



2008 Joint Workshop of:
TERASEN GAS INC.
Annual Review
and
TERASEN GAS (VANCOUVER ISLAND) INC.
Settlement Update
for 2009 Revenue Requirements
and Rates

November 7, 2008

9am – 1pm

Terasen Gas. A Fortis company.

Session Overview

Scott Thomson

Agenda



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

- **Terasen Opening Remarks & Report** - *Randy Jespersen*
 - *2008 Priorities – Activities & Accomplishments*
 - *2009 Priorities and beyond*

- **Commodity Cost Outlook** - *Mike Hopkins*

- **Economic/Housing Start Outlook and Demand Forecasts** - *Lee Robson*

- **Capital** - *Tat Tang*

Agenda – Terasen Gas Inc.



■ **2009 Revenue Requirements and Rate Outlook** - *Michelle Carman*

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

Break

■ **Other information pertaining to the settlement**

- *Customer Care & Service Quality Indicators* - *Danielle Wensink*

■ **Code of Conduct & Transfer Pricing Policy** - *Andrew Lee*

Agenda – Terasen Gas Inc.



■ Exogenous and Common Factors

- *Diane Roy*

- *Olympic Security*
- *International Financial Reporting Standards (IFRS)*
- *Carbon Tax*
- *Future Income Taxes*

■ TGI Conclusion and Next Steps

- *Scott Thomson*

Agenda – Terasen Gas (Vancouver Island) Inc.



■ 2008 Review & 2009 Outlook

- Tom Loski

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

■ TGV I Conclusion and Next Steps

- Scott Thomson




Terasen Gas Opening Remarks

Randy Jespersen
President & CEO

Terasen Gas. A Fortis company.

Terasen Gas 2008 Priorities – Activities & Accomplishments



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

Terasen Gas 2008 Priorities – Activities & Accomplishments



■ Project Development

- *Whistler Pipeline Construction*
- *Mt. Hayes LNG CPCN Approval*



■ Mitigate Gas/Electric Rate Compression

■ Plan for TGV I loss of Royalty Revenue support in 2012

■ Energy Policy Implementation

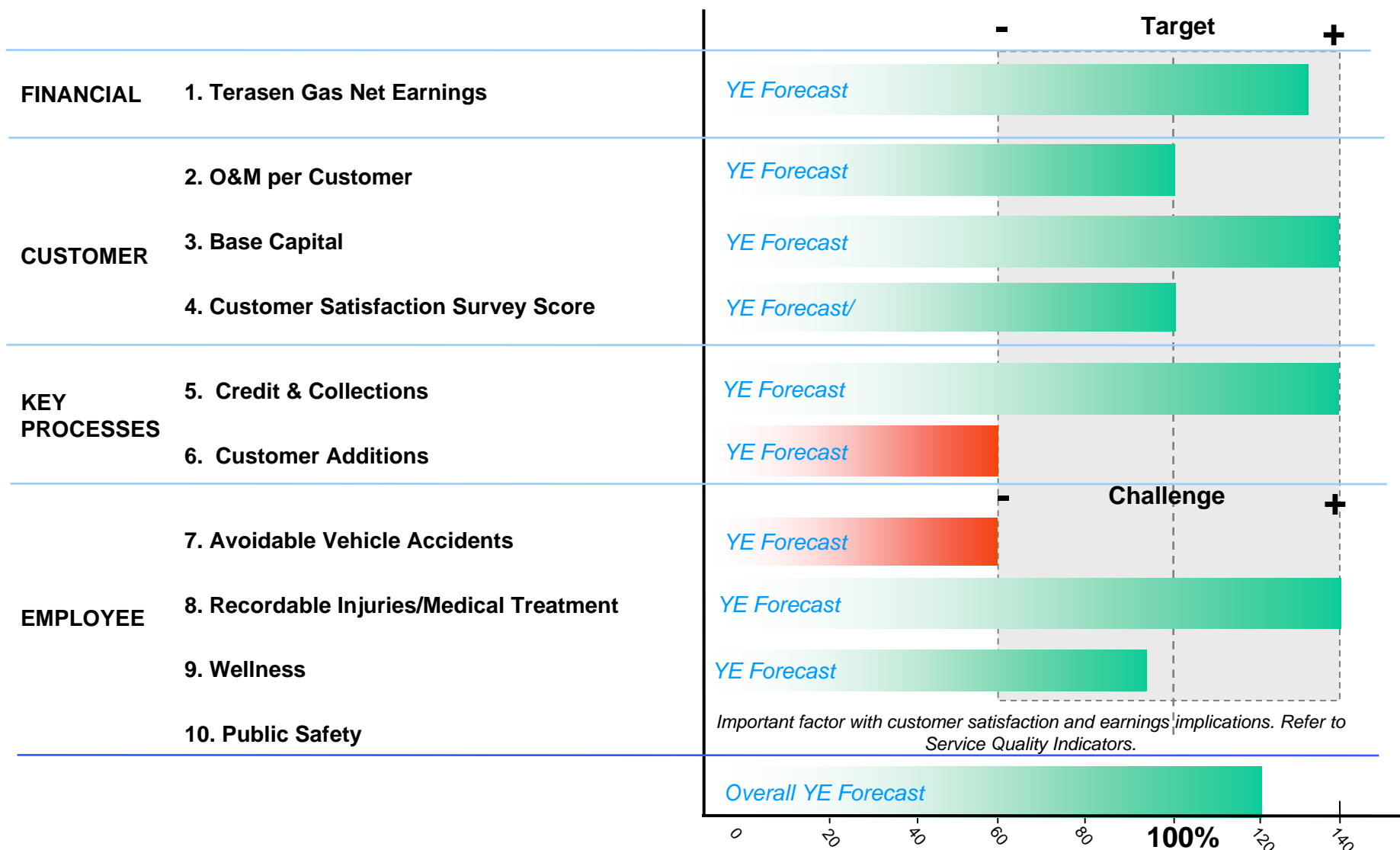
- *Proactive role in provision of solutions*
- *Right fuel, right application, right time theme*
- *“Smart Gas Strategy for BC” based on “net emissions”*
- *Balancing of Energy, Environment & Economy*
- *Harmonization with electric & alternative energies*
- *TGI-TGVI Energy Efficiency and Conservation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

Terasen Gas 2008 Financing Plan

- Successful 2008 financings in volatile markets
 - *6.05%, 30-year \$250 million TGVl debenture*
 - *5.80% 30-year \$250 million TGI debenture*
- Financial market conditions extremely challenging
 - *Terasen maintains good short-term liquidity position*
 - *Near term implication will see a rise in borrowing costs*
- Counterparty risk increased due to market challenges
 - *Heightened monitoring of gas supply counterparties*
 - *Restricted activity with certain financial institutions*

Terasen Gas Group 2008 Scorecard

September 2008 Results



Terasen Gas

2009 Priorities and Beyond



- Position Terasen as the Primary Energy Provider in British Columbia
 - *Provide solutions for implementation of Provincial Energy and Environmental policy*
 - *Implement “Smart Gas Strategy for BC” based on “net emissions” and “piped energy”*
 - *Promote harmonization of federal/provincial energy and environmental policies*
 - *Mitigate Gas/Electric Rate Compression*

Terasen Gas

2009 Priorities and Beyond



- Continued Focus on Operational Excellence
 - *Safety and reliability, customer satisfaction, cost containment, environmental responsibility*
 - *Olympic Security Preparedness*
- Continued Technology Improvements to Deliver on Operational Excellence
 - *Customer Service Enhancement*
 - *Asset Management*
- Financial Management and Performance
 - *Balancing customer and shareholder expectations*

Terasen Gas

2009 Priorities and Beyond



- Expand suite of energy infrastructure investments across B.C.
 - *Advancement of gas infrastructure projects*
 - *Expansion of natural gas service offerings*
 - *Development of integrated energy systems*
- Project Development
 - *Successful completion of Whistler Pipeline and Mt. Hayes LNG Project*
 - *Fraser River Crossing*

Terasen Gas

2009 Priorities and Beyond



■ Regulatory Priorities

■ *Revenue Requirements and Cost of Capital Application*

- TGI

- TGV

■ *TGV Rate Design Application preparation*

■ *Plan for TGV loss of royalty revenue support in 2012*

■ Retain, Attract & Motivate Employees

■ *Ensure Terasen remains a preferred place to work*

■ *Right skills and access to developmental opportunities*

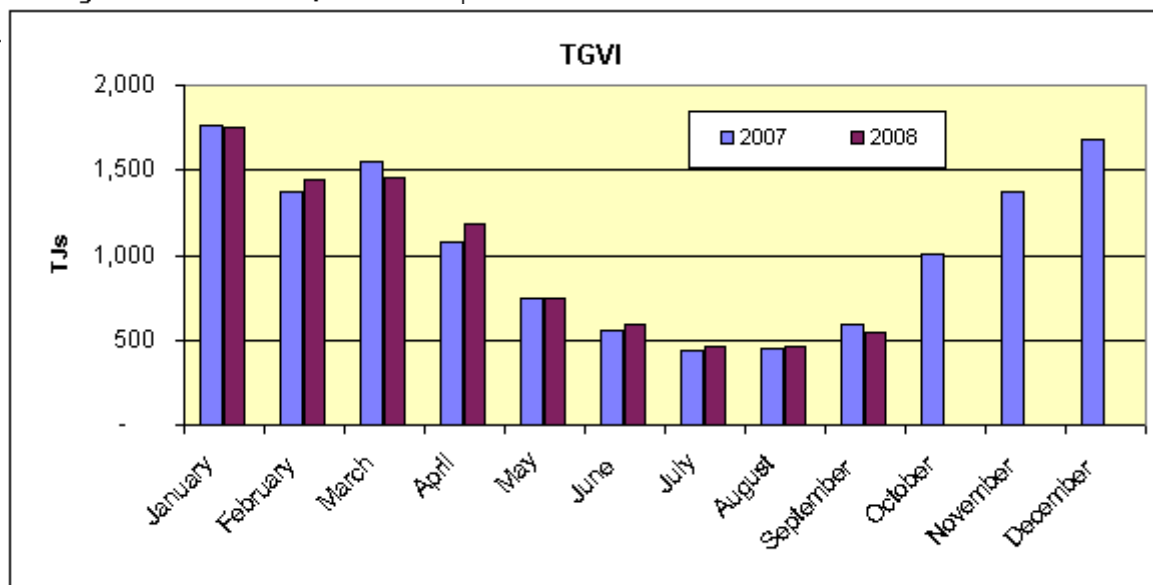
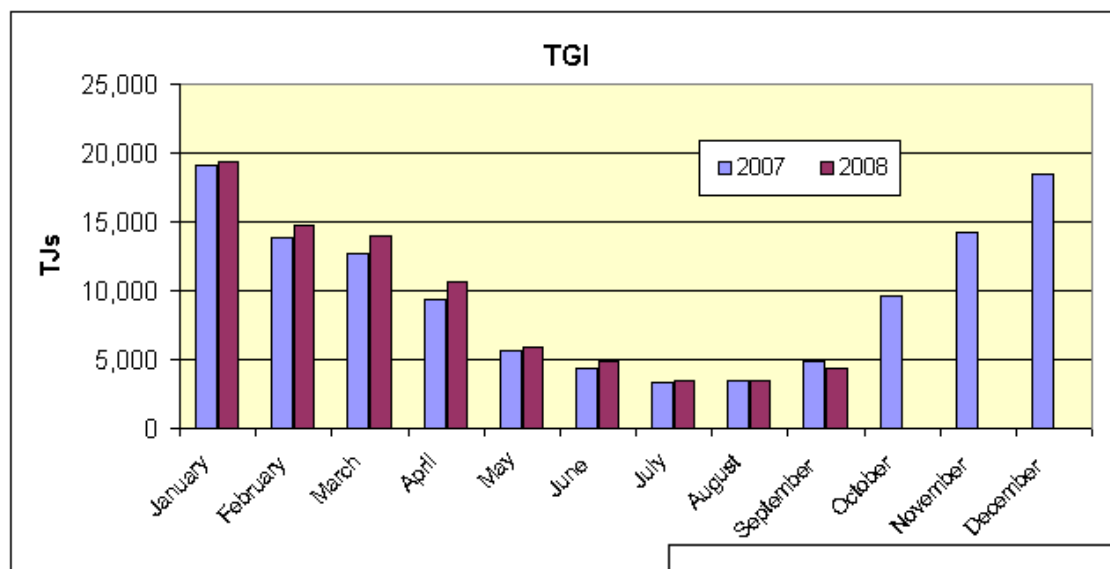
■ *Promote and reinforce our work place culture; focused on delivering results and rewarding performance*

Market Update and Gas Commodity & Midstream Cost Outlook

Mike Hopkins

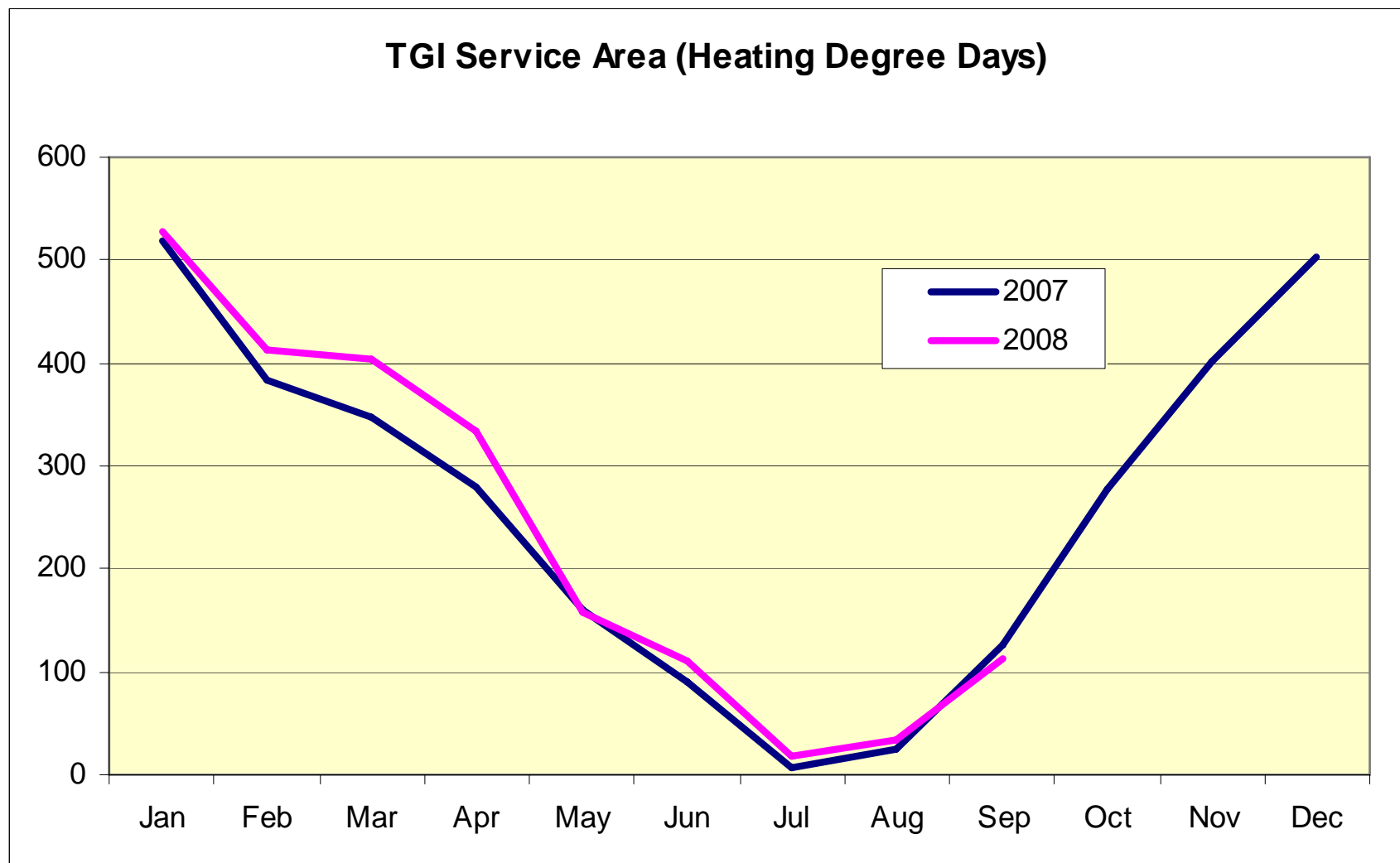
Terasen Gas. A Fortis company.

Higher Core Market Loads in 2008



Colder BC weather in 2008

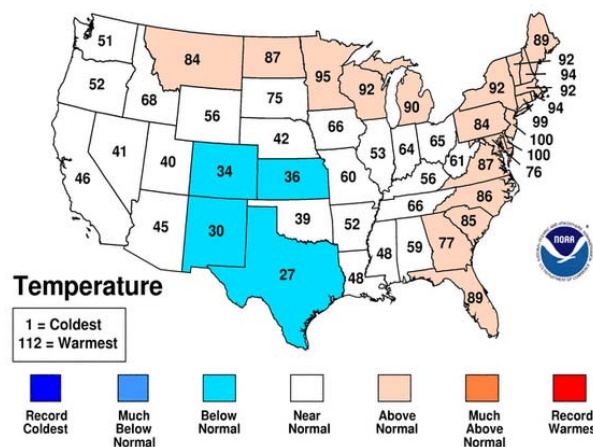
■ 2008 weather 9% colder than 2007 and 12% colder than normal (Jan-Sep)



2008 - Cooler Weather in the US

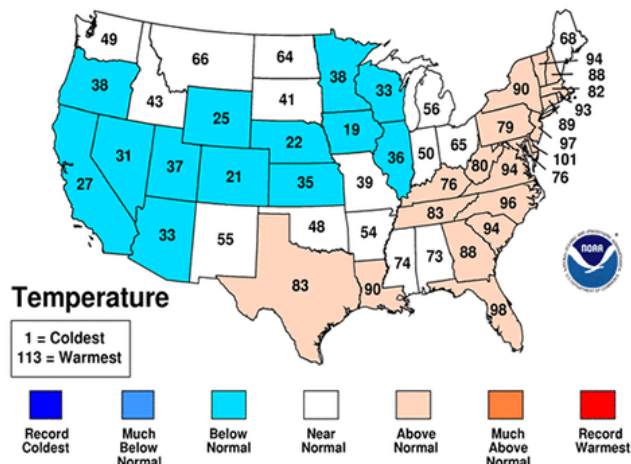
Dec 2006-Feb 2007 Statewide Ranks

National Climatic Data Center/NESDIS/NOAA



Dec 2007-Feb 2008 Statewide Ranks

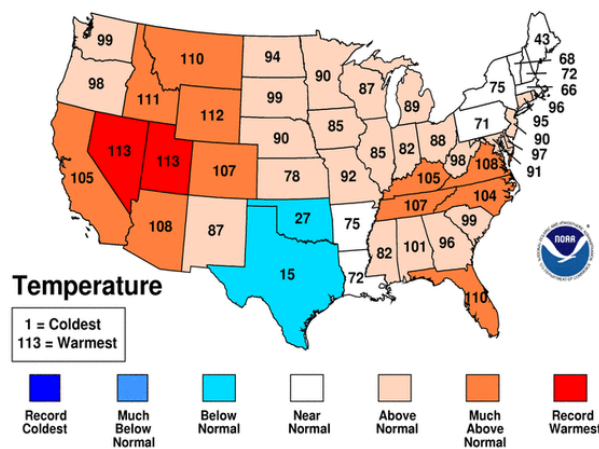
National Climatic Data Center/NESDIS/NOAA



