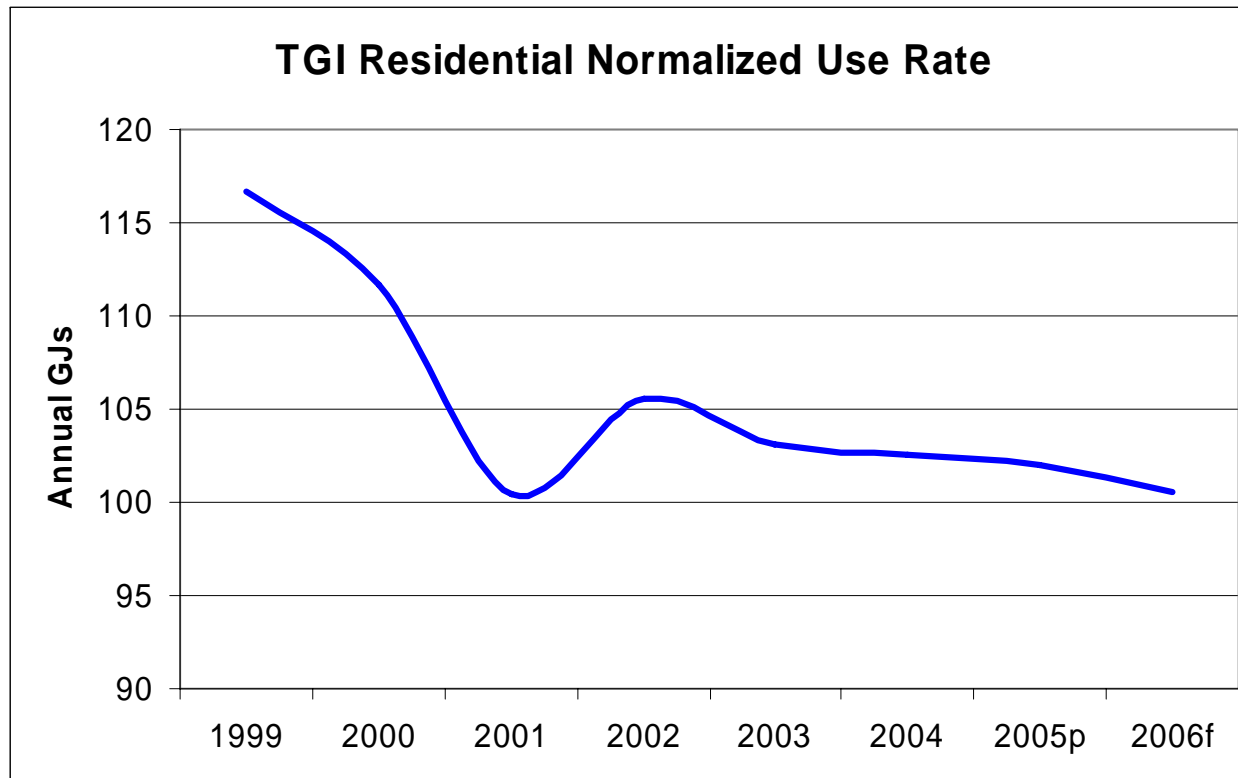
2005 Projected ~12,700 - 2006 Forecast ~ 12,700



# Residential Use Rates

Why the decline?

- Improved appliance efficiency
- Improved home insulation
- More MFDs & smaller size
- Energy conservation
- Appliance replacement
- Electric space heater use



Modeling suggests that 2006 use rates should fall to low end of forecast range

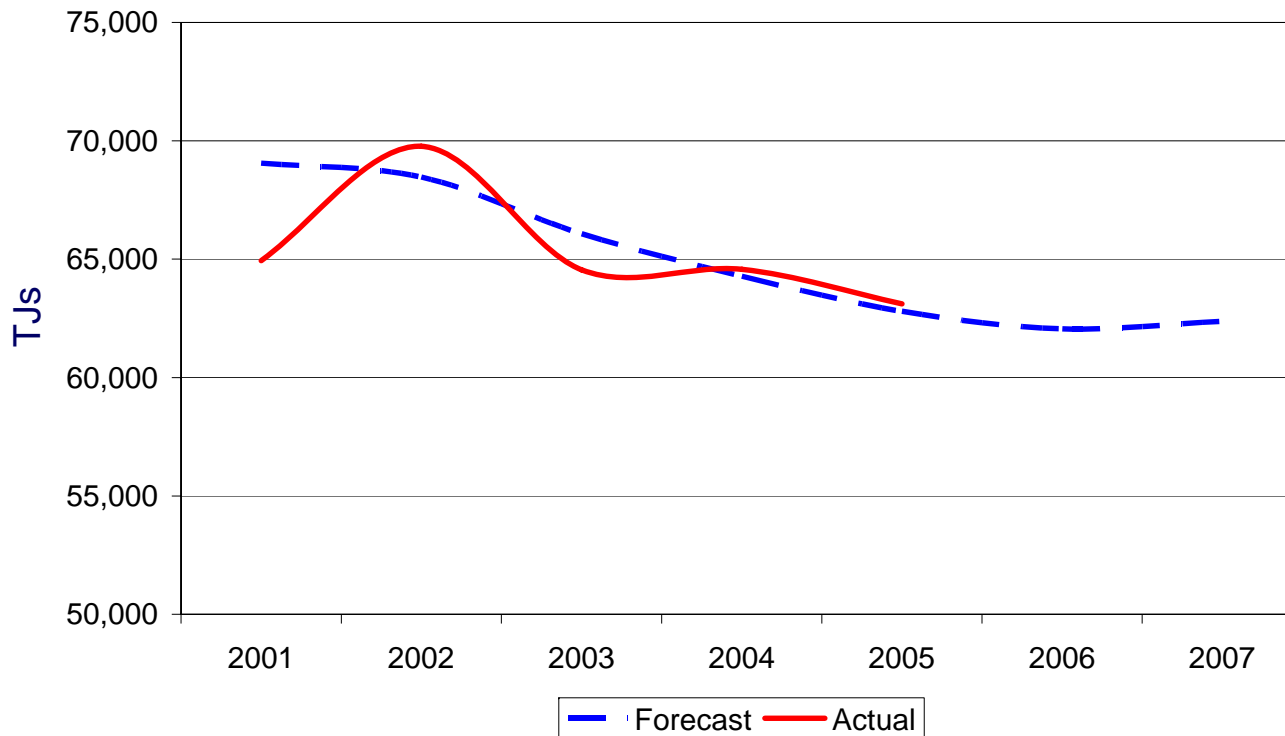
# Industrial & Transportation Rates Forecasting Methodology



- Survey by customer for rates 7, 22, 25, & 27
- YEF & Forecast derived from survey responses & 12 month actuals (ending June 2005) where no response received
  - 701 customers surveyed
  - 333 responded, or 48% (46% in 2004)
  - Respondents responsible for 70% of volume (54% in 2004)
  - All responses with a +/- 15% change in volume from expected volume were validated via follow-up calls, & economic & industry information
  - Rate 5 weather sensitive customers normalized & forecast based on 12 months of recent actuals
- Small number of total customers per industry
- Plans of one or a few industrial customers can seriously impact forecast results

# Industrial Volume

Comparison of TGI Forecast to Actual Volumes  
Industrial Rate Classes (rates 5, 7, 22, 25 & 27)