← Colder winter (2007/08)

June-August 2007 Statewide Ranks

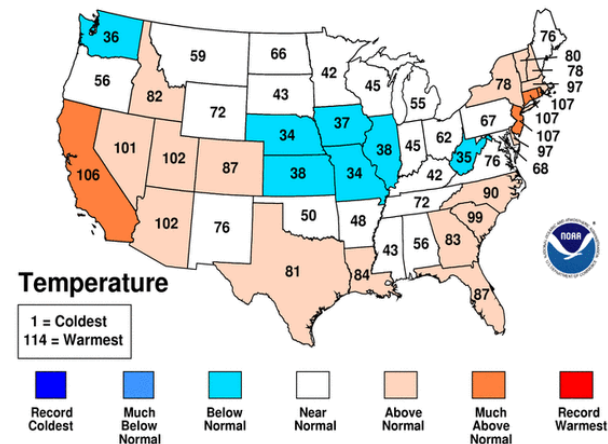
National Climatic Data Center/NESDIS/NOAA



Cooler summer (2008) →

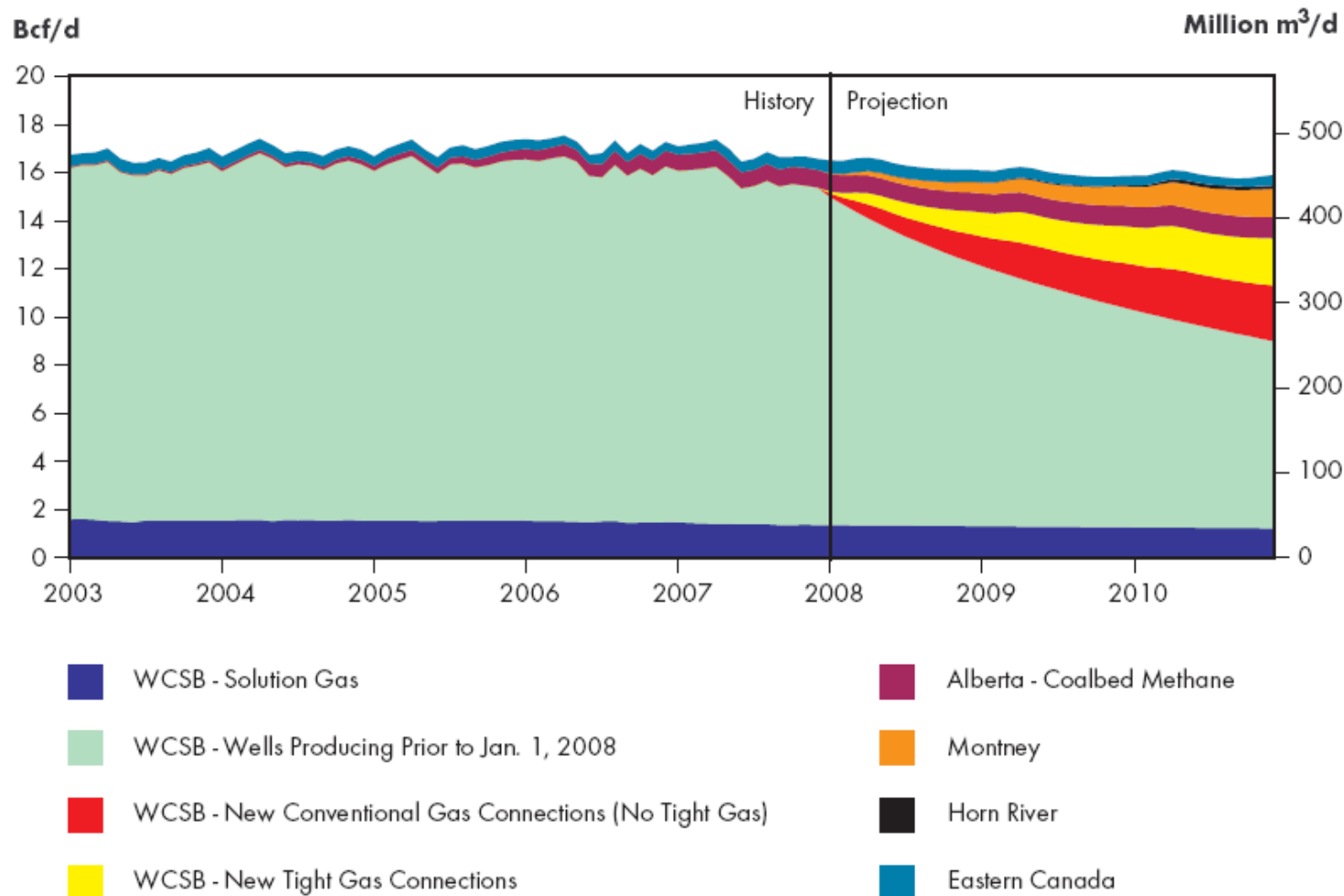
June-August 2008 Statewide Ranks

National Climatic Data Center/NESDIS/NOAA



Canadian Gas Supply – Declining

Outlook for Canadian Gas Deliverability – Reference Case

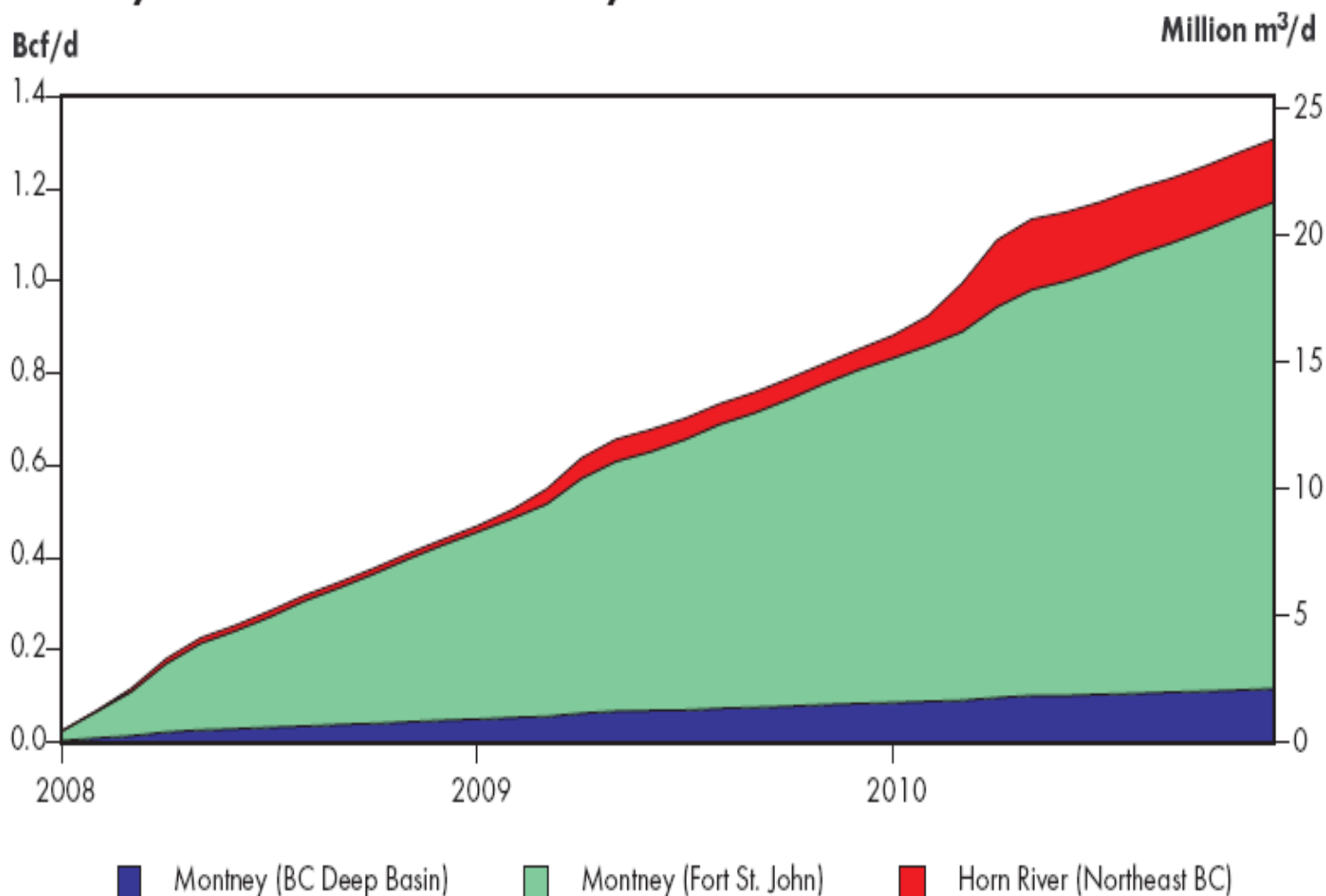


Canadian Supply Growth: -3% in 2008 -2% in 2009

Source: NEB Short Term Canadian Natural Gas Deliverability – October 2008

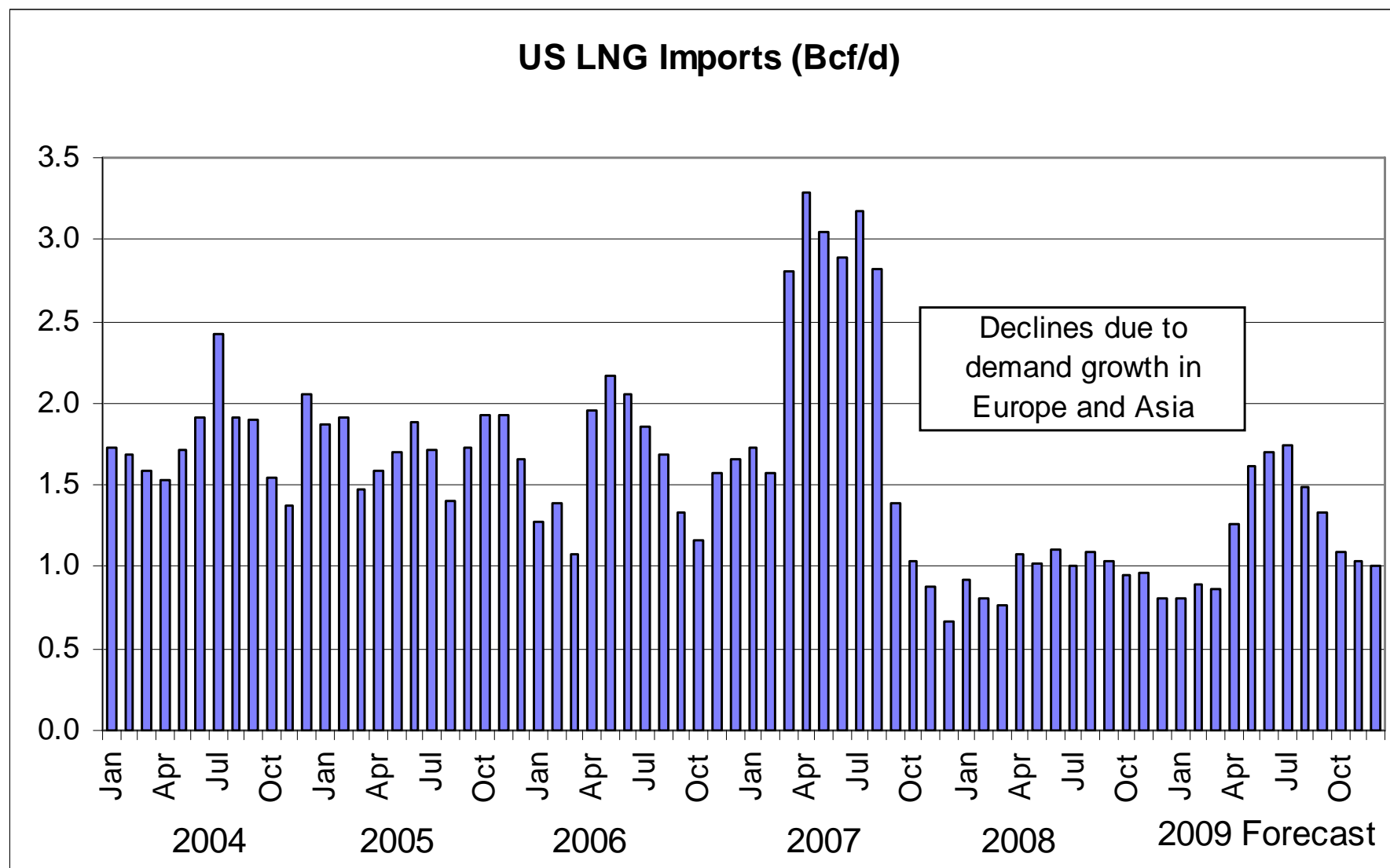
BC Unconventional Supply Increasing

Montney and Horn River Deliverability – Reference Case

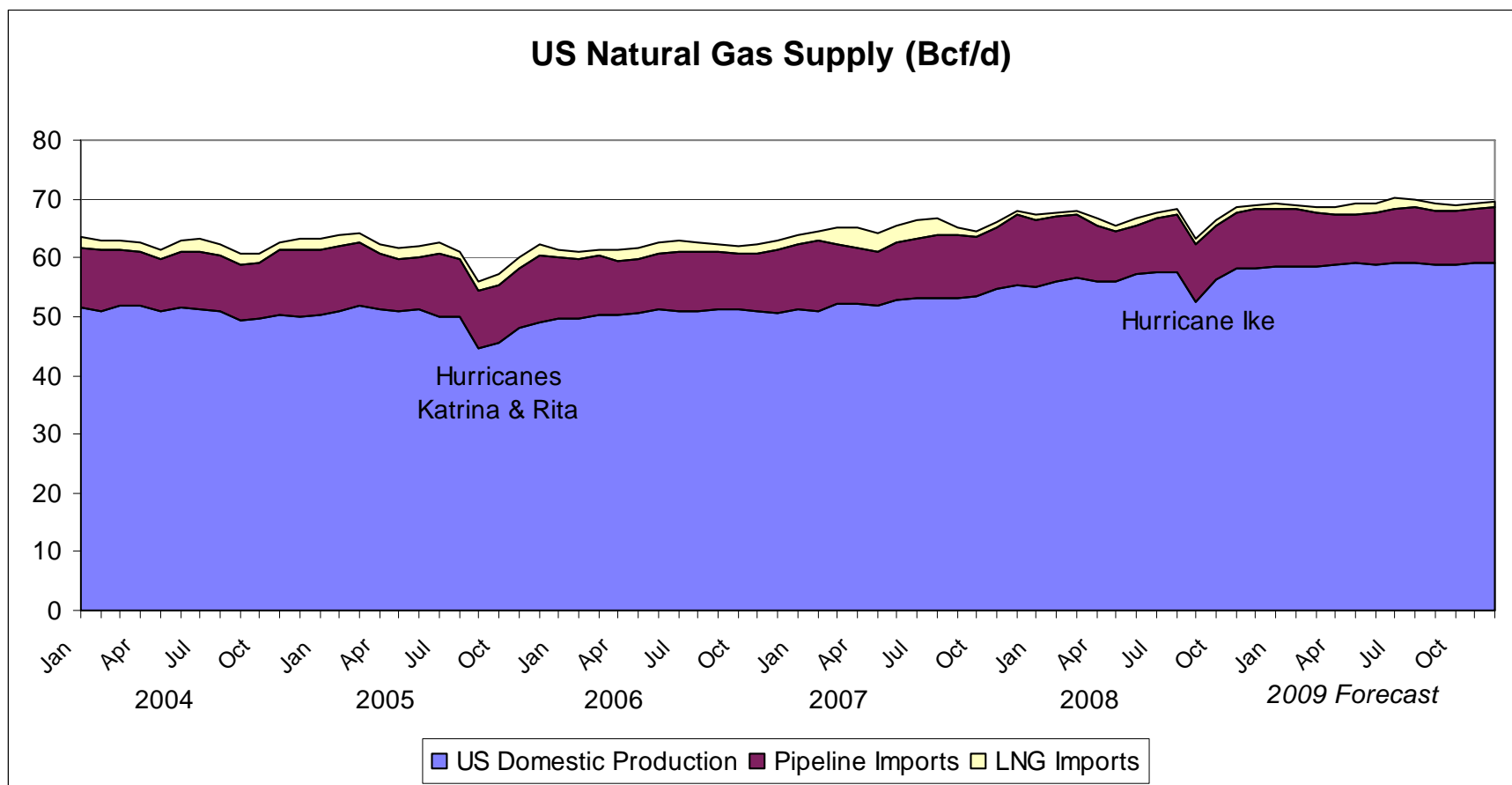


Source: NEB Short Term Canadian Natural Gas Deliverability – October 2008

2008 US LNG Imports – Below Expectations



US Gas Supply – Strong Growth



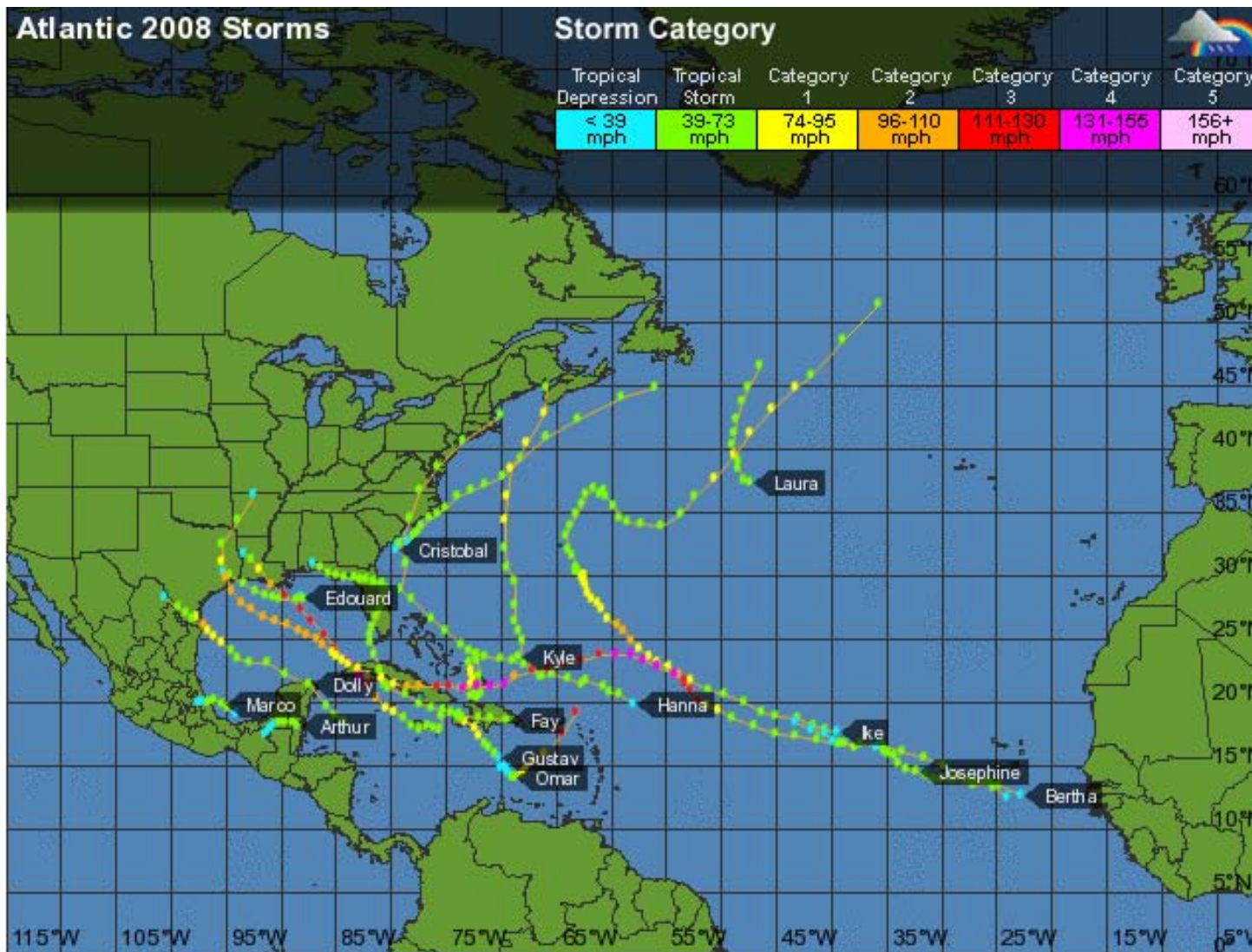
US Supply Growth:

+6.7% 2008

+4.2% 2009

Source: EIA October 2008 Short Term Outlook

2008 Atlantic Hurricane Season – Very Active

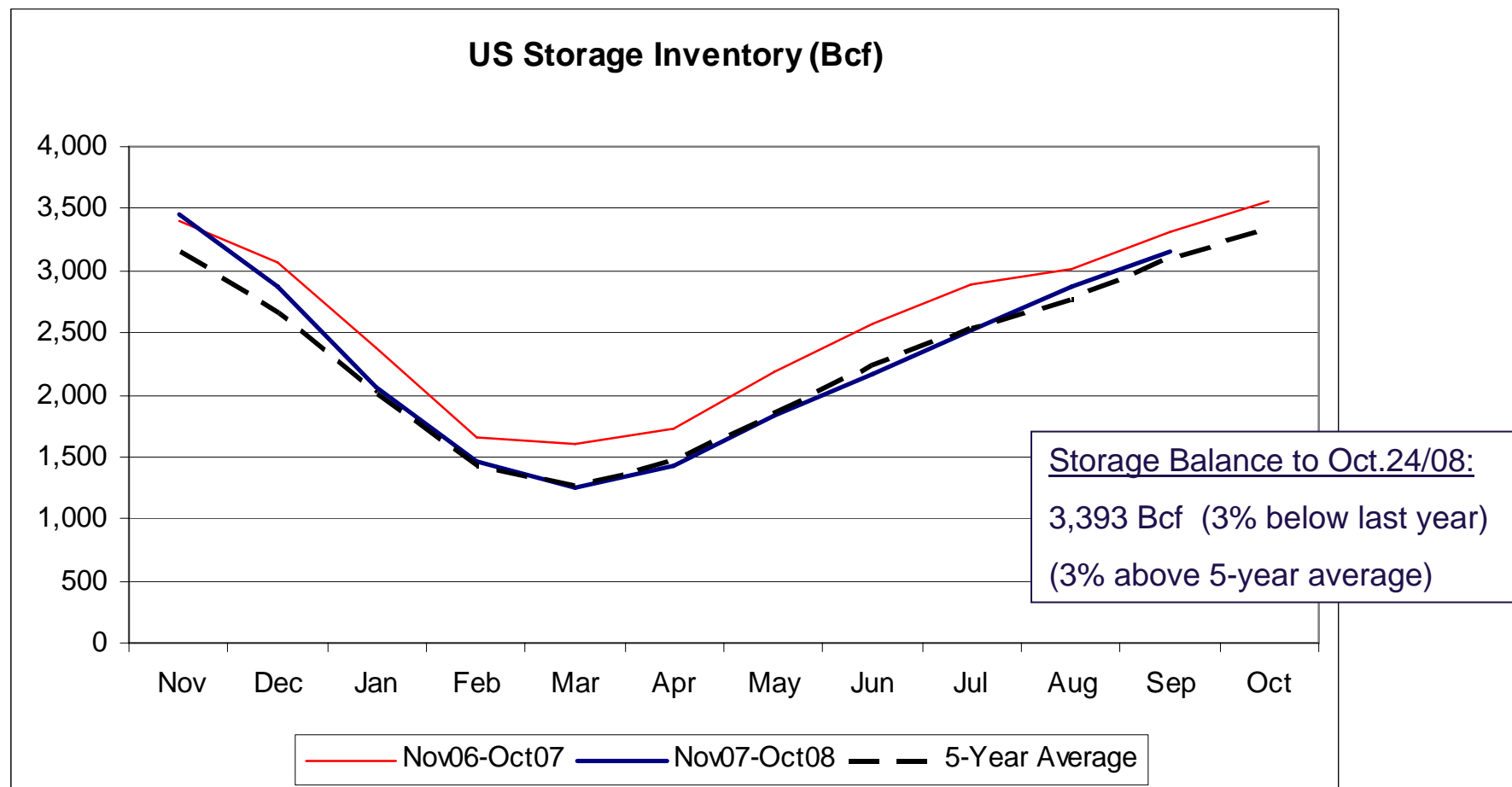


- 15 Named Storms to date (7 hurricanes)
- Forecast 15 Named Storms (6 hurricanes)
- Historical Average: 10 Named Storms
- Season is June-November
- Gas production shut-in due to Ike: 250 Bcf (Gulf produces 7.4 Bcf/d)
- Gulf gas production currently still shut-in: 2.4 Bcf/d (as of Oct.30/08)

Source: US Minerals Management Service

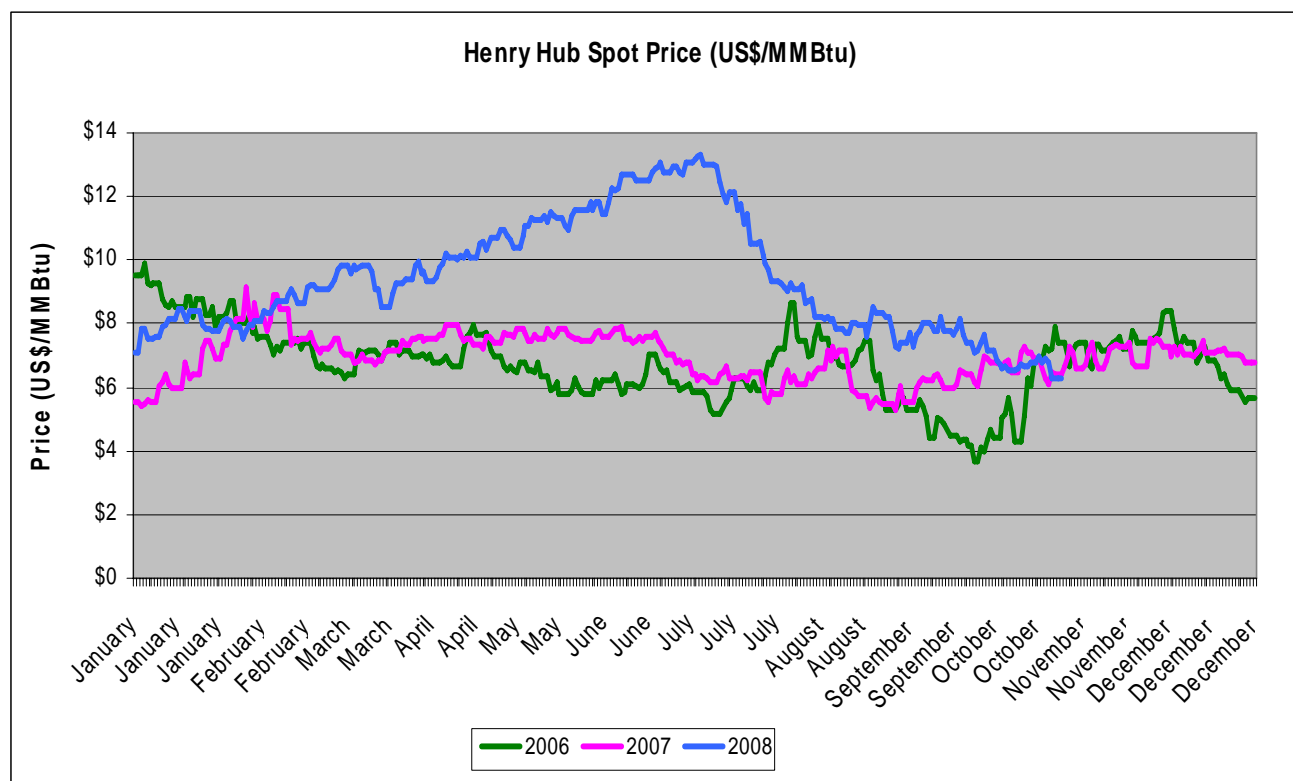
2008 Storage Balance – Much Improved

- Storage levels fell below last year and 5-year average (by April 2008)
- Recovery at end of summer due to mild weather and strong production



Source: EIA

Prices More Volatile in 2008



2008 price run up due to:

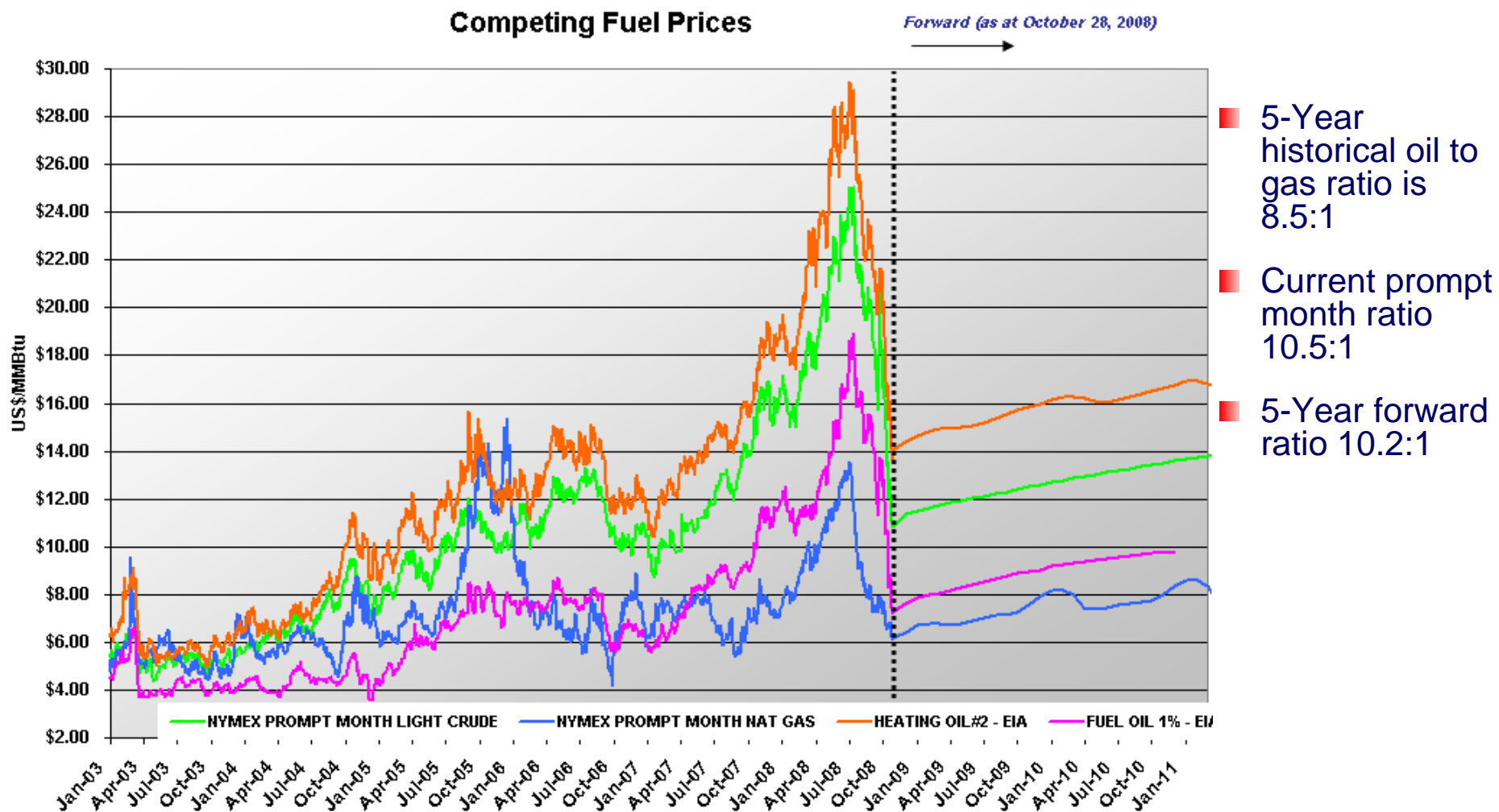
1. Cold winter weather Q1 2008
2. Crude oil and its derivative products (i.e. gasoline and heating oil) increasing
3. Independence Hub leak April 2008
4. Low storage levels
5. Low LNG imports (Asia/Europe prices higher)
6. Active hurricane season forecast

Significant changes from July 2008:

1. US production strong
2. Mild summer temperatures curbed air conditioning demand
3. Crude oil falls from \$145/barrel high on US dollar appreciation and slowing global demand
4. Improved storage levels
5. Slowing US economy

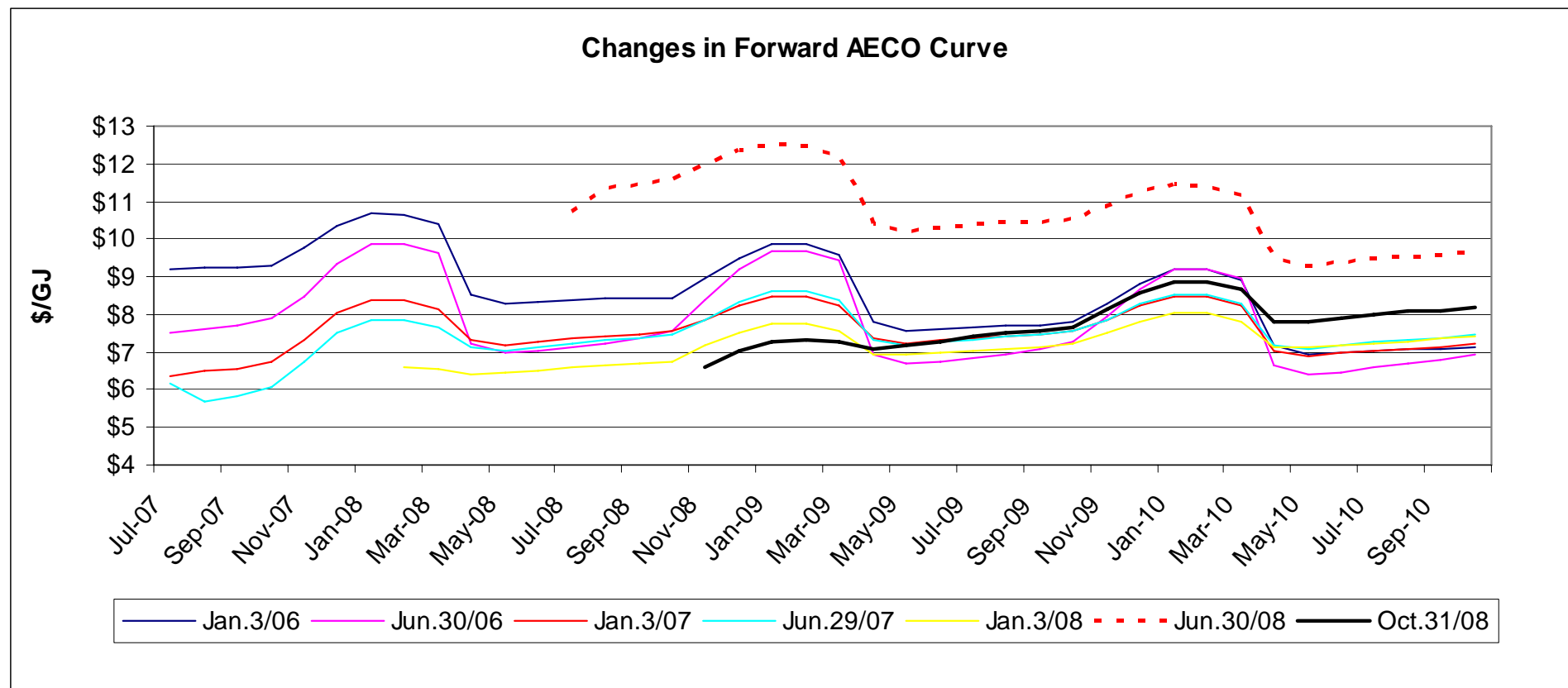
Natural Gas vs. Oil Products

■ Natural Gas prices remain discounted to crude oil product prices



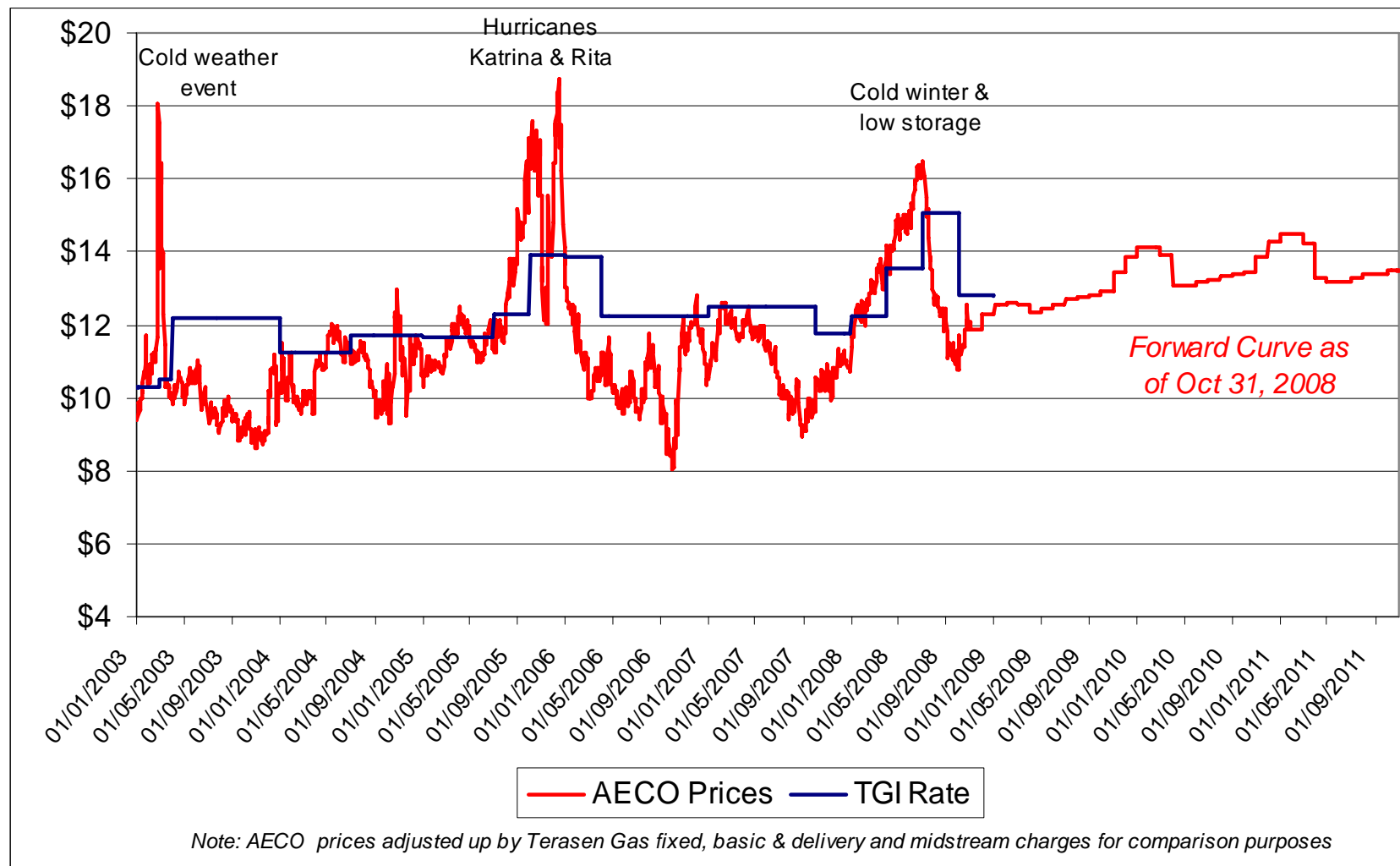
Forward Prices Volatile

■ Natural Gas prices remain volatile in 2008



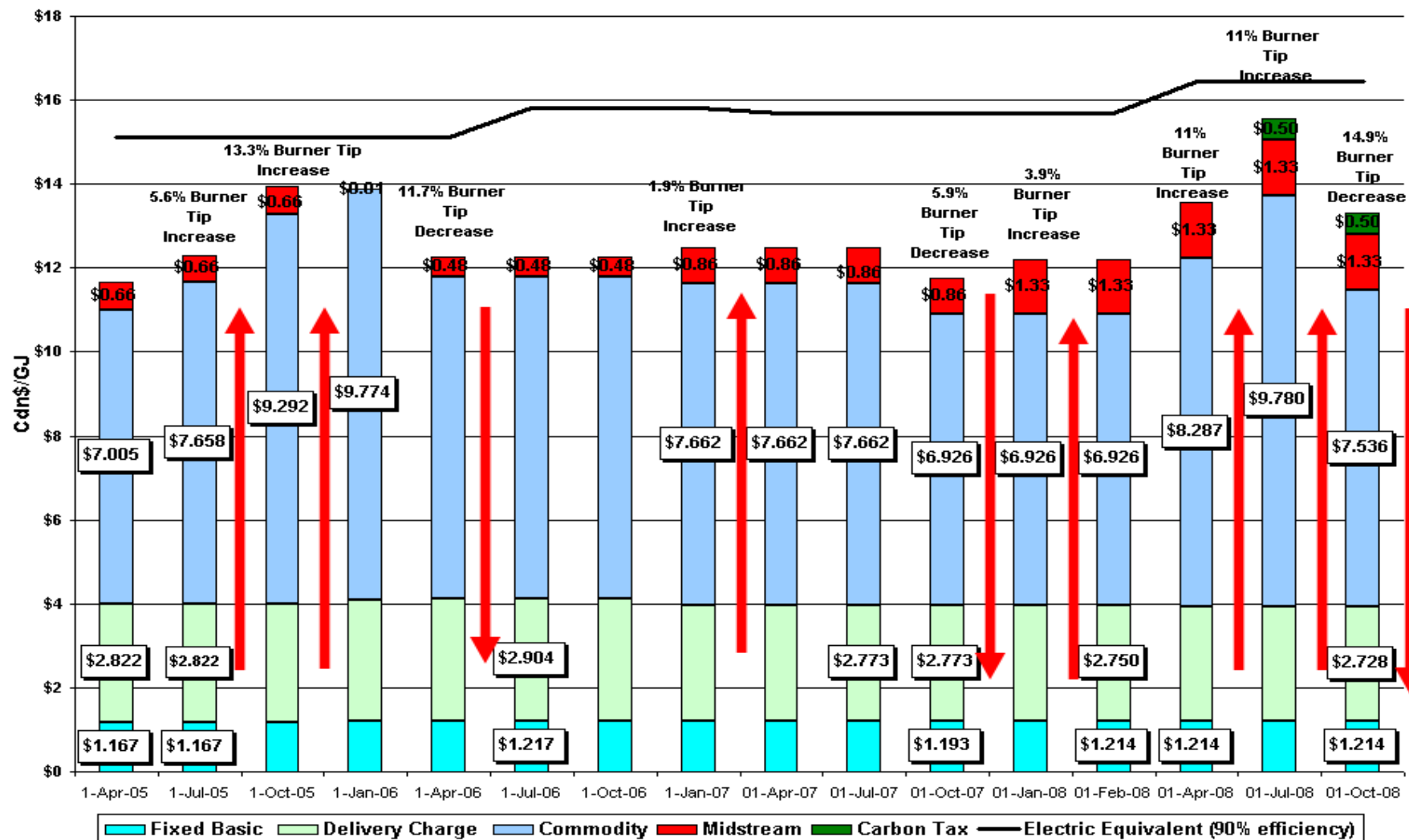
Terasen Gas Rate vs. Market Prices

■ Terasen rate less volatile than market prices



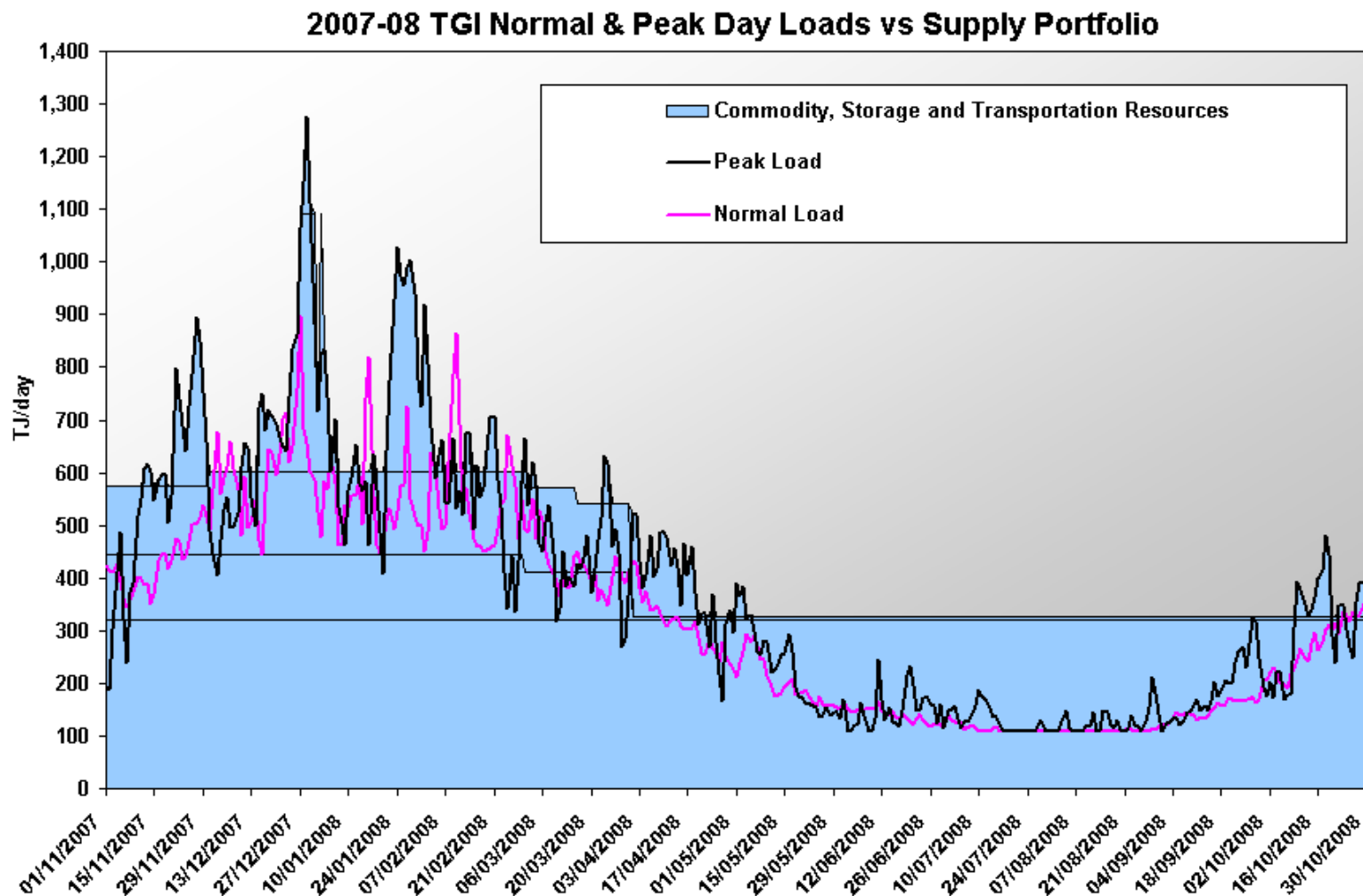
TGI Rates – Competitive with Electric Rates

TGI Lower Mainland Residential Rates



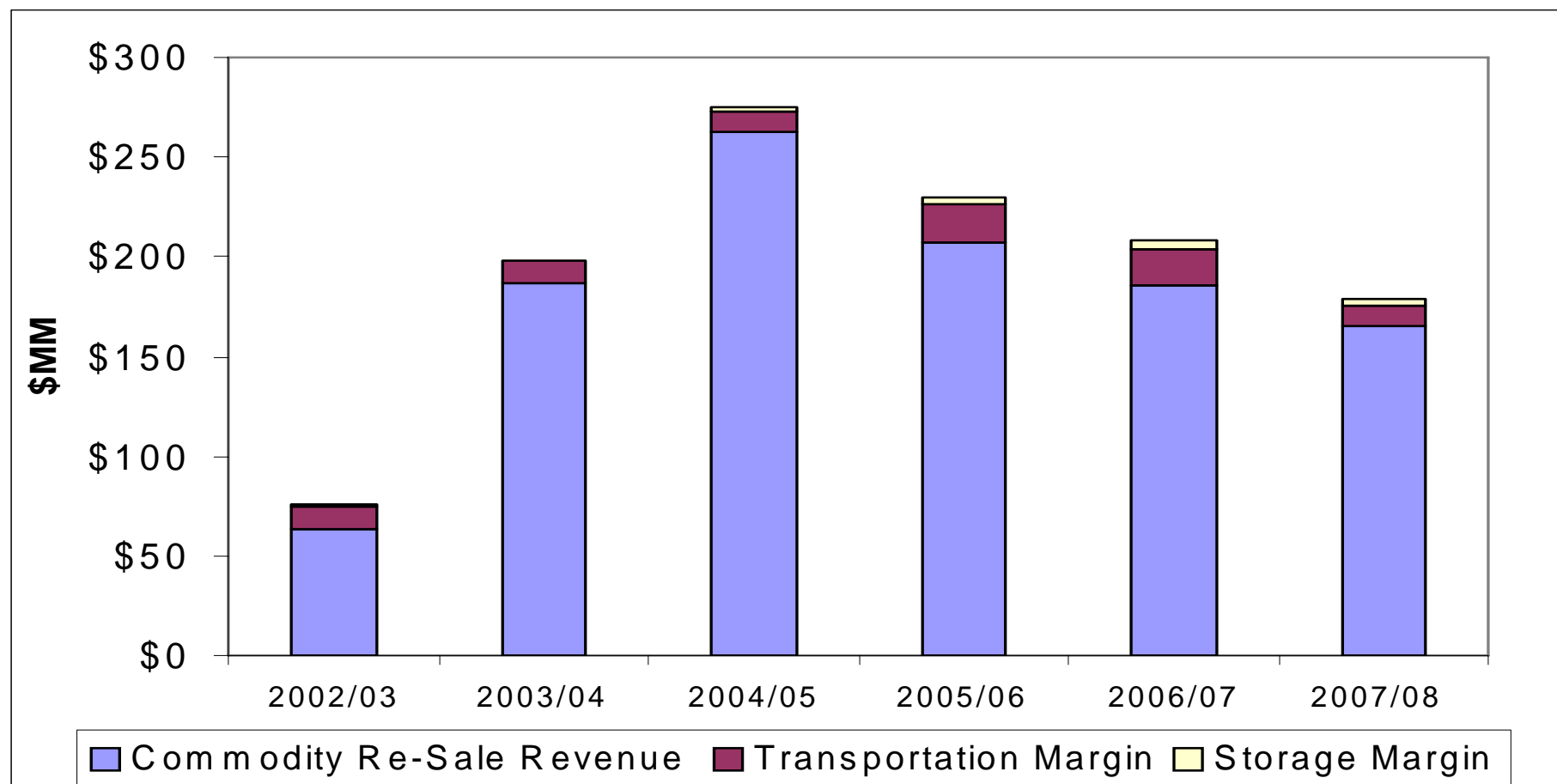
Midstream – Managing Peaks and Valleys

■ Essential Services Model → Terasen manages the Midstream portfolio



Mitigation Activity reduces Core Costs

Gas Supply Mitigation Activity



Note: Graph does not include SCP mitigation (\$3 million estimated in 2007/08)

Summary

- Gas market prices more volatile in 2008
 - 2008 cooler than 2007
 - Oil prices volatile
 - Canadian deliverability declined / US deliverability increased
 - Import LNG lower than forecast
- Terasen's objectives are to retain competitiveness to other fuels and lower rate volatility
 - TGI Residential Rates below electric equivalent (90% efficiency)
 - Customer rate volatility lower than the market
- Midstream activity is focused on optimizing the portfolio while ensuring reliability of supply
 - 2007/08 recoveries close to \$200 million (estimated)

2009 Forecast

Lee Robson

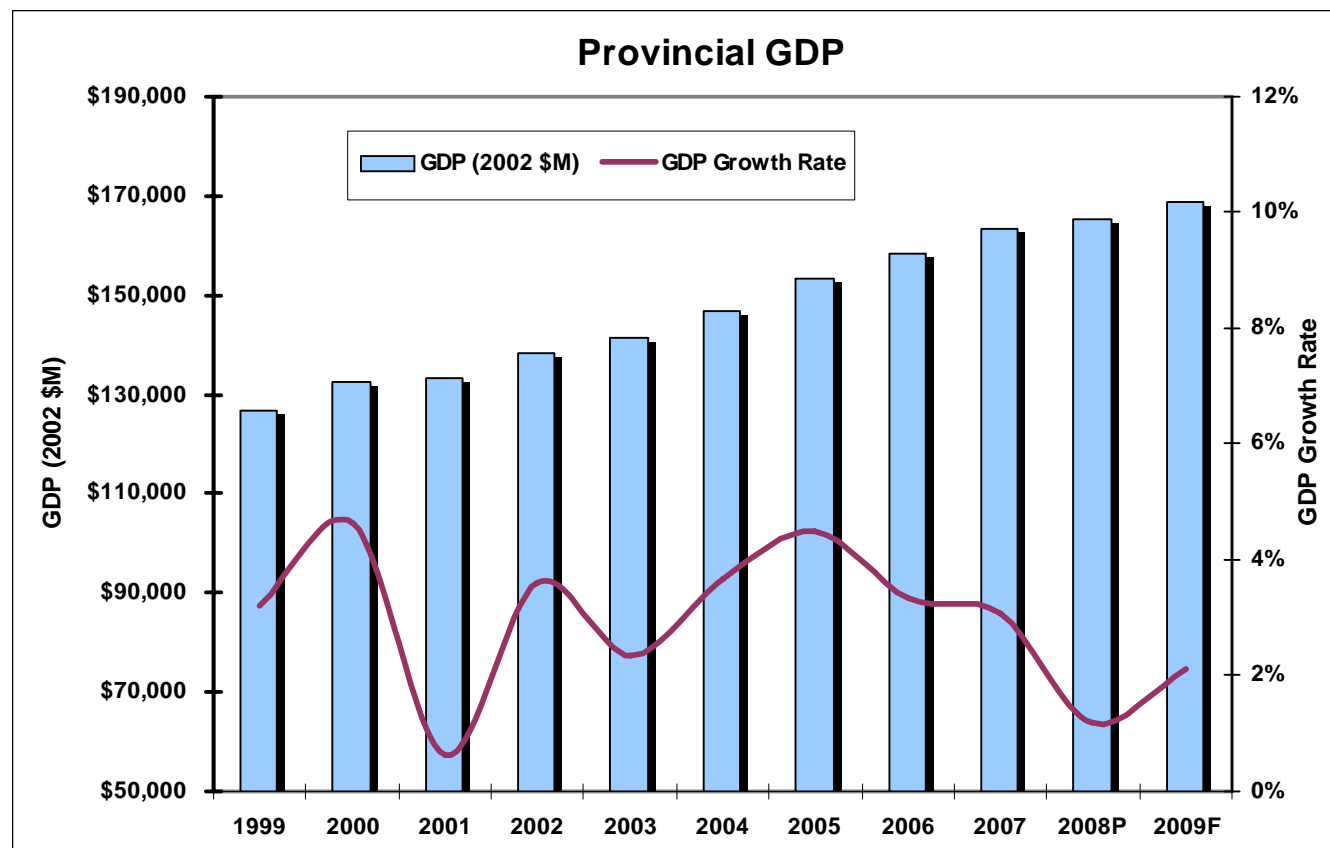
Terasen Gas. A Fortis company.