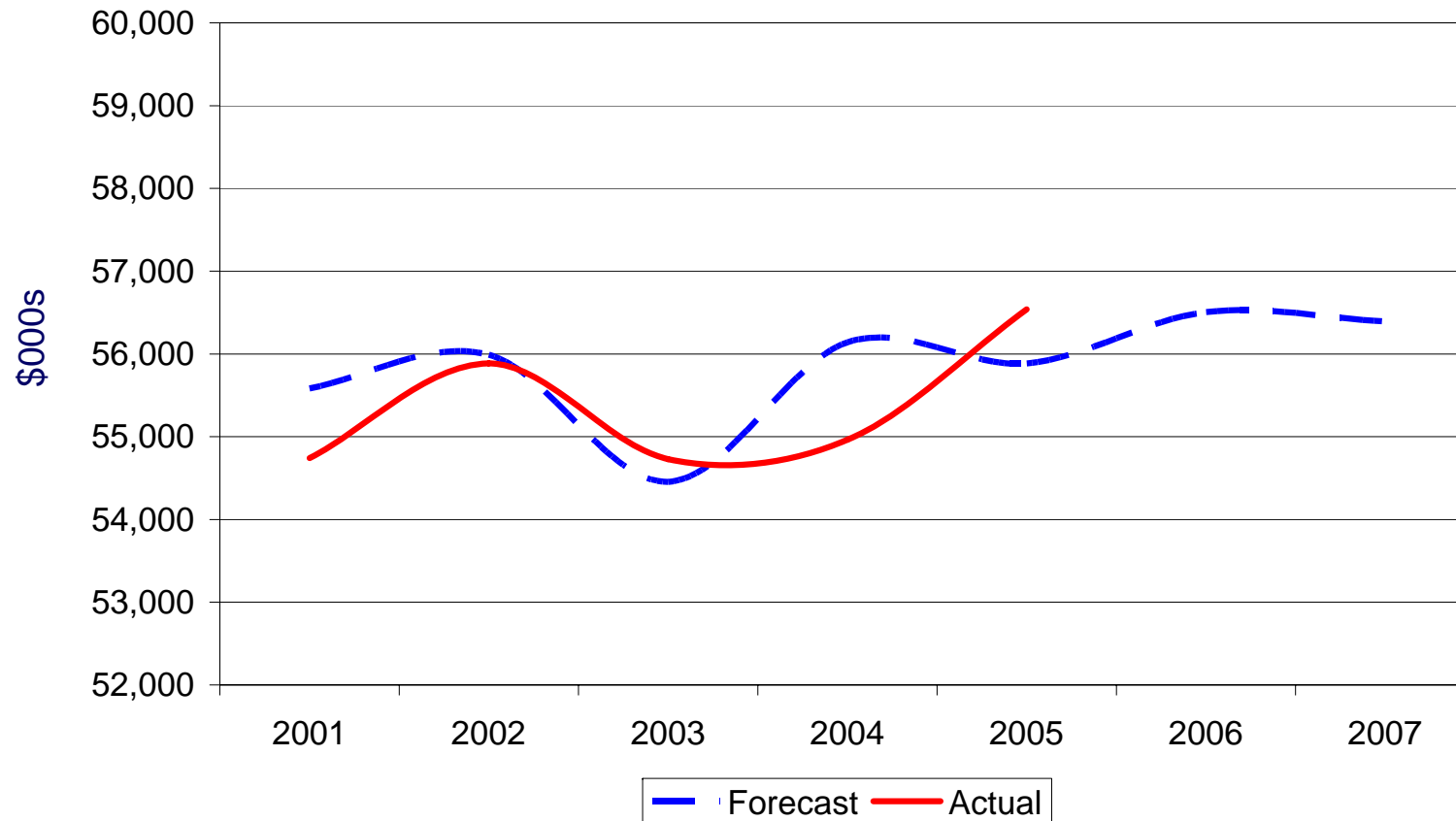
## Why the decline?

- Relatively high commodity price
- Strong Canadian dollar
- Fuel switching
- Production efficiency improvements

2006 volumes forecast to decline by ~ 2% from 2005 Projected

# Industrial Margin

**Comparison of TGI Forecast to Actual Margin  
Industrial Rate Classes (rates 5, 7, 22, 25 & 27)**



2006 margin does not change significantly from 2005 Projected

## Forecast Risks

- Increase in interest rates, slow down in new construction
- Real estate market correction?
- Rising construction costs, shortage of skilled trades workers
- Stronger Canadian dollar & decreased competitiveness in export market – i.e. forest industry
- Effects of sustained high natural gas & energy prices & on the economy
- Recent commodity price increases have impacted the competitive position of natural gas

# 2006 PBR Cost Drivers

**Tom Loski**

## 2006 Revenue Requirement

### Cost Drivers

	2005 Projected	2006 Forecast	Impact on Formulas
Customer Additions	12,676	12,692	Customer addition driven capital
Customers – End of Year	799,696	812,388	Customer addition driven capital
Average Customer Count	791,647	804,316	O&M and other base capital
Change in Average Customers	12,186	12,669	O&M
Customer Growth Percentage	1.56%	1.60%	O&M
B.C. Inflation		2.2%	O&M and capital
Adjustment Factor – 66% of CPI		1.45%	O&M and capital

# 2006 Revenue Requirement



## Formula Based Capital Expenditures

### Customer Addition Driven Capital Expenditures

Customer Addition Driven Capital Expenditures Per Customer Addition	\$2,147.89
Number of Customer Additions	12,692
<b>Target Customer Addition Driven Capital Expenditures (\$000)</b>	<b>\$27,261</b>

\* From Advance Materials - Section A, Tab 3, Page 4



# 2006 Revenue Requirement



## Formula Based Capital Expenditures

### Other Base Capital Expenditures

Other Base Capital Expenditures Per Customer	\$87.93
Average Number of Customers	804,316
<b>Target Other Base Capital Expenditures (\$000)</b>	<b>\$70,724</b>

\* From Advance Materials - Section A, Tab 3, Page 4

# 2006 Revenue Requirement



## Formula Based Capital Expenditures

### Summary Capital Expenditures

Target Customer Addition Driven Capital Expenditures	\$27,261
Target Other Base Capital Expenditures	<u>70,724</u>
<b>Total Base Capital Additions excluding Forecast CPCN Additions (\$000)</b>	<b><u>\$97,985</u></b>

\* From Advance Materials - Section A, Tab 3, Page 4

# 2006 Revenue Requirement



## Total Plant Additions (in 000's)

	<u>2005 Update</u>	<u>2006 Forecast</u>
Base Capital Expenditure	\$96,119	\$97,985
Add: WIP Changes	(394)	(264)
Add: AFUDC	938	960
Add: Overhead Capitalized	<u>26,335</u>	<u>27,243</u>
<b>Total Base Capital Additions To Gas Plant in Service</b>	<b><u>122,998</u></b>	<b><u>125,924</u></b>
CPCN Completed in Previous Year & Added to Opening GPIS	<u>51,691</u>	<u>4,564</u>
<b>Total Plant Additions</b>	<b><u>\$174,689</u></b>	<b><u>\$130,488</u></b>

## 2006 Revenue Requirement

### Utility Rate Base

	<u>2005 Approved</u>	<u>2006 Forecast</u>
Net Plant in Service, Mid-Year	\$2,280,774	\$2,318,274
Gas in Storage	111,555	182,935
Other Rate Base Items	3,422	4,717
<b>Utility Rate Base</b>	<u>\$2,395,751</u>	<u>\$2,505,926</u>

- The 13-month average of Gas in Storage increased significantly as a result of higher gas costs.

## 2006 Revenue Requirement

### O&M Expenses

#### 2006 O&M Formula :

■ [2005 Adjusted O&M X (1+customer growth) X (1+ CPI – adjustment factor)] + Pension & Insurance Adjustment

■ Gross 2006 O&M = [\$190,888 X (1+1.60%) X (1+2.2% -1.45%)]+ \$1,525  
=\$196,919

■ Gross 2006 O&M	\$196,919
Capitalized Overhead	( 27,243)
Fort Nelson O&M and Vehicle Lease	<u>( 2,585)</u>
Net 2006 O&M	<u>\$167,091</u>

\* From Advance Materials - Section A, Tab 5, Pages 1 to 3

# 2006 Revenue Requirement

## Formula Calculation of O&M

Line No.	Description	Approved 2005	Adjusted Base 2005	Change	Forecast 2006
	(1)	(2)	(3)	(4)	(5)
1	Average Number of Customers - Forecast	790,385		12,669	804,316
2	Percentage Growth in Average Customers			1.60%	
3					
4	Average Number of Customers - True up (Actual/Projection)		791,647		
5	Percentage Growth in Average Customers				
6					
7	Annual Inflation Rate - CPI	2.00%	2.00%	2.20%	
8	Adjustment Factor	1.00%	1.00%	1.45%	
9					
10	Total Gross O & M Expense before TPIP				
11	TPIP				
12	Total Gross O & M Expense	190,575	\$190,888	\$4,506	195,394
13	Pension & Insurance Variance	11	11	1,514	1,525
14	Adjusted Total Gross O&M Expense	190,586	190,899		196,919
15					
16	Total Items Not Subject to Overheads	(20,239)	(20,272)		(20,752)
17	Less: TPIP Not Subject to Overhead	(5,751)	(5,761)		(5,897)
18	Total O&M Subject to Capitalized Overhead	164,596	164,865	5,405	170,270
19					
20	Capitalized Overhead at 16%	26,335	26,335		27,243
21	Gross O&M Less Capitalized Overhead	164,251	164,564	5,112	169,676
22				0	
23	Less: Fort Nelson O&M & Vehicle Lease	(2,522)	(2,526)	(59)	(2,585)
24	Total Utility O&M	\$161,729	\$162,038	\$5,053	\$167,091

# 2006 Revenue Requirement

## Other 2006 Cost of Service Items

- Property Taxes – reforecast yearly, deferral of variances
  - 2006 forecast of \$41.4 million (\$1.8M over 2005 approved)
- Depreciation and Amortization
  - Determined based on approved depreciation rates and amortization period
- Other Operating Revenues
  - Reforecast of all items, except Late Payment Revenues (formula-based)
- Income Taxes
  - LCT rate is reduced from 0.175% to 0.125% based on the announced phase-out schedule
  - BC Provincial income tax rate reduction of 1.5% effective July 1, 2005
- Debt & Interest Rates
  - Unfunded debt rate is set at 4% based on current outlook for short-term rates
  - \$100 million long-term issue (Series 21) on June 30, 2006 at 5.05% coupon rate
- Return on Equity (ROE) & Capital Structure
  - 9.03% is used in Annual Review advance materials
  - 33% equity component

## Vehicle Lease

- BC Hydro has provided vehicle lease and maintenance services to BC Gas (predecessor company to Terasen Gas) since 1988.
- BC Hydro advised Terasen Gas of their intent to terminate the current vehicle lease arrangement with Terasen Gas by the end of 2005.
- Lease vs. buy economic analysis conducted => lease option determined to be most cost effective for customers.
- PHH Arval (PHH) selected to assume the vehicle services that BC Hydro had previously provided.



## Vehicle Lease

### ■ Benefits of going with PHH:

- Expertise - PHH is the second largest commercial fleet management company in North America;
- Extensive supplier network throughout BC - PHH has over 200 clients in Western Canada with clients in similar service territory as Terasen Gas; and
- Expected 2006 operating lease cost under PHH is \$111,000 lower than that charged by BC Hydro in 2005. This savings has been fully credited to customers in 2006.

## Vehicle Lease

- BC Hydro's net book value before tax                      \$8.6 million
  - PHH's market value assessment before tax              7.2 million
  - Shortfall before 7% provincial tax                      \$1.4 million
  - Shortfall after 7% provincial tax                      \$1.5 million
- 
- Terasen Gas is contractually responsible to pay BC Hydro the \$1.4 million plus tax shortfall per Section 7 of the Vehicle Service Agreement dated April 1, 1993 between BC Hydro and Terasen Gas.

## Vehicle Lease

- Differential of \$1.4 million plus 7% provincial tax needs to be recovered from Terasen Gas customers as customers have benefited until now by paying lower lease costs.
- Deferral treatment proposed for differential with a 3-year amortization period, which represents the remaining useful life of the vehicles.
- This recovery proposal is fair since the continuation of the arrangement with BC Hydro would have required Terasen customers to pay for this \$1.4 million plus tax.
- BCUC Decision dated August 5, 1992 directed Terasen Gas to treat vehicle leases as an operating lease rather than a capital lease. The proposed arrangement preserves the PBR settlement terms whereby operating lease costs are recovered from customers with no mark up similar to gas cost recovery.
- Increase in amortization expense is mitigated by the effect of a lower depreciation base that PHH is calculating future depreciation on. This translates into an operating lease cost savings of \$111,000 per year.



# 2006 Revenue Requirements & Rate Outlook

**Tom Loski**

# 2006 Revenue Requirement

## Summary of 2006 Rate Increase

(ROE = 9.03%)

	<u>(\$ Millions)</u>
<u>Reasons for Increase</u>	
■ Lower weighted average use rates for Rates 1/2/3/23	\$10.2
■ Higher O&M per formula	3.9
■ Change in Pension and Insurance forecast	1.5
■ Higher Property Taxes	1.8
■ Higher Depreciation and amortization	4.2
■ Higher Rate Base due primarily to Gas In storage	7.8
<u>Offsetting Decreases</u>	
■ Customer Growth and Industrial Revenue Changes	(7.2)
■ Other Items	<u>(4.2)</u>
Sub-total	18.0
Earnings Sharing	<u>(7.3)</u>
<b>Net Revenue Increase at ROE of 9.03%</b>	<b><u>\$10.7</u></b>

# 2006 Revenue Requirement

## RSAM Update

	<u>\$ Millions</u>
RSAM balance at January 1, 2005	\$38.95
2005 Projected RSAM Activity:	
■ New RSAM additions	\$10.16
■ RSAM Rider recovery	<u>(10.59)</u>
RSAM balance decrease (After Tax)	<u>(\$0.43)</u>
RSAM balance at December 31, 2005 (After Tax)	<u>\$38.52</u>

- For the 9 months ended September 30, 2005, weather in the Terasen Gas service territory has been 4% warmer than normal.
- 2005 RSAM rider of \$0.143 is projected to increase by \$0.023/GJ (pre-tax) to \$0.166/GJ in 2006, based on 3-year amortization for a pre-tax 2006 total rider of \$19.4 million.

## Customer Bill Impact (Lower Mainland)

Customers	<u>Propose Rate Change per GJ</u>				Bill Increase per Annum	% Bill Increase of Previous Annual Bill
	Delivery Margin	RSAM Rider	ESM Rider	Net Increase		
Residential	\$0.151	\$0.023	(\$0.067)	\$0.107	\$11.49	0.76%
Small Commercial	\$0.104	\$0.023	(\$0.052)	\$0.075	\$46.17	0.58%
Large Commercial	\$0.092	\$0.023	(\$0.040)	\$0.075	\$251.28	0.61%
General Firm	\$0.091	n/a	(\$0.029)	\$0.062	\$624.34	0.52%