Overview



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

B.C. Economy – Downshifting



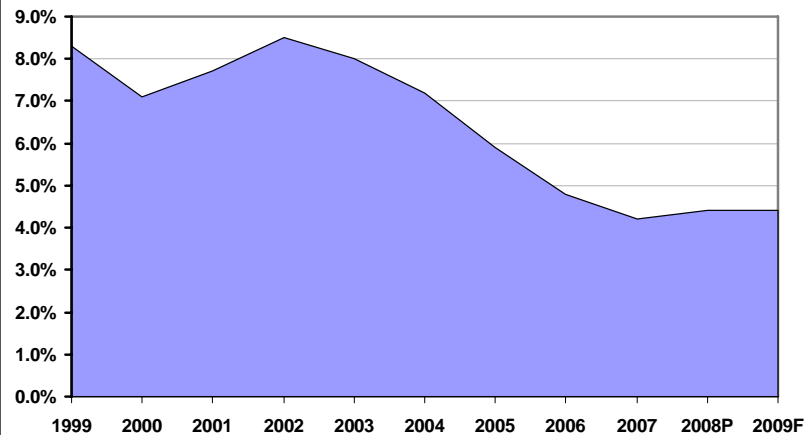
■ GDP growth rate slowing:

- Stable domestic demand
- Continued growth in employment
- Weakness in the trade sector
- Housing activity slowing

Source: Actuals – BC Stats, Forecast – RBC Economics (October 2008 Provincial Outlook)

B.C. Economy – Cont'd

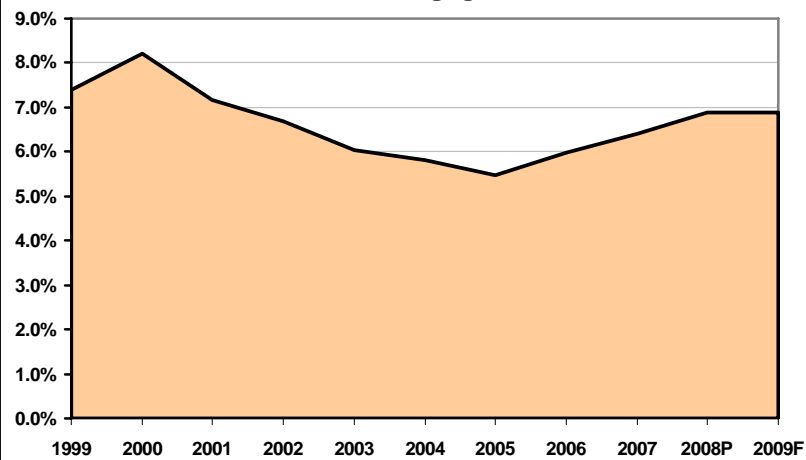
Provincial Unemployment



■ **Unemployment rate to remain low at 4.4% for both 2008 and 2009**

- B.C. Ministry of Finance: 4.4% (2008 & 2009)
- RBC Economics: 4.4% (2008) / 5.1% (2009)
- TD Economics: 4.3% (2008) / 4.5% (2009)

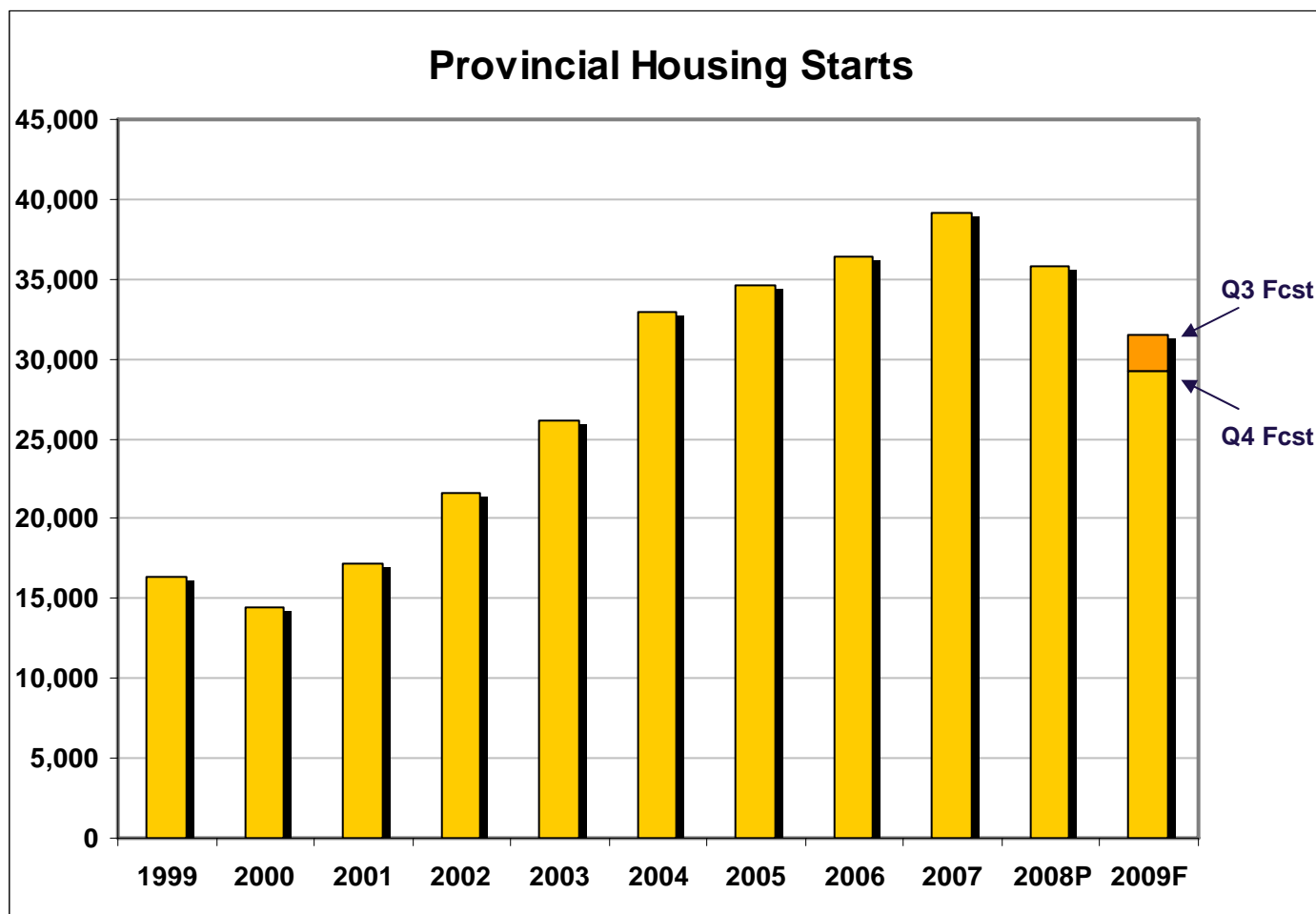
5 Year Mortgage Rate



■ **Mortgage rate expected to remain relatively stable over Q4 2008 and in 2009, ranging from 6.5% to 7.25%**

- Canadian Mortgage Housing Corp (Q4, Housing Market Outlook)
- Credit Union Central of B.C. (Oct 2008 Interest Rate Forecast Report)

Housing Starts



Source: CMHC, October 2008

Housing Starts to decline in 2008 and 2009

- *Moderating economic climate*
- *Increased construction costs*
- *Well supplied resale market*

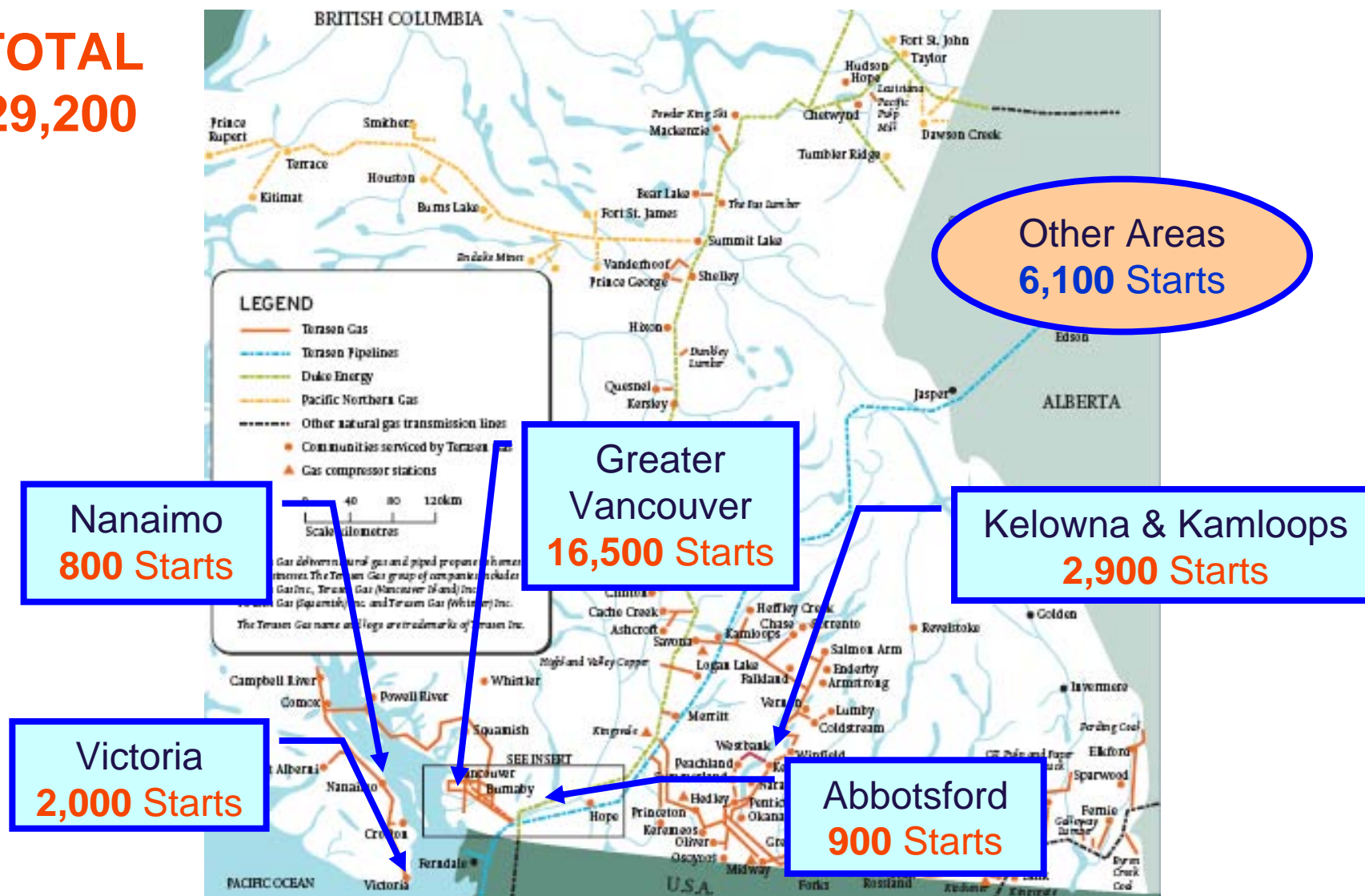
Q4 Revision:

- *29,200 housing starts for 2009*
- *18% decline from 2008*

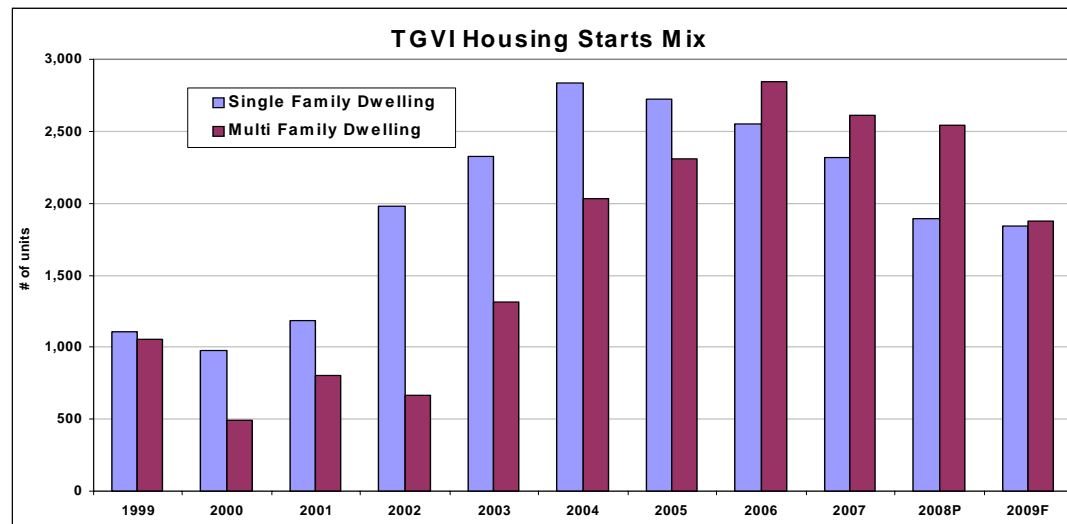
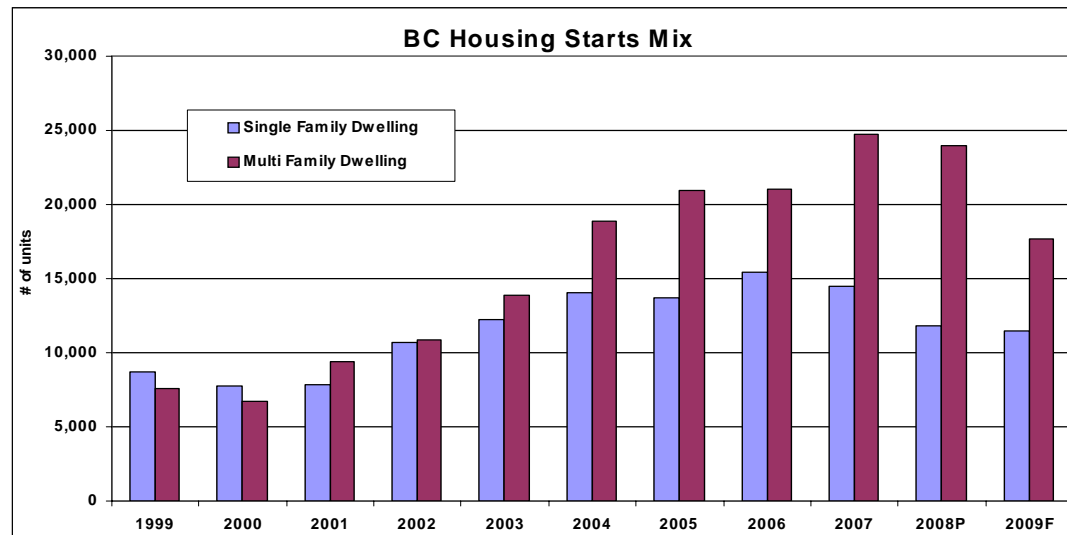
2009 CMHC Housing Starts Forecast



**TOTAL
29,200**



Housing Types



Shift towards higher density housing types to continue

- *High building material and land costs and declining affordability*
- *Single detached home starts to move to lowest levels in 5-years*
- *Number of condominiums under construction is near record highs*

Source: CMHC

U.S. Slowdown – Global Impact

- Economic Growth projections revised downward, driven primarily by slowdown in the U.S.
- Assessment of economic crisis

Alan Greenspan – Oct 23, 2008

“The crisis has turned out to be much broader than anything I could have imagined”

Conference Board of Canada: Autumn Outlook 2008 – Oct 2008

“The turmoil in the U.S. is having widespread repercussions, affecting investor and consumer confidence and tightening credit conditions on a global scale.”

TD Bank: Provincial Economic Outlook – Oct 16th, 2008

“B.C.’s export sector, in particular lumber and forest products, is still reeling from the U.S. residential construction downturn.”

RBC Economics: Provincial Outlook – Oct 2008

“Fortunately British Columbia’s economy remains well supported by heavy investment spending both public and private.”

Forestry Industry



- Contraction in the Forestry industry is expected to continue into 2009, due to major shifts in economic drivers
 - Strong Canadian dollar during the first half of 2008
 - Decline in the U.S. housing market & the recent credit crunch
 - Average price of lumber decreased by more than 20% in 2008
 - Declining demand & excessive saw milling capacity

Forestry Industry – Cont'd

■ Recent industry developments

Weyerhaeuser – Feb 18th, 2008

Shutdown its Kamloops saw mill as a result of continuing challenging markets in US & rising Canadian Dollar”

Pope & Talbot Inc - May 5th, 2008

“Shut down its pulp mills operation including its Mackenzie Mill due to weak lumber prices & slowing US economy.”

Canfor Corp. –July 30th, 2008

“Decided not to rebuild its North Central Plywood plant in Prince George which was destroyed by fire on May26th, 2008”

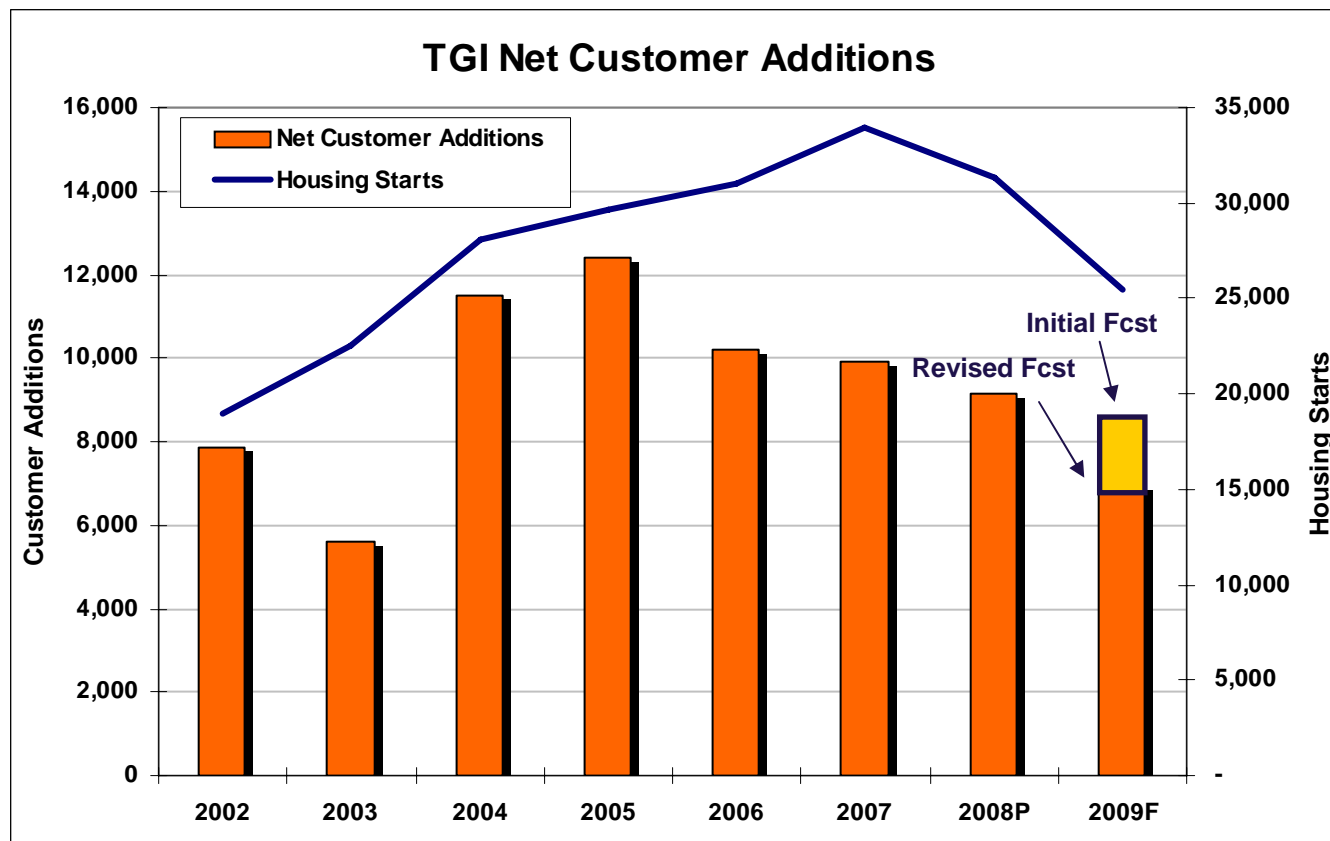
Canfor Corp. - Oct 8th, 2008

“Closed its Tackama plant in Ft Nelson due to poor demand and low prices for plywood ”

TGI Forecast

Terasen Gas. A Fortis company.

TGI Net Customer Additions Forecast

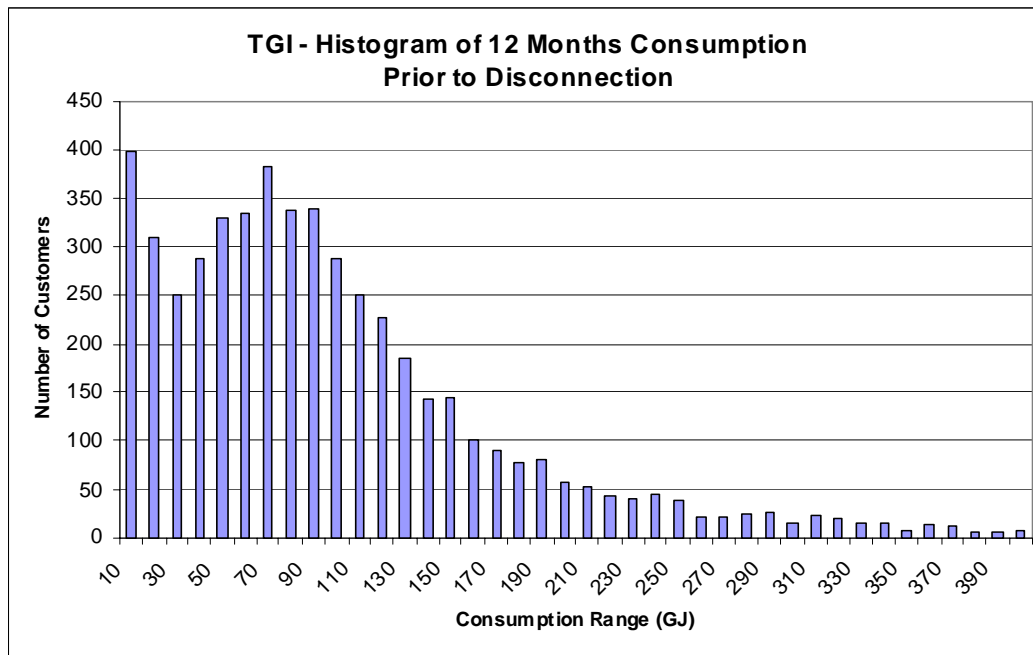


2008 Projection & 2009 Forecast significantly lower

- Recently revised to reflect economic downturn (20% decline)
- Trend of increased customer loss observed
- Consistent with CMHC forecast

Customer Turnover

- Trend of increased customer turnover observed
 - *First seen during first six months 2007 – assumed customers would return in latter half of year*
 - *2008 YTD results indicating trend continuing*



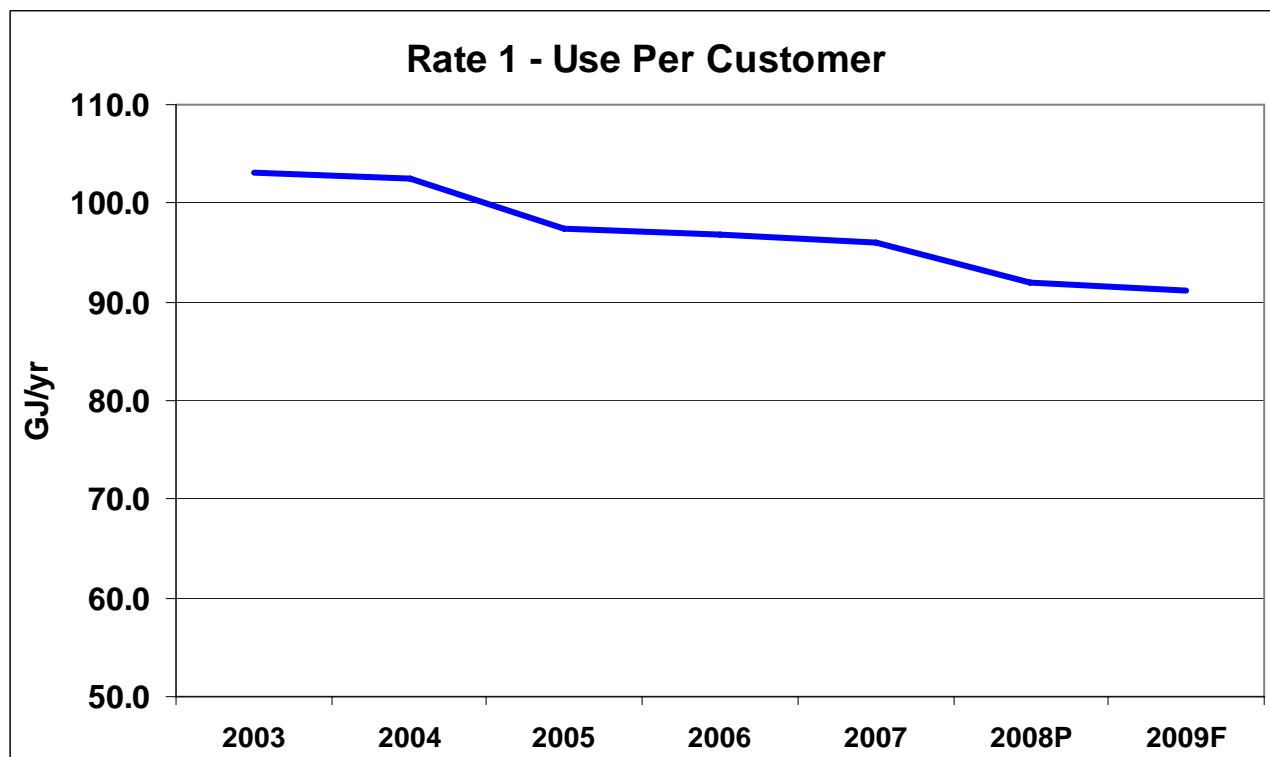
- *Total of 5,100 Residential Customers*
- *~1,600 Customers with consumption < 50 GJ/Year*
- *No geographical pattern*

Customer Turnover – Cont'd

- **Continuing investigation into customer turnover**
 - *Determine reason for leaving system*
 - *Survey a sample of those who have left the system*

- **Informal discussions with other utilities (AGL) show trend may be attributed to:**
 - *Longer-term homeowners (10-15 years, 15+ years)*
 - *Customers with fewer appliances*
 - *Customers living in suburban areas*

Use per Customer Rates



	2003	2004	2005	2006	2007	2008P	2009F
Rate 1	103.1	102.6	97.4	96.8	96.0	92.0	91.1
Rate 2	304	314	306	314	317	307	303
Rate 3	3,292	3,501	3,388	3,314	3,426	3,084	2,976
Rate 23	4,883	5,113	4,714	4,686	4,778	4,486	4,391

- **2008 Projections based upon YTD results compared to same period prior year**
- **Residential use rates are forecast to decline by 1% from 2008 projection**
- **Commercial use rates also expected to decline from 2008 projections**

*Use per customer rates are normalized

Industrial Forecast Methodology

- Industrial & Transportation forecast is determined from direct customer feedback
- Customer survey for Rates 7, 22, 25, & 27
- Forecast derived from survey responses & most recent 12 month of actual demand where no response received
 - *745 customers surveyed*
 - *304 responded, or 41% (49% in 2007)*
 - *Respondents responsible for 81% of volume (80% in 2007)*

Industrial Forecast - Continued

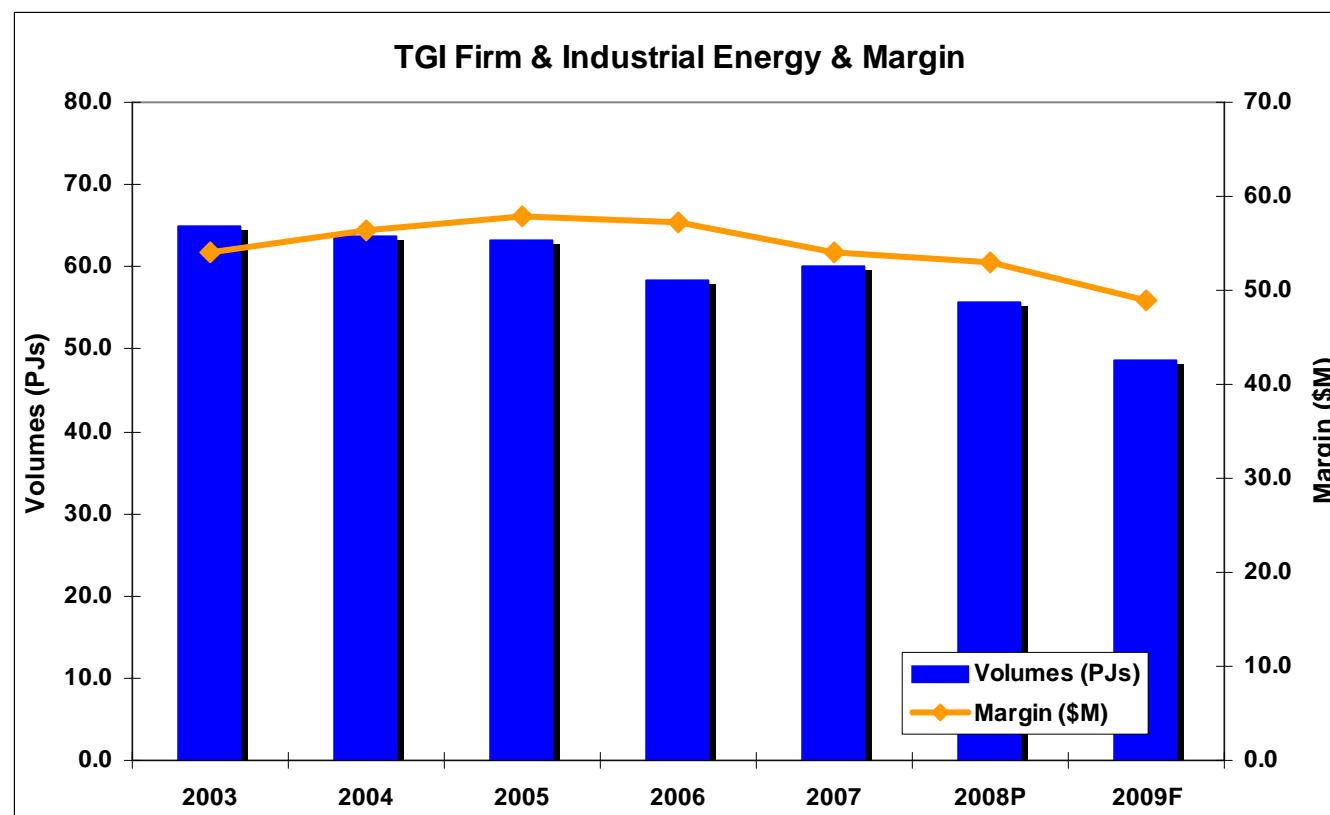
■ Industrial Forecast has been revised downward

- *10% reduction in volumes across all sectors*

■ Impact of revision:

- *Volume decline of 5,363 TJs*
- *Revenue decline of \$5.7M (6% from original projections)*
- *Margin decline of \$2.25M (4% from original projection)*

Industrial Energy Demand & Margin



Industrial volumes forecast to decline in 2009

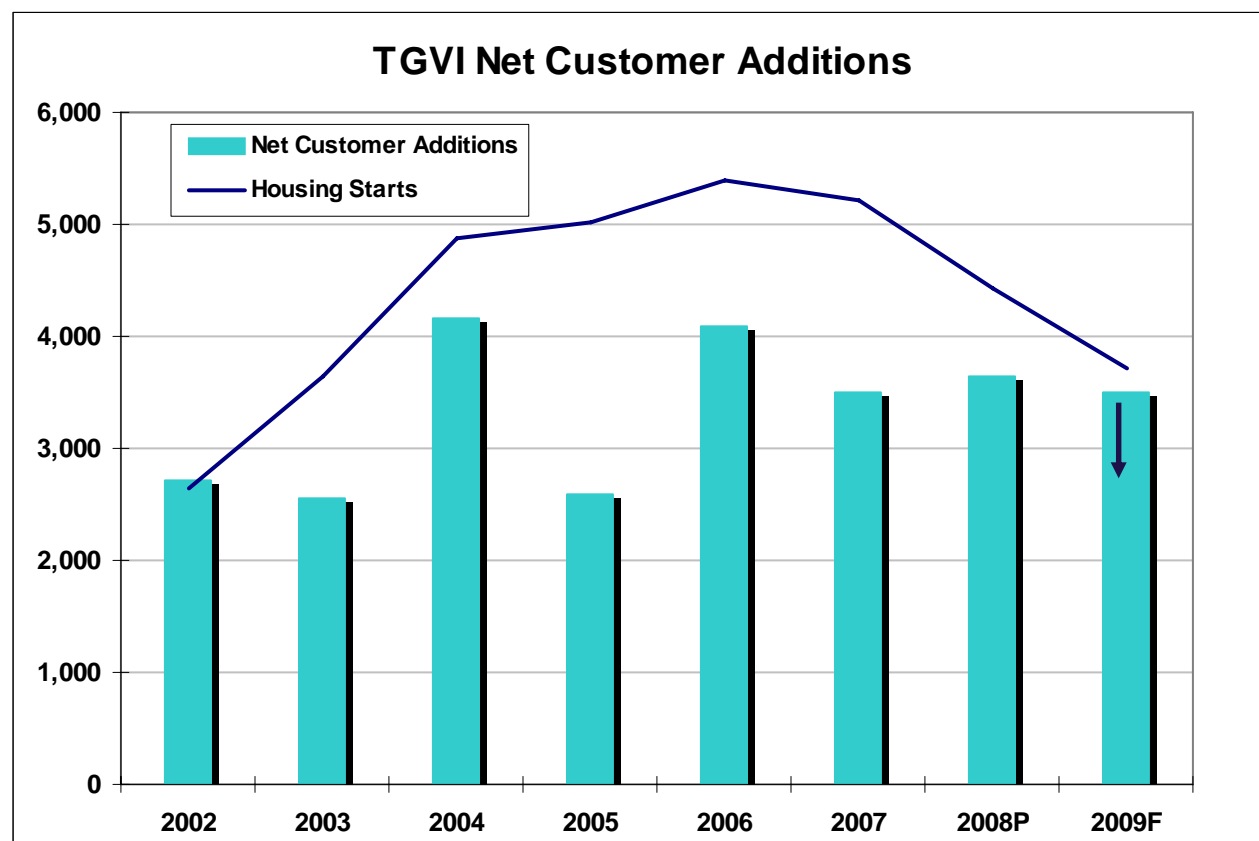
- *Forestry industry is again the main driver*
 - 12% decline in demand from '08 projections to '09 forecast
- *Margin to decline as a result (-\$4.1M)*

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

TGVI Forecast

Terasen Gas. A Fortis company.

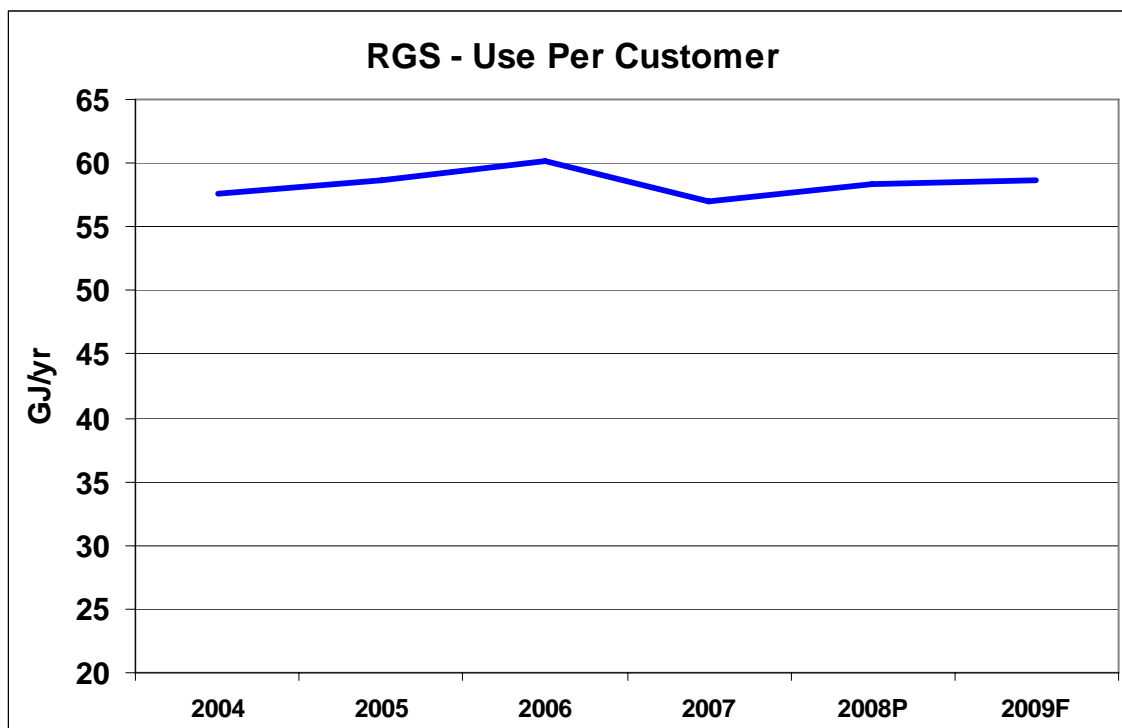
TGVI Customer Additions Forecast



Customer additions for 2009 are expected to decline from 2008 projection

Overall trend remains consistent with housing starts

TGVI Use per Customer



■ Residential rates continue to remain stable over longer term

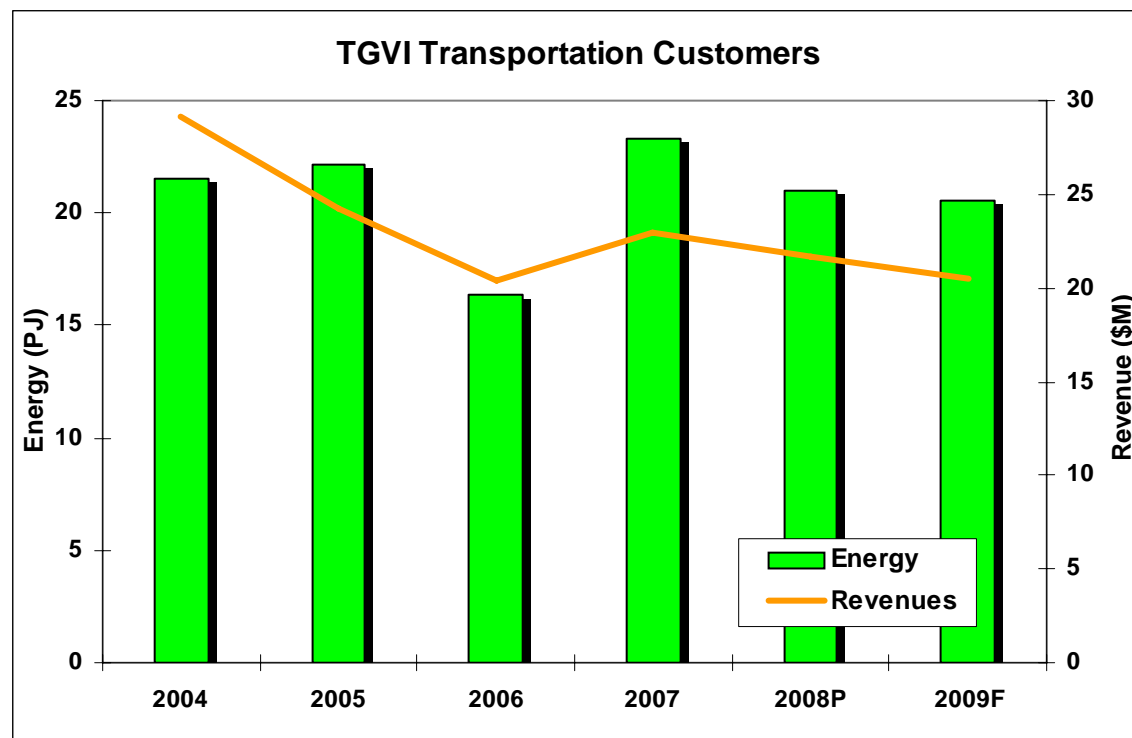
■ Commercial rates also relatively stable over longer term