**OTHER INFORMATION  
PERTAINING TO THE  
2004 – 2007 PBR SETTLEMENT**





# Customer Care & SQL's

**Danielle Wensink**

# Service Quality Indicators

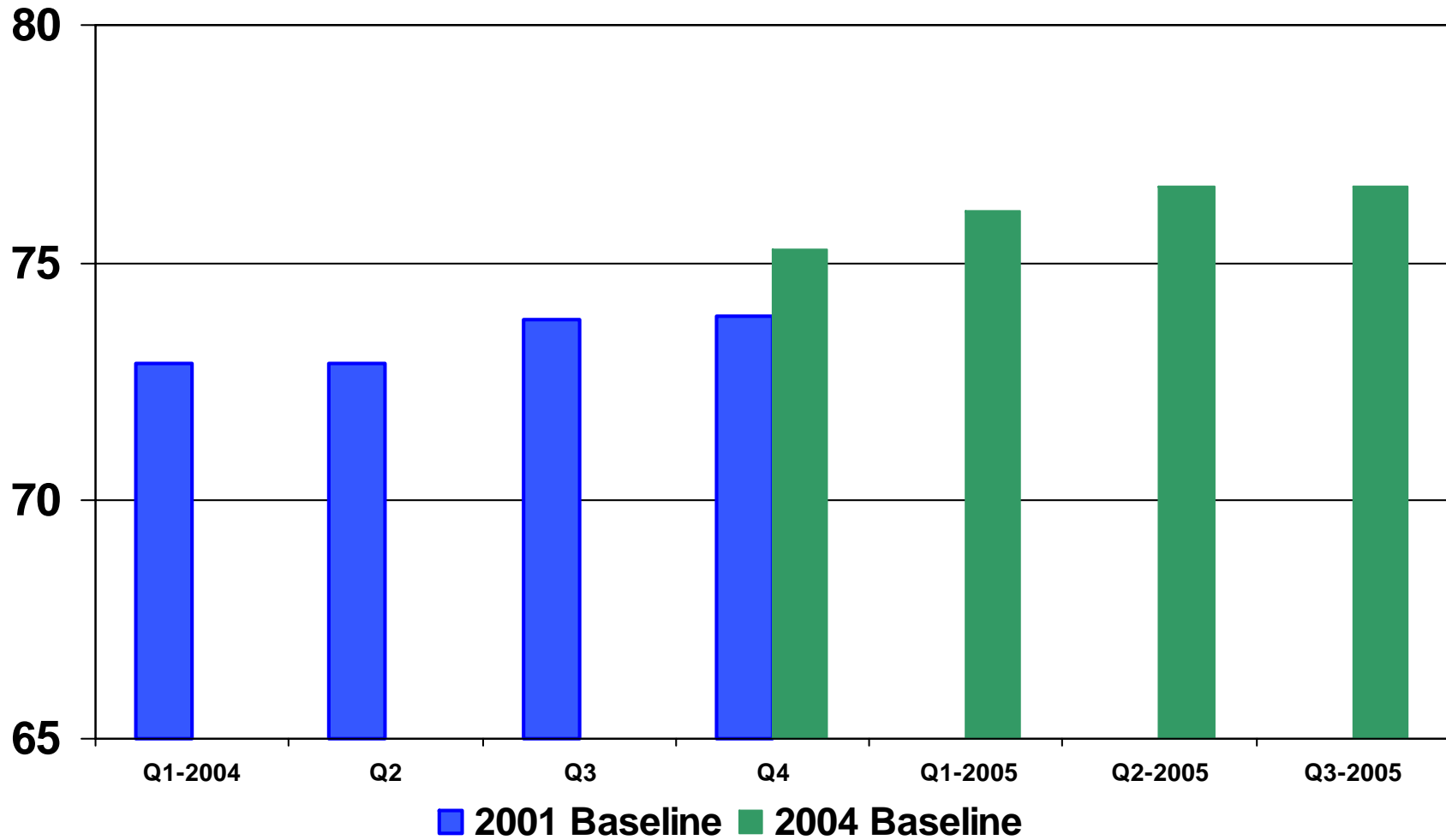
September 2005

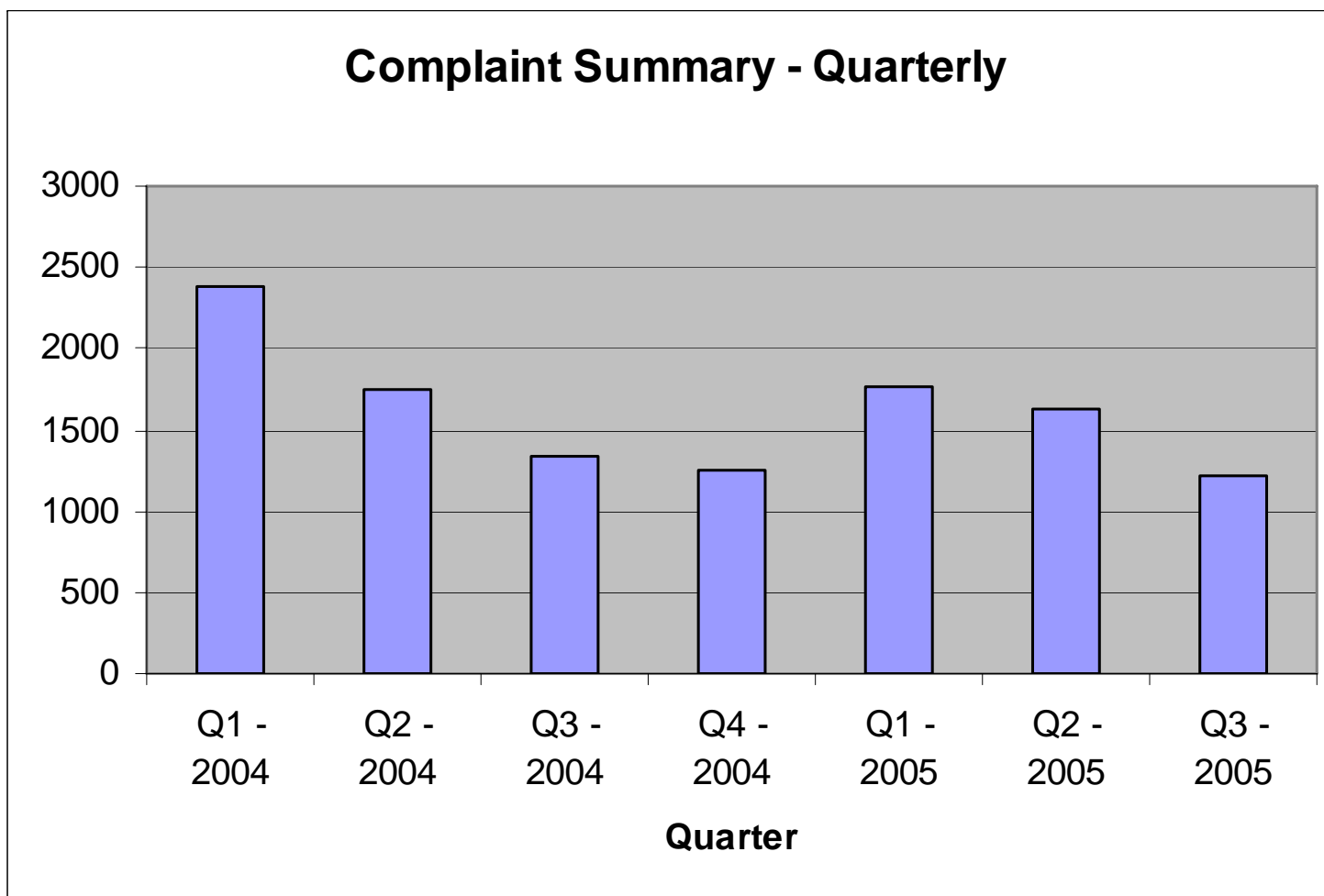


Performance Indicators		2004 Actuals	2005 YTD Actuals	2005 Target
1	<b>Emergency Response Time</b> - Time Dispatched to Site - Emergency - Blowing Gas	21:36 minutes	<b>21:54 minutes</b>	<b>≤21:06 minutes</b>
2	<b>Speed of Answer – Emergency</b> (% of calls answered within 30 sec.)	97.9%	<b>99.1%</b>	<b>≥95%</b>
3	<b>Speed of Answer – Non-Emergency</b> (% of calls answered within 30 sec.)	77.5%	<b>77.2%</b>	<b>≥75%</b>
4	<b>Transmission Reportable Incidents</b>	3	<b>3</b>	<b>≤2</b>
5(a)	<b>Index of Customer Bills Produced Not Meeting Criteria</b>	1.93	<b>1.87</b>	<b>≤5</b>
5(b)	<b>Percent of Transportation/Industrial Customer Bills Accurate</b>	96.6%	<b>99.9%</b>	<b>≥99.5%</b>
6	<b>Meter Exchange Appointment Activity</b>	93.5%	<b>94.6%</b>	<b>≥92.2%</b>
7	<b>Transportation Meter Measurement First Report &lt; 10%</b>	98.0%	<b>99.6%</b>	<b>≥90.0%</b>
8	<b>Residential &amp; Commercial Customer Satisfaction (Independent Customer Satisfaction Survey)</b>	75.3%	<b>76.6%</b>	<b>Compared to historic trends</b>
9	<b>Number of Customer Complaints to BCUC</b>	191	<b>94</b>	<b>Compared to historic trends</b>
10	<b>Number of Prior Period Adjustments</b>	18	<b>12</b>	<b>Compared to historic trends</b>