■ *SCS1 Rate class an anomaly*

	2004	2005	2006	2007	2008P	2009F
RGS	57.6	58.7	60.2	57.0	58.3	58.6
SCS1	63.5	75.0	75.1	90.7	97.4	80.3
SCS2	285	314	314	310	320	313
LCS1	885	943	903	943	965	930
LCS2	2,326	2,384	2,295	2,406	2,361	2,362
AGS	1,407	1,339	1,387	1,367	1,328	1,364
LCS3	16,740	16,521	17,379	17,694	16,663	17,694

*Use per customer data is normalized

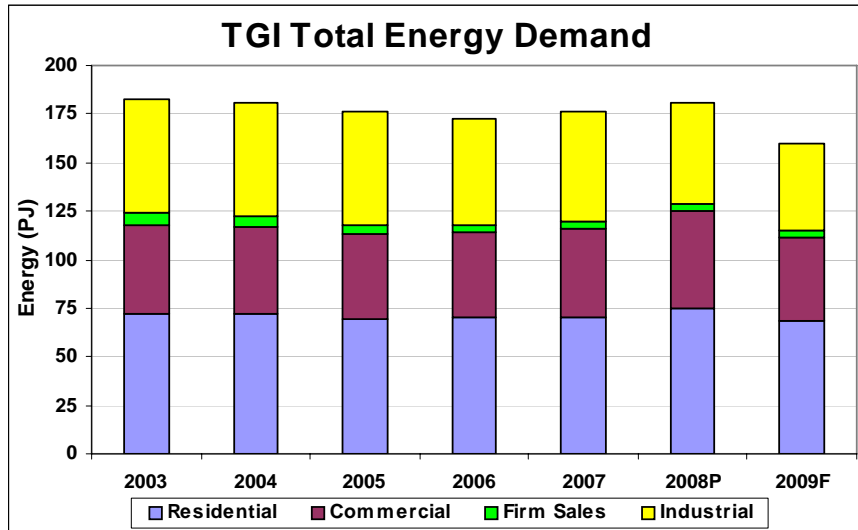
Transportation Customers - Energy and Revenues



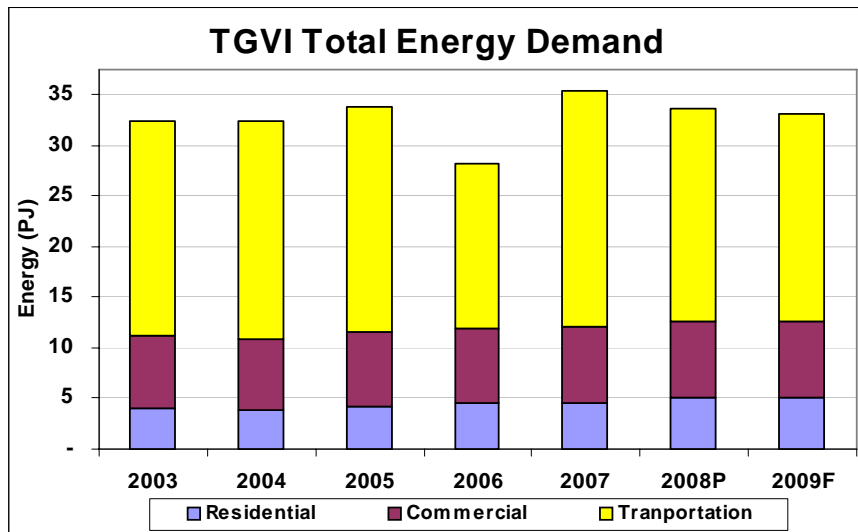
Note: Actuals & projection contain interruptible volumes

- **Consumption and margins to decline in 2009 due to a further reduction of contract demand by VIGJV**
- **BC Hydro under long-term contract for ICP**

TGI & TGVI – Trends in Energy Demand



- Residential, Commercial and Industrial demand all projected to decline
- Long-term trend relatively stable



- TGVI energy demand driven primarily by Transportation customers
 - *Transportation demand expected to remain stable over longer term*
- Residential and commercial volumes will continue to increase as a % of total energy demand

TGI 5 Year Major Capital Plan

Terasen Gas. A Fortis company.

Highlights of the 5 Year Capital Plan

1. Annual Average Customer Driven Capital is approximately \$21 - \$22 million over the five years.
2. Annual Average Non Customer Driven Capital is approximately \$58 million over the five years.
3. Annual Average Overall Regular Capital is approximately \$80 million over the five years.

Background

Capital categorized as follows:

1. Regular Capital

- i) Customer Driven Capital
 - i) Mains
 - ii) Services
 - iii) New meters
- ii) Other Regular “Non Customer Driven” Capital
 - i) Replacement meters
 - ii) Transmission Plant
 - iii) Distribution Plant
 - iv) IT Capital
 - v) Non-IT Capital

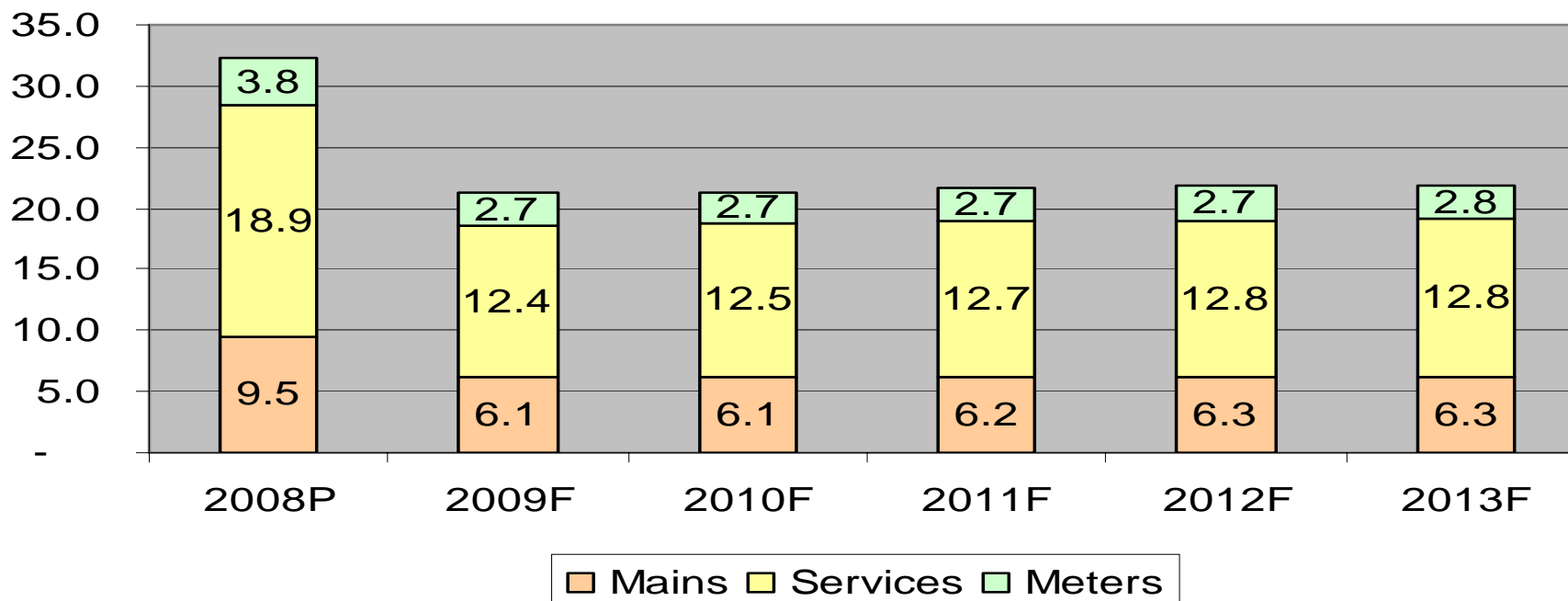
2) CPCN Projects

- Projects over \$5 million
- Approved individually and are outside of PBR process

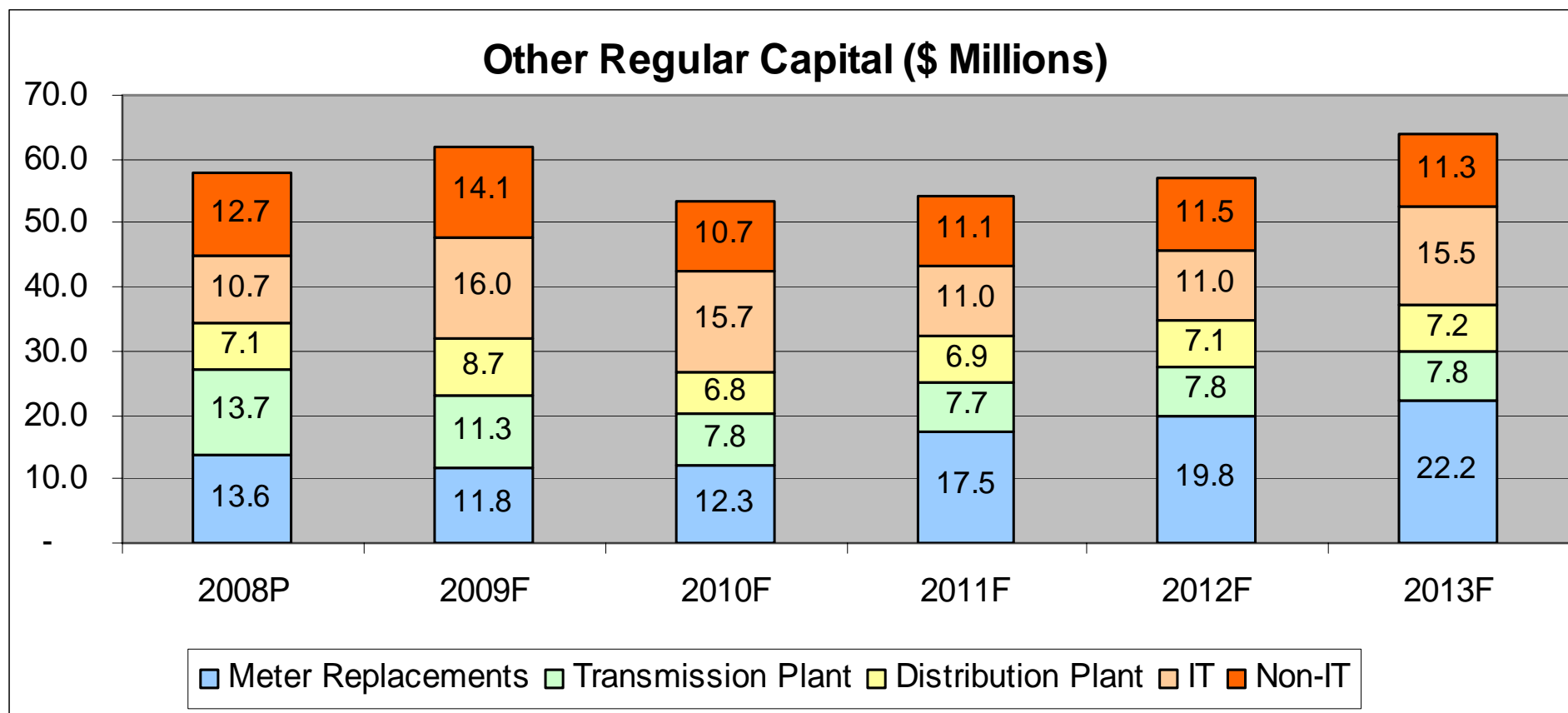
Customer Additions Capital Cost Projections (2008 – 2013)



Customer Driven Capital (\$ millions)



Other Regular “Non-Customer Driven” Capital Cost Projections (2008 – 2013)



Major Regular Capital Projects 2008 – 2013

Transmission and Distribution



Transmission	2008	2009	2010	2011	2012	2013	Total for
(\$ millions)	Projection	Forecast	Forecast	Forecast	Forecast	Forecast	Period
SCP Code Compliance Upgrades	1.6	1.7					3.3
LNG Coldbox Upgrade	2.8						2.8
SCADA System Upgrade	0.3	1.2					1.4
Kootenay River Crossing	0.4	2.9	0.0				3.3
Columbia River Crossing	2.4	0.3	0.0				2.7
Other	6.3	5.2	7.8	7.7	7.8	7.8	42.5
Total	\$ 13.7	\$ 11.3	\$ 7.8	\$ 7.7	\$ 7.8	\$ 7.8	\$ 56.1

Distribution	2008	2009	2010	2011	2012	2013	Total for
(\$ millions)	Projection	Forecast	Forecast	Forecast	Forecast	Forecast	Period
SI - 1275m x 406mm STL DP Quebec St.	1.3						1.3
Other	5.8	8.7	6.8	6.9	7.1	7.2	42.5
Total	\$ 7.1	\$ 8.7	\$ 6.8	\$ 6.9	\$ 7.1	\$ 7.2	\$ 43.8

Note: Minor differences between sum of individual projects and major capital project total due to rounding.

Major Regular Capital Projects 2008 – 2013

IT and Non-IT



IT Projects	2008	2009	2010	2011	2012	2013	Total for
(\$ millions)	Projection	Forecast	Forecast	Forecast	Forecast	Forecast	Period
Learning Management System	0.6	1.0					1.6
SAP Upgrade	2.4	2.3				4.8	9.4
Asset Data Integration			0.5	0.5			1.0
Desktop Refresh		1.9	1.3	0.3	0.3	2.2	6.0
Server Refresh		0.6	1.1	0.5	0.5	0.7	3.4
Vista Deployment		1.5	0.2			1.5	3.2
Toughbook and Modem Replacement		1.3					1.3
VOIP and Unified Messaging		0.2	1.4	0.2			1.8
Other	7.8	7.1	11.2	9.5	10.2	6.4	52.1
Total	\$ 10.7	\$ 16.0	\$ 15.7	\$ 11.0	\$ 11.0	\$ 15.5	\$ 80.0

Non-IT	2008	2009	2010	2011	2012	2013	Total for
(\$ millions)	Projection	Forecast	Forecast	Forecast	Forecast	Forecast	Period
Land purchase for North Shore muster		2.0					2.0
Other	12.7	12.1	10.7	11.1	11.5	11.3	69.4
Total	\$ 12.7	\$ 14.1	\$ 10.7	\$ 11.1	\$ 11.5	\$ 11.3	\$ 71.4

Note: Minor differences between sum of individual projects and major capital project total due to rounding.

Major Regular Capital Projects 2008 – 2013 Approved & Anticipated CPCN's



Approved CPCN's	2008	2009	2010	2011	2012	2013	Total for
(\$ millions)	Projection	Forecast	Forecast	Forecast	Forecast	Forecast	Period
Vancouver Low Pressure Replacement	6.8						6.8
Distribution Mobile Solution	3.9						3.9
Total	\$ 10.7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10.7

Anticipated CPCN & Deferrals	2008	2009	2010	2011	2012	2013	Total for
(\$ millions)	Projection	Forecast	Forecast	Forecast	Forecast	Forecast	Period
Fraser River SBSA Rehabilitation	0.8	25.2					26.0
Okanagan Reinforcement		1.5	1.5	27.6	41.4		72.0
CIS/AMR		12.2	28.4	64.7	32.3	29.1	166.5
Residential Unbundling	3.0	3.3	3.3	3.3			12.8
System Enhancements	0.9	0.4					1.2
Total	\$ 4.7	\$ 42.5	\$ 33.1	\$ 95.5	\$ 73.7	\$ 29.1	\$ 278.5

Note: Minor differences between sum of individual projects and major capital project total due to rounding.

TGVI Capital Expenditures

Terasen Gas. A Fortis company.

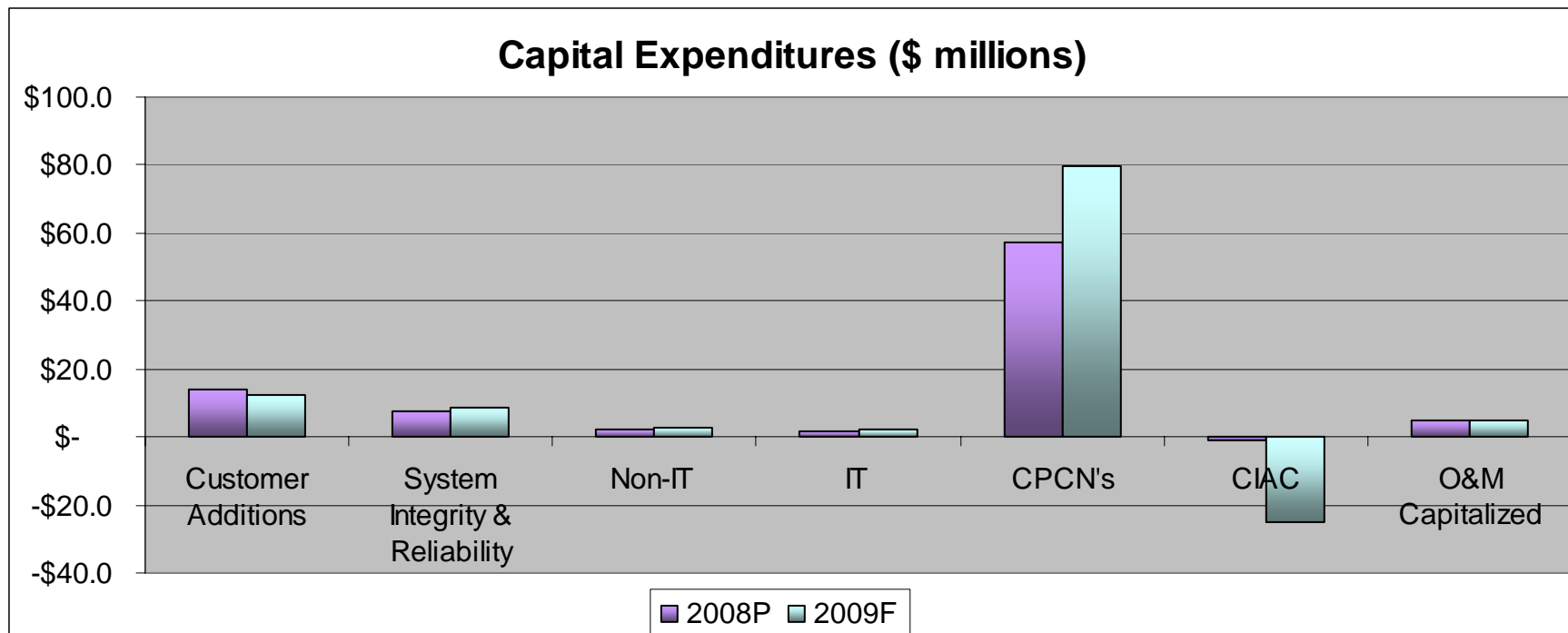
Highlights of 2008 & 2009

1. Regular Capital in 2009 is comparable to 2008 projections.
2. Higher total Plant Additions in 2009 due to anticipated completion of Whistler Pipeline project.