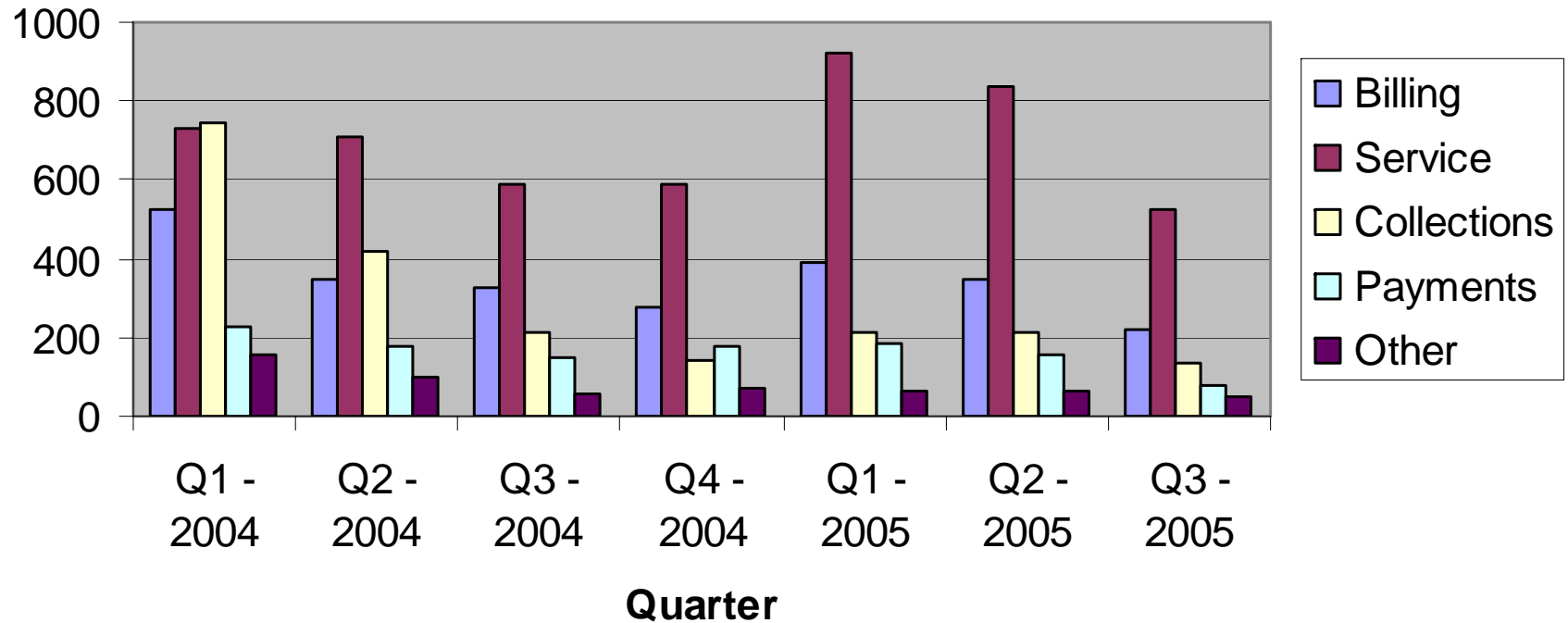
Directional Indicators			
1	Leaks per Kilometre of Distribution Mains	<b>0.0045 (150 leaks)</b>	<b>0.0028 (97 leaks)</b>
2	Number of Third Party Distribution System Incidents	<b>1,492</b>	<b>1,118</b>

# Customer Satisfaction



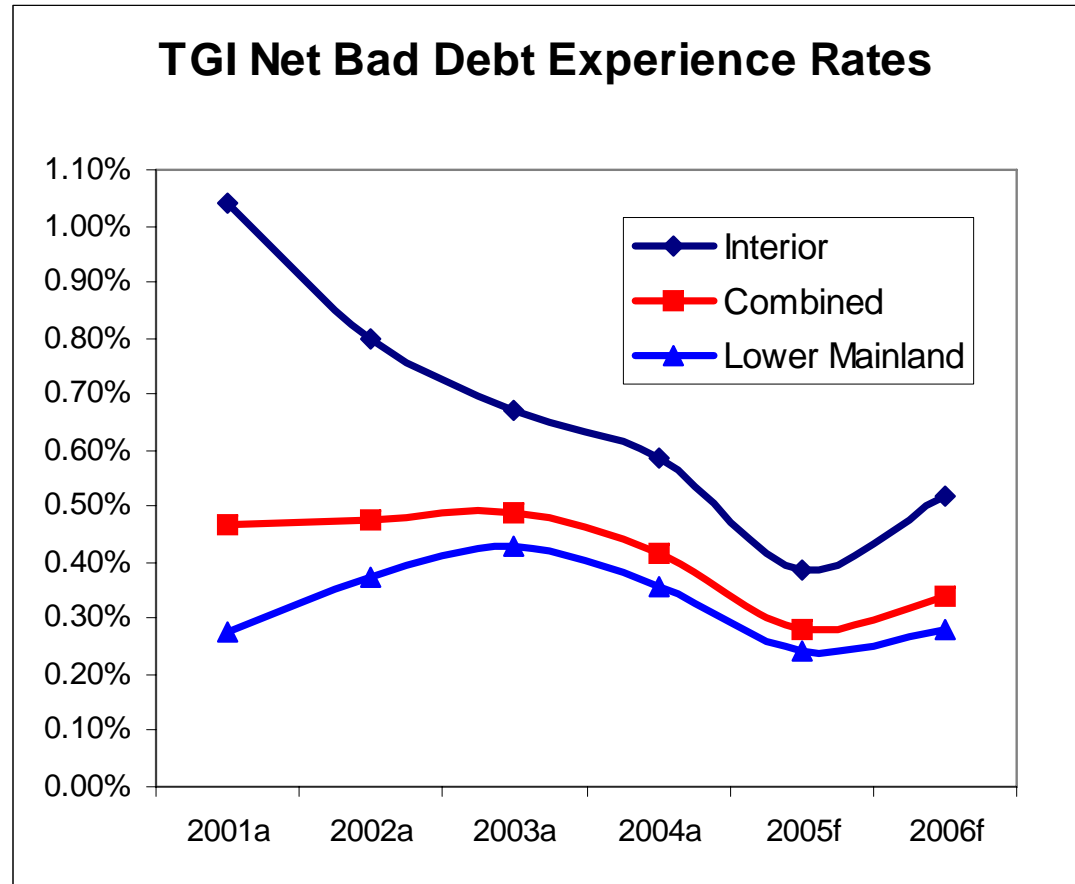


## Complaint Summary by Type




## Bad Debt Experience Trend

- Improvements in credit & collections processes helped to improve the experience rate in the Interior & manage the transition from BC Hydro in the Lower Mainland since 2002
- Trend shows improving experience rates to 2005
- Higher experience rates anticipated in 2006 due to recent commodity increases
- Current bad debt as a percentage of sales revenue is 0.33%



# Customer Care Initiatives

- Oct 2005 rate increase communications
  - Reasons for increase
  - Impact to customers
  - Industry education
- Heating season campaign
  - “Hot Tips” for energy efficiency
  - Equal payment plan
  - Gas industry & pricing education
- Call centre activities
  - Pre-winter training program



### Natural gas commodity rates to increase October 1, 2005

The rates Terasen Gas customers pay for natural gas will increase starting October 1, 2005.

This increase is the result of rising natural gas commodity costs brought on by increased demand for oil, gas and propane across North America as well as disruptions to production and supply caused by Hurricane Katrina.

The total annual gas bill of a typical Terasen Gas residential customer will rise by 13.3 per cent, which is approximately \$180 per year depending on consumption levels. Total annual bills for typical commercial customers will increase by about 14 to 15.3 per cent depending on consumption. This increase was approved by the BC Utilities Commission, a regulatory agency of the provincial government.

Delivery rates are not affected by this increase in commodity charges. Natural gas commodity charges account for about two-thirds of the typical residential gas bill while delivery charges account for the remaining one-third.

Rates for a typical residential customer

	Current	October 1
<b>Lower Mainland and Fraser Valley • Based on 110 GJ/year</b>		
Basic monthly charge	\$10.70	\$10.70
Delivery charge/GJ	\$2.822	\$2.822
Commodity cost/GJ	\$8.313	\$9.947
Estimated total annual bill	\$1,353	\$1,533

GJ or gigajoule is a measurement of energy.

# 5 Year Major Capital Plan

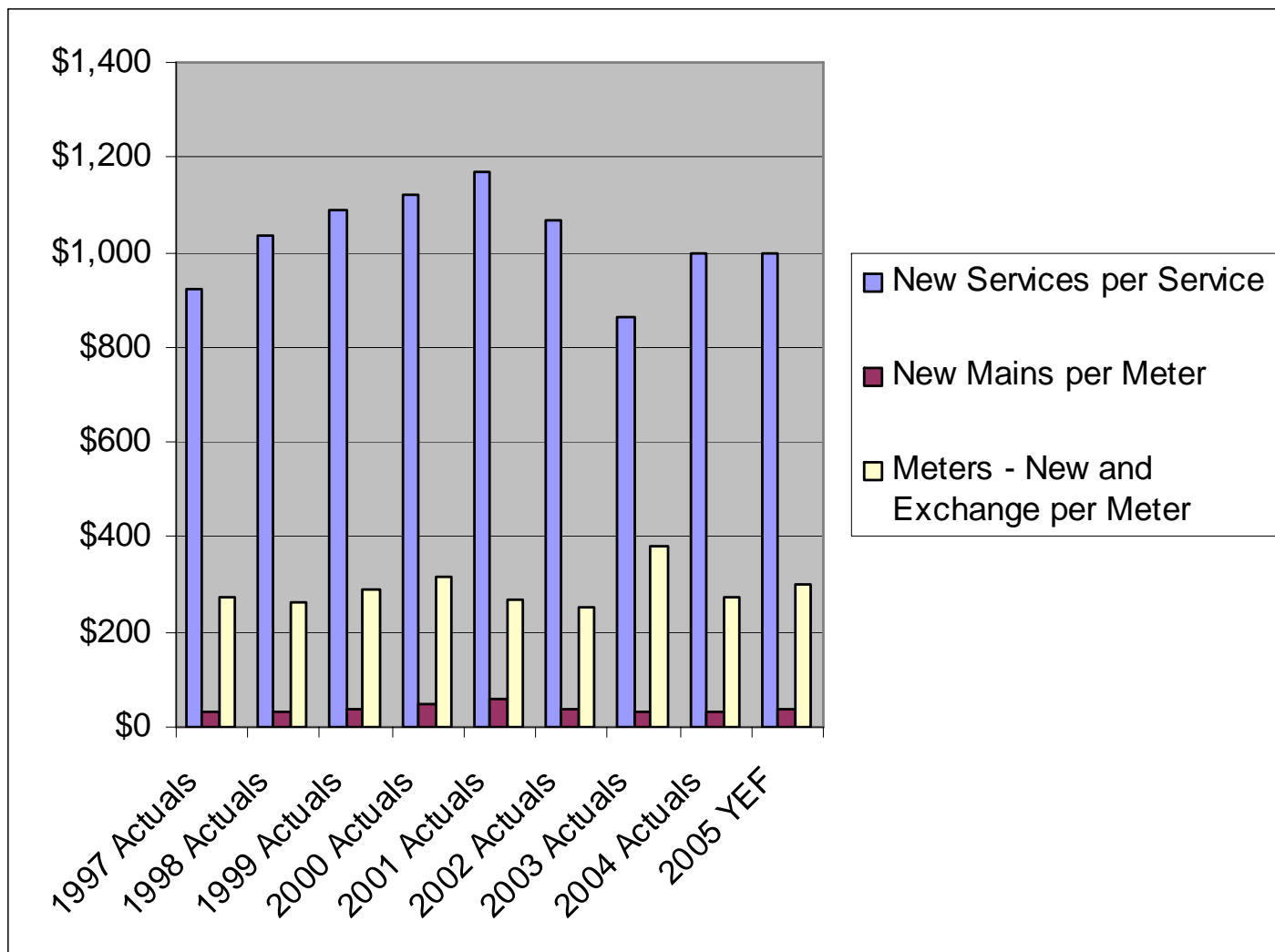
**Dwain Bell**



# Customer Driven Capital 2005 - 2010

	2005 Projected	2006 Forecast	2007 Forecast	2008 Forecast	2009 Forecast	2010 Forecast
<b>Customer Additions</b>	12,676	12,692	12,276	12,903	13,575	14,403
<b>Customer Driven Capital Dollars (\$millions)</b>						
■ <b>Mains</b>	6.4	6.6	6.6	7.1	7.7	8.2
■ <b>Services</b>	12.8	12.1	12.1	13.1	14.2	15.1
■ <b>Meters – Customer Additions</b>	3.8	3.9	3.9	4.2	4.6	4.9
<b>Total</b>	23.0	22.6	22.6	24.4	26.5	28.2

# Historical Customer Additions Unit Costs



# Other Regular Capital 2005 – 2010 - Cost Projections



<b>Other Regular Capital (\$millions)</b>	<b>2005 Projection</b>	<b>2006 Forecast</b>	<b>2007 Forecast</b>	<b>2008 Forecast</b>	<b>2009 Forecast</b>	<b>2010 Forecast</b>
<b>Meters – Replacements</b>	13.2	12.3	12.9	16.0	16.8	17.7
<b>System Integrity and Reliability:</b>						
■ <b>Transmission Plant</b>	6.8	6.4	5.9	5.1	4.8	5.1
■ <b>Distribution Plant</b>	13.0	16.9	9.0	9.5	7.8	7.9
<b>Other Capital:</b>						
■ <b>Non – IT</b>	11.3	11.7	11.9	12.2	12.4	12.7
■ <b>Information Technology (IT)</b>	10.0	10.5	13.5	11.4	11.7	11.9
<b>Other Regular Capital</b>	54.3	57.8	53.2	54.2	53.6	55.3
<b>Total Customer Driven and Other Regular Capital</b>	77.3	80.4	75.8	78.6	80.0	83.5

# Major Capital Projects 2006-2010 Scheduling & Cost Projections



Other Regular Capital Transmission and Distribution Plant (\$millions)	2006 Forecast	2007 Forecast	2008 Forecast	2009 Forecast	2010 Forecast
Prince George #2 Lateral Loop (TP)	-	1.0	-	-	-
Secondary Containment	2.4	-	-	-	-
Riverside Road, Abbotsford	-	1.1	-	-	-
72 <sup>nd</sup> Street to 36 <sup>th</sup> Avenue, Delta	-	1.8	-	-	-
Goudy Road and 36 <sup>th</sup> Avenue, Delta	-	1.2	-	-	-
34B Avenue to 57 <sup>th</sup> Street, Delta	-	-	1.0	-	-
E.6th Ave & Quebec St, Vancouver	-	-	1.8	-	-
<b>Totals</b>	<b>2.4</b>	<b>5.1</b>	<b>2.8</b>		

# Major Capital Projects 2006-2010 Scheduling & Cost Projections



Other Regular Capital Non IT and Information Technology (IT) (\$millions)	2006 Forecast	2007 Forecast	2008 Forecast	2009 Forecast	2010 Forecast
Order Fulfillment Enhancements	1.1	-	-	-	-
MobileUP Replacement	2.0	-	-	-	-
Desktop and Laptop Refresh	1.1	-	-	-	1.8
SAP Core Application Upgrade	-	2.0	-	-	-
IT Infrastructure Network Evergreening	-	1.2	-	-	-
SCADA System Upgrade	-	1.6	-	-	-
<b>Totals</b>	<b>4.2</b>	<b>4.8</b>	<b>-</b>	<b>-</b>	<b>1.8</b>

# Major Capital Projects Subject to CPCN – Cost Projections

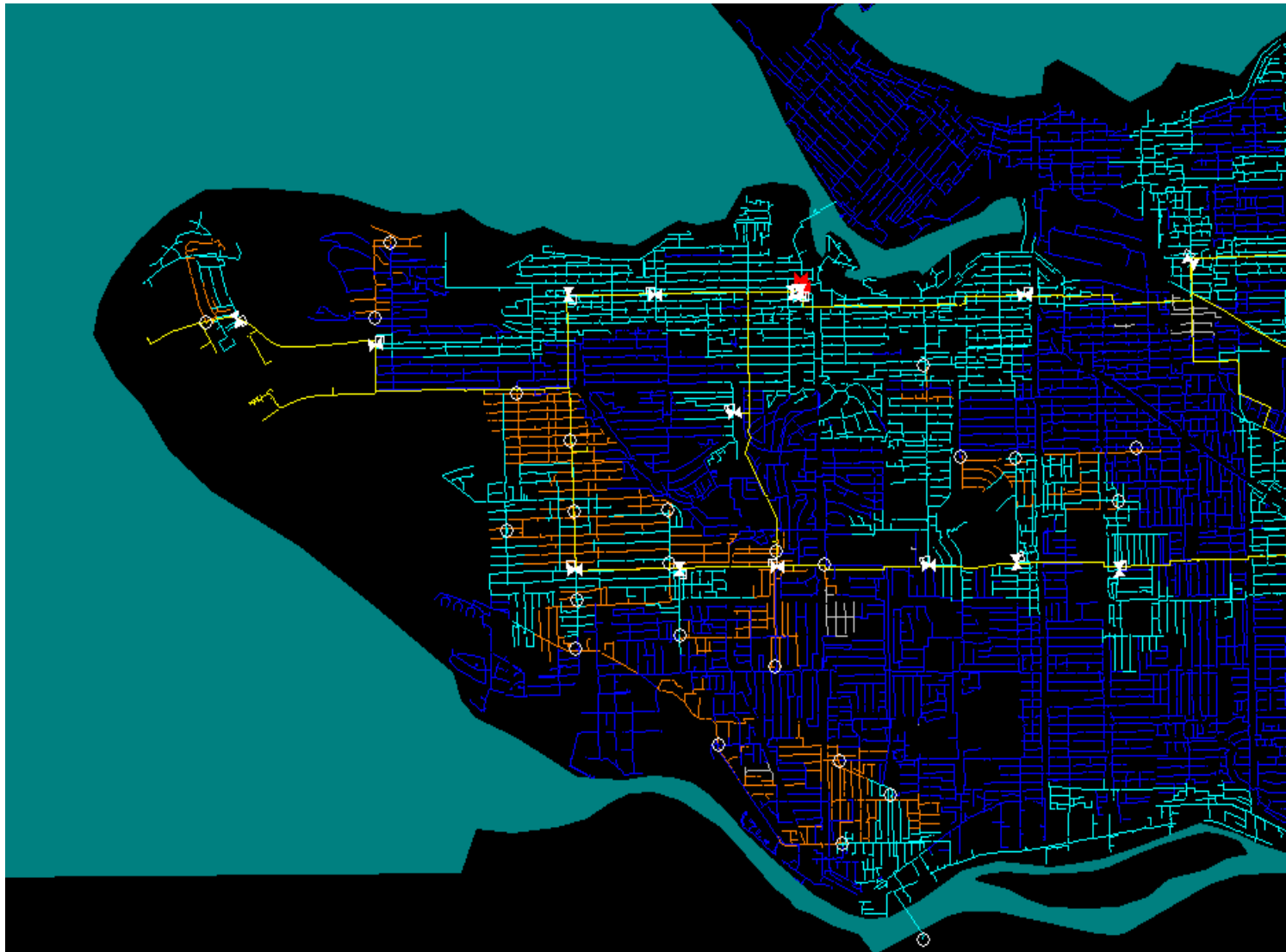


<b>CPCN Applications (Certificate of Public Convenience and Necessity) (\$millions)</b>	<b>2006 Forecast</b>	<b>2007 Forecast</b>	<b>2008 Forecast</b>	<b>2009 Forecast</b>	<b>2010 Forecast</b>
<b>Mission Bridge IP</b>	5.8				
<b>Residential Unbundling</b>	9.0	16.0			
<b>Vancouver LP System Replacement</b>	4.9	5.2	5.3	5.4	
<b>Nichol to Port Mann Loop</b>					15.8
<b>Totals</b>	<b>19.7</b>	<b>21.2</b>	<b>5.3</b>	<b>5.4</b>	<b>15.8</b>

# Low Pressure System Upgrade – Mature Vancouver Neighbourhoods



# Low Pressure System in Vancouver (in red) (95 km)





# Code of Conduct & Transfer Pricing Policy

**Doug Cruickshank**

## Code of Conduct

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

# Transfer Pricing Policy

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

## Compliance Reviews

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

## Internal Audit Services Review

- Generally accepted standards for review engagements, as per the Canadian Institute of Chartered Accountants.
- Procedures include:
  - Make enquiries to understand what resources & services are provided to NRBs.
  - Make enquiries to understand the processes & controls maintained by TGI to comply.
  - Review evidence of such processes and controls.
  - Review evidence of compliance.

“Based on my review, nothing has come to my attention that causes me to believe that Terasen Gas Inc. is not in compliance with the Code of Conduct and Transfer Pricing Policy for the period January 1, 2005 to August 31, 2005.”

Signed:

Doug Cruickshank, Chartered Accountant  
September 30, 2005

## External Auditor Report, KPMG LLP

- Reviewed TGI's compliance ... for the eight month period ended from January 1, 2005 to August 31, 2005, in accordance with Canadian generally accepted standards for review engagements.
- Procedures included a review of the Internal Audit Service report and the work they performed in connection with their report.

“Based on our review, nothing has come to our attention that causes us to believe that the Company is not in compliance with the Transfer Pricing Policy and Code of Conduct ...”

Signed:

KPMG LLP, Chartered Accountants

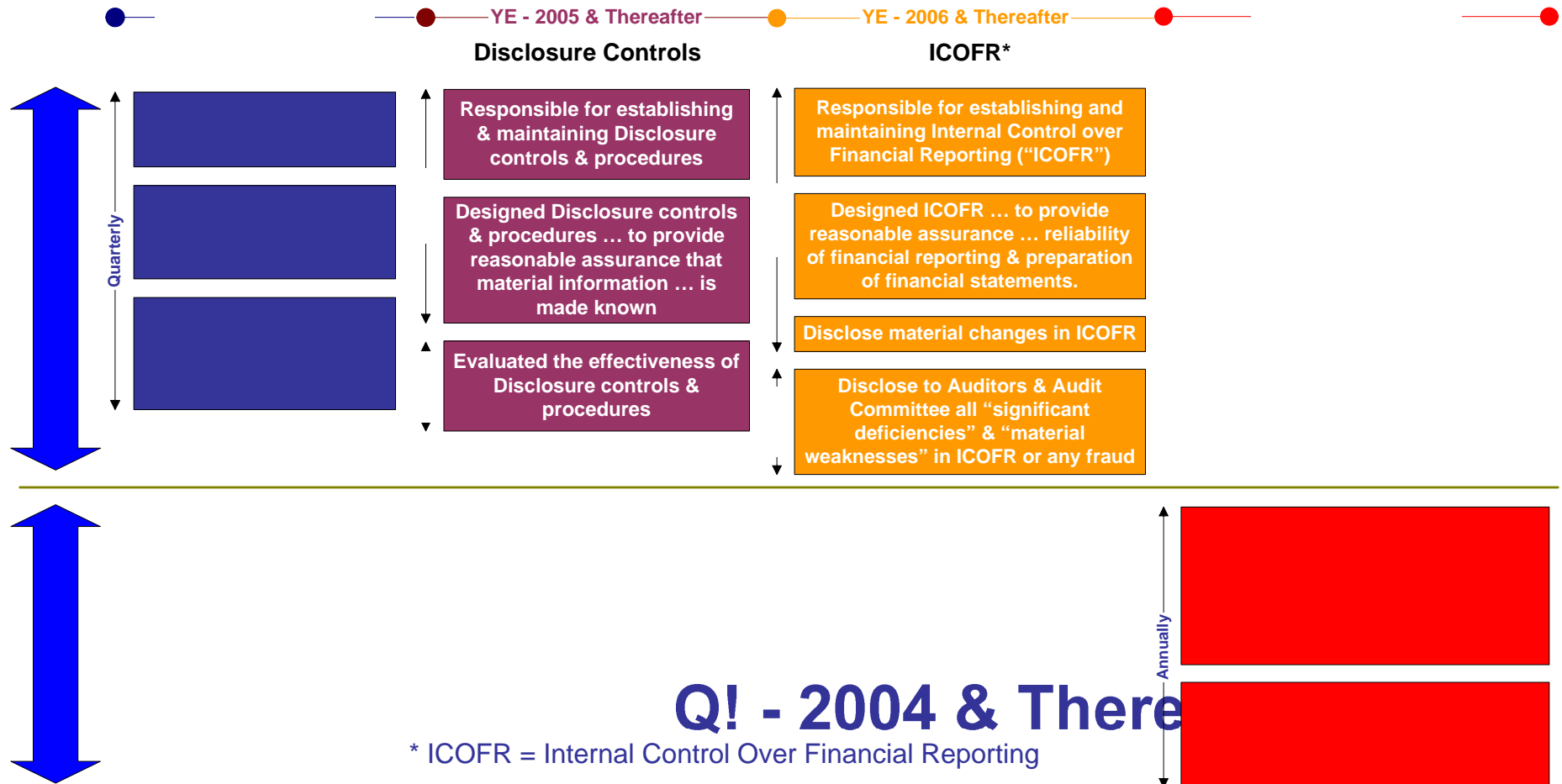
October 7, 2005

**CEO/CFO Certification**  
*(MI52-109/111)*

**Doug Cruickshank**



# MI52-109 / MI52-111



**Q! - 2004 & Thereafter**

\* ICOFR = Internal Control Over Financial Reporting

## Content

## Key Components of a Disclosure & Financial Reporting Infrastructure

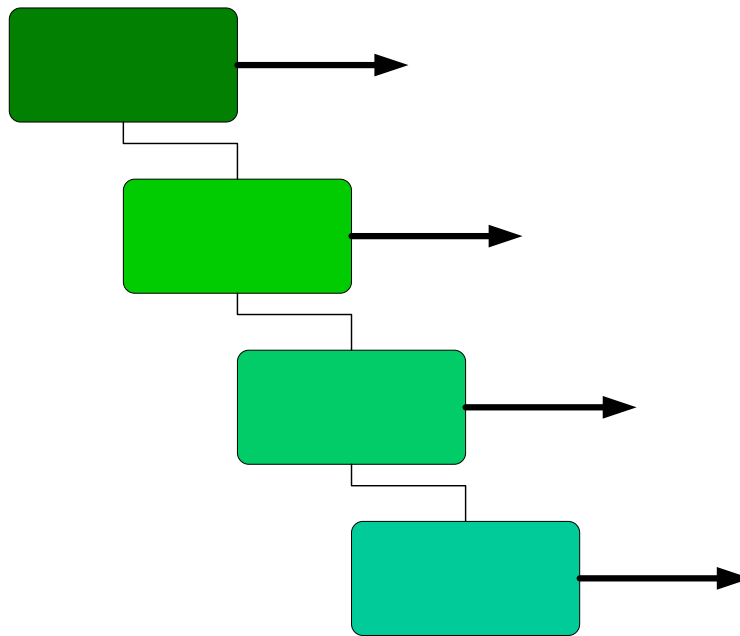


Disclosure Controls & Procedures

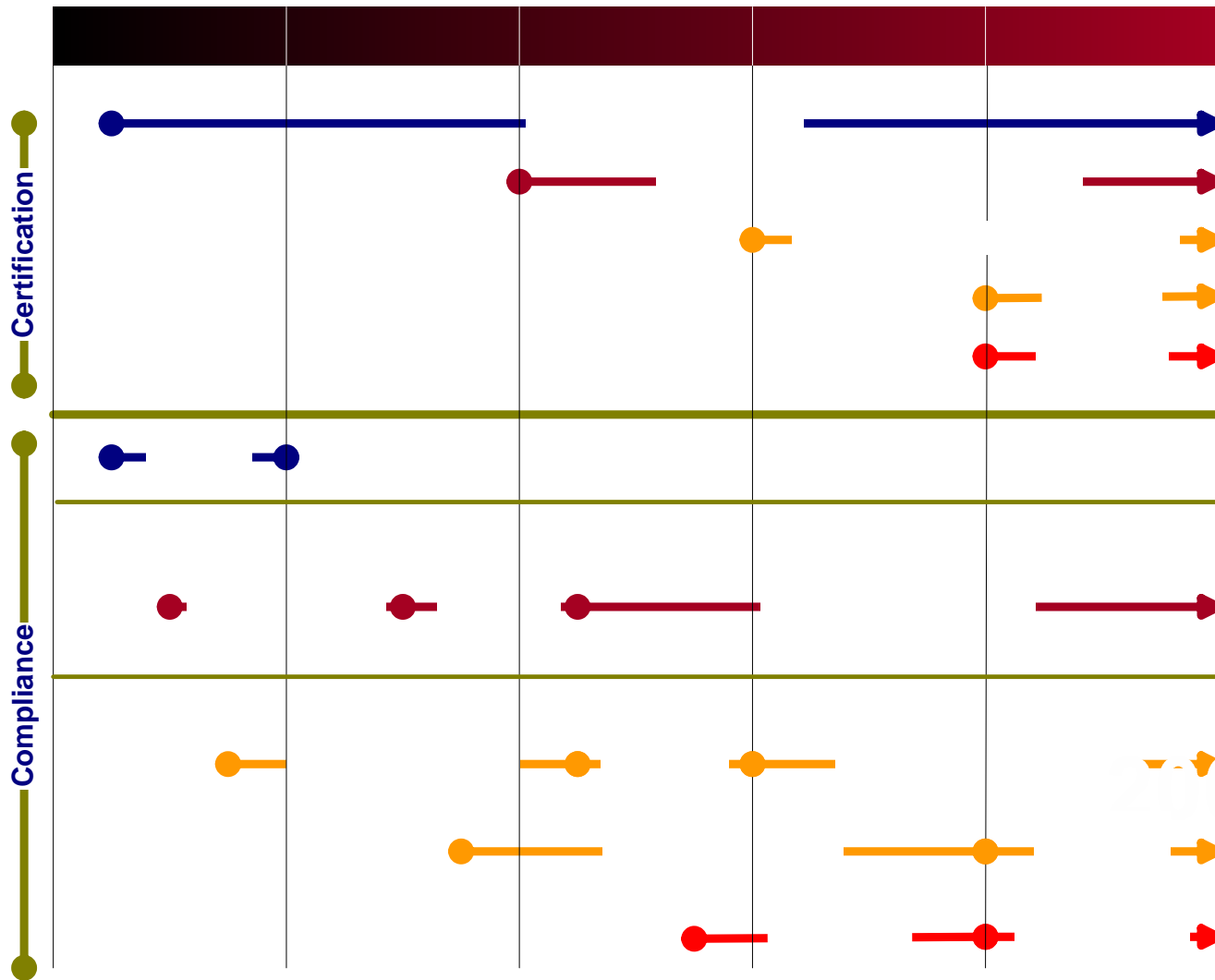
ICFR

- ICOFR covers:
  - Initiating, authorization, recording, processing & reporting significant accounts & disclosures and related financial statement assertions
  - Non-routine and non-systematic transactions
  - Selection & application of appropriate accounting policies
  - Anti-fraud programs and controls
  - Controls, including IT general controls, on which other controls are dependent
  - Period-end processes
  - Controls that have a pervasive impact (tone-at-the-top)

- Key areas of internal control documentation & assessment
  - Entity-level controls
  - IT general controls
  - Business process controls, both manual & automated



# Timeline Summary



# Compliance Costs



	2004 Annual Review*		Forecast
	2004	2005	2006
External Fees - Deloitte			
Initial Bare Certification	\$ 36,000	\$ -	\$ -
Scoping, Planning, Disclosure Processes	119,565	-	-
Financial Reporting Processes	128,565	157,320	-
Admin Fee (5%)	14,600	8,280	-
External Fees - KPMG			
Project Steering Committee	11,250	11,250	-
Incremental Internal Costs			
Resourcing	44,166	190,800	253,125
Other**	35,400	11,250	72,000
SAS70 Style Control Reports	-	-	112,500
Attestation - External Audit	-	-	90,000
	<u>          </u>	<u>          </u>	<u>          </u>
Budgeted Total	<u>\$ 389,546</u>	<u>\$ 378,900</u>	<u>\$ 527,625</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Actual Total***	<u>\$ 200,888</u>	<u>\$ 413,325</u>	

\* Adjusted to be for Terasen Gas Inc. only

\*\* Sustainment Tool Implementation / Licencing / Maintenance / Support, Travel, Admin, Contingency

\*\*\* 2005 Projected Actual Total

## Prior Year Over Recoveries

2004 Actual	\$ 200,888
2005 Projected	413,325
2004 Recovered in 2005 rates	(389,545)
2005 Recovered in 2005 rates	<u>(378,900)</u>
Net over recovery at end of 2005	<u>(154,232)</u>
2006 Forecast	<u>527,625</u>
Net 2006 pre-tax	373,393
Income tax	<u>(123,220)</u>
2006 certification costs, net of overrecoveries	<u>\$ 250,173</u>
Per 2005 Annual Review Advance Material - Section A Tab 3, Page 13.1	<u>\$ 250,000</u>

# Wrap Up