Capital forecasts for 2008 and 2009 anticipated expenditures are categorized as follows:

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

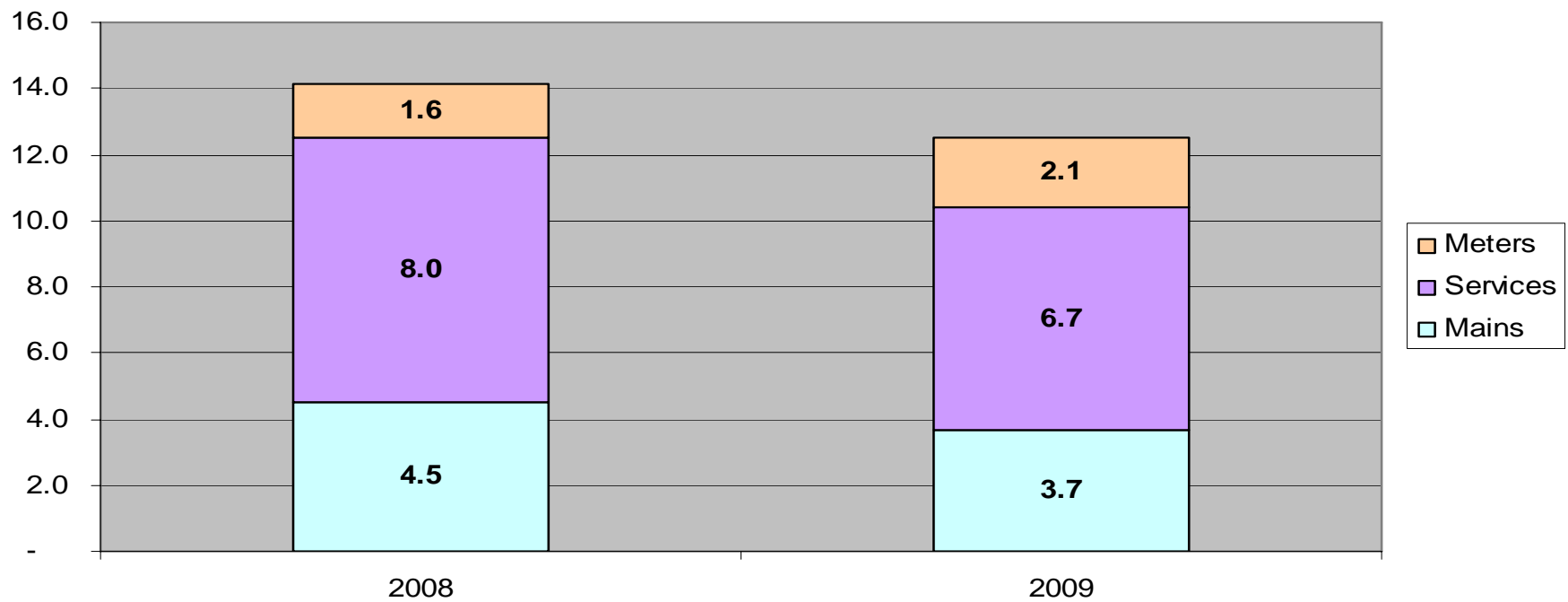
Capital Expenditure Forecasts



Customer Additions Capital



Customer Additions Capital (\$ millions)



2009 Major System Integrity & Reliability Projects



Transmission	2008	2009
(\$ millions)	Projection	Forecast
V1 Coquitlam Compressor Unit 3 Purchase	2.1	
V3 Port Mellon Compressor Purchase		1.7
TGVI Misc Creek Xings	1.2	1.1
Other	2.6	4.1
Total	\$ 6.0	\$ 6.9

Distribution	2008	2009
(\$ millions)	Projection	Forecast
DP Mains System Improvements	1.0	1.1
Other	0.3	0.4
Total	\$ 1.3	\$ 1.5

2009 CPCN's and Anticipated CPCN's

Approved CPCN's	2008	2009
(\$ millions)	Projection	Forecast
Whistler Pipeline	10.8	9.9
Distribution Mobile Solution Project	0.4	-
Mt. Hayes LNG Facility	45.9	68.6
Total	\$ 57.1	\$ 78.5

Anticipated CPCN's	2008	2009
(\$ millions)	Projection	Forecast
CIS/AMR	-	1.4
Total	\$ -	\$ 1.4

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

Plant Additions



	2007 Settlement Update		2008 Settlement Update	
	2008 FORECAST		2008 PROJECTED	2009 FORECAST
Customer Additions Capital	\$	12,649	\$ 14,128	\$ 12,534
System Integrity and Reliability Capital		8,069	7,298	8,436
Non-IT Capital		2,053	2,280	2,561
IT Capital		1,724	1,724	1,988
O&M Capitalization		4,936	4,936	5,040
Whistler Pipeline		0	0	44,213
TGW Capital Contribution		0	0	(24,213)
Total Plant Additions	\$	29,430	\$ 30,365	\$ 50,559

2009 TGI Revenue Requirement & Rate Outlook

Michelle Carman

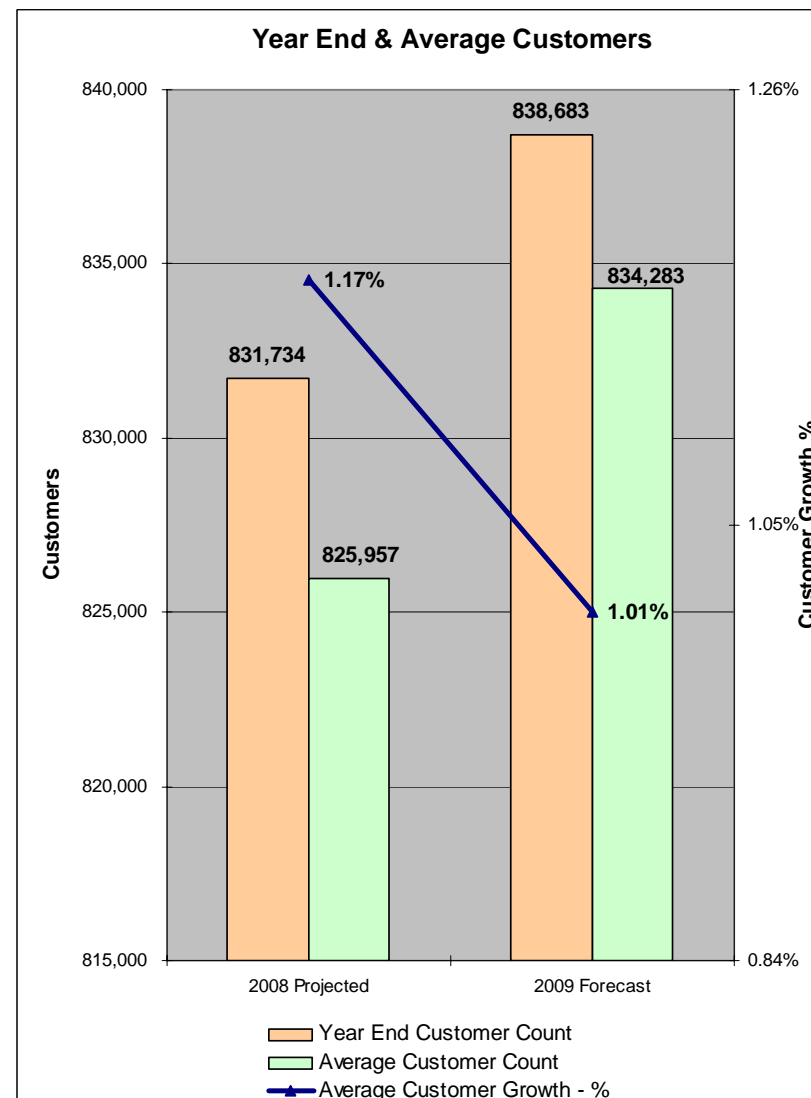
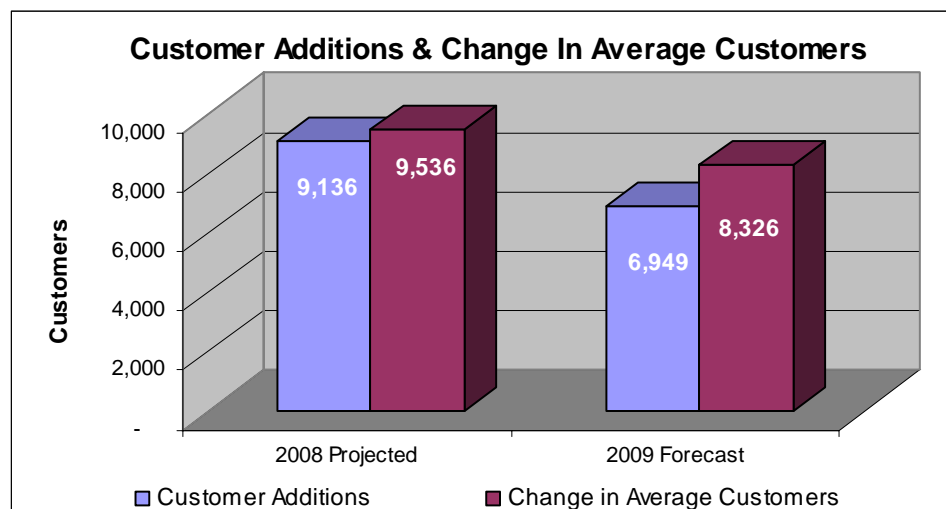
Summary of 2009 Impact

	<u>\$ Millions</u>
Revenue Requirement Increases	
Higher Formula Depreciation	\$ 5.6
Higher Property Taxes	3.0
Higher Formula O&M	2.8
Change in Gross Margin due to Industrial Customers	2.1
Lower Income Tax Deductions	1.5
Higher Rate Base for Customer Growth	1.2
Higher Pension & Insurance	1.1
Lower Other Revenues	0.3
	\$ 17.6
Revenue Requirement Decreases	
Change in Gross Margin due to Customer Growth	(4.3)
Lower Income Tax Rates	(1.4)
Lower Interest Rates, Vehicle Lease Expense & Other O&M	(1.6)
Other	(0.2)
	<u>(7.5)</u>
Net Revenue Requirement Increase	10.1
Impact of Decline in Use Rates	26.9
Increase to Delivery Rates	<u>37.0</u>
Earnings Sharing	(14.4)
Net Delivery Rate Increase After Earnings Sharing	<u>\$ 22.6</u>

Reflects November 3, 2008 Amended Annual Review Application

2009 Revenue Requirements

Cost Drivers



2009 BC Inflation (CPI)	2.1%
2009 Adjustment Factor	-1.39%

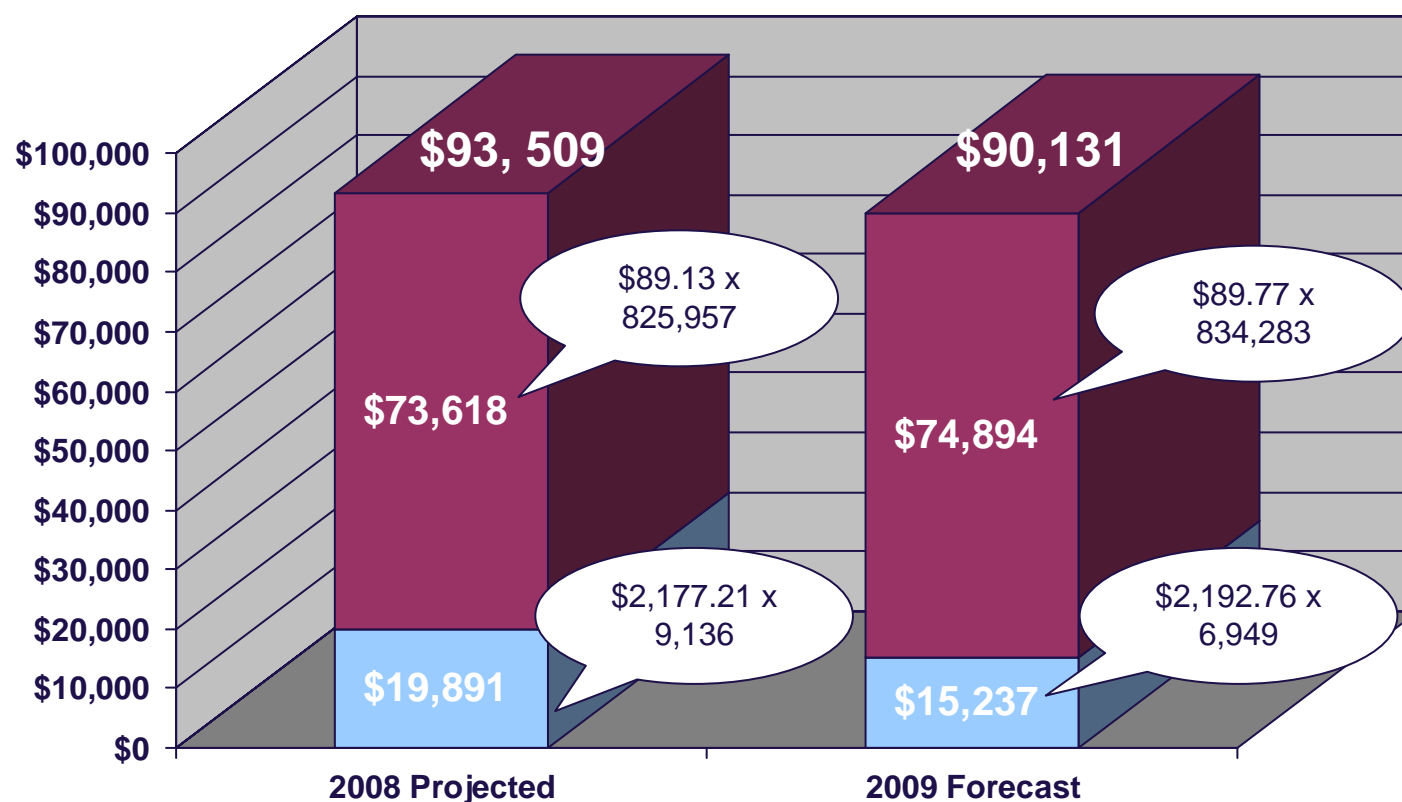
Reflects November 3, 2008 Amended Annual Review Application

2009 Revenue Requirements

Formula Based Capital Expenditures



Formula Based Capital Expenditures



■ Customer Addition Driven Capital Expenditures

■ Other Base Capital Expenditures

Reflects November 3, 2008 Amended Annual Review Application

2009 Revenue Requirements Capital Plant Additions (\$000)



Base Capital Expenditures
Add- Work in Progress (WIP)
Add- Allowance for Funds Used During Construction (AFUDC)
Add- Overhead Capitalized
Total Base Capital Additions to Gas Plant in Service
CPCN Additions to Opening Gas Plant in Service
 Total Plant Additions

2008 Projected	2009 Forecast
\$ 93,509	\$ 90,131
173	16
195	196
27,543	28,113
121,420	118,457
8,196	12,855
 \$ 129,616	 \$ 131,312

Reflects November 3, 2008 Amended Annual Review Application

2009 Revenue Requirements

Utility Rate Base (\$000)



	2009 Forecast
Plant In Service- Beginning Balance	\$ 3,337,484
Plant Additions	131,312
Accumulated Depreciation, Disposals, CIAC & Intangible	(997,681)
Net Plant In Service- Ending Balance	<u>2,471,115</u>
Net Plant In Service- Beginning Balance	<u>2,441,117</u>
Net Plant In Service- Mid-Year	2,456,116
Gas In Storage	138,868
Unamortized Deferred Charges- Mid-Year	(32,644)
Other Rate Base Items	<u>(20,993)</u>
Utility Rate Base	<u>\$ 2,541,347</u>

Reflects November 3, 2008 Amended Annual Review Application

2009 Revenue Requirements

Formula Based O&M Expense (\$000)



		2009 Forecast
Gross Formula Adjusted 2008 O&M		\$ 203,898
Multiply by (1+ Customer Growth)	x	101.01%
Multiply by (1+ CPI - Adjustment Factor)	x	100.71%
		207,424
Add- Pension & Insurance Adjustment	+	(3,430)
Gross Formula 2009 Adjusted O&M		203,994
Less- Capitalized Overhead	-	28,113
Less- Fort Nelson O&M	-	660
Less- Vehicle Lease	-	2,083
Net 2009 Utility O&M		\$ 173,138

Reflects November 3, 2008 Amended Annual Review Application

2009 Revenue Requirements

Other 2009 Cost of Service Items



■ Property Taxes

- *Reforecast annually and defer variances*
- *2009 forecast of \$47.6 million (\$3.0 million over 2008 Approved)*

■ Depreciation and Amortization

- *Based on approved depreciation rates and amortization periods*

■ Other Operating Revenues

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

2009 Revenue Requirements

Other 2009 Cost of Service Items



■ Income Taxes

- *In 2008 the tax rate was forecast at 31.5%; reduced to 30.5% effective July 1, 2008 for annual rate of 31%.*
- *The projected 2008 tax expense has been forecast at the approved rate of 31.5% with the difference deferred*
- *The 2009 tax rate is 30.0%*

■ Debt & Interest Rates

- *Unfunded debt rate is 4.25%*
- *Issued \$250 million long-term debt on May 13, 2008 at 5.80% coupon rate*
- *Forecast debt issue of \$150 million at a 6.00% rate in April 2009*

■ Return on Equity and Capital Structure

- *8.62% ROE in Annual Review advance materials*
- *35.01% Common Equity component*

2009 Revenue Requirements Earning Sharing Mechanism



2008 Projected Earnings Sharing	(\$ Millions)
2008 Surplus Earnings- Pre-Tax	\$ 24,058
Customer's Share (50%)	12,029
Company's Share (50%, Net of Tax)	8,240
Customer's Share of 2008 Surplus (Pre-Tax)	12,029
2007 Sharing True Up	2,393
Total Earnings Sharing to be distributed to customers in 2009	\$ 14,422

2009 Revenue Requirements RSAM Update



Revenue Stabilization Adjustment Mechanism (RSAM)	(\$ Millions)
RSAM Balance at January 1, 2008	\$ 18.0
2008 Projected RSAM Activity	
New RSAM Additions	(6.3)
RSAM Rider Recovery	(11.5)
RSAM Balance Decrease	(17.8)
Projected RSAM Balance at December 31, 2008	\$ 0.2

- Projected RSAM balance recovered through a rider over a 3-year period for a pre-tax 2009 total recovery of \$0.082 million.
- 2008 RSAM rider of \$0.095/GJ is projected to decrease by \$0.094/GJ (pre-tax) to \$0.001/GJ in 2009
- All figures are net of tax

2009 Revenue Requirements Customer Margin Impact (Lower Mainland)



LOWER MAINLAND Customers	Proposed Increase (Decrease)			2009 Delivery Margin Related Charges % Increase over 2008	Approximate Annual Bill % Increase
	Delivery Margin	ESM Rider 3	RSAM Rider 5		
Rate Schedule 1 - Residential Service	8.25%	-0.12%	-2.25%	5.88%	1.82%
Rate Schedule 2 -Small Commercial Service	8.20%	-0.06%	-2.87%	5.27%	1.36%
Rate Schedule 3 - Large Commercial Service	8.10%	-0.16%	-3.65%	4.29%	0.94%
Rate Schedule 23 - Large Commercial T-Service	8.11%	-0.15%	-3.59%	4.37%	4.37%

2009 Revenue Requirements

Customer Margin Impact (Lower Mainland)



LOWER MAINLAND Customers	Proposed Increase (Decrease)			2009 Delivery Margin Related Charges % Increase over 2008	Approximate Annual Bill % Increase
	Delivery Margin	ESM Rider 3	RSAM Rider 5		
Rate Schedule 4 - Seasonal Service	8.48%	-1.50%	n/a	6.98%	0.88%
Rate Schedule 5 -General Firm Service	8.37%	-0.28%	n/a	8.09%	1.65%
Rate Schedule 6 - NGV Stations	8.47%	-0.30%	n/a	8.17%	2.40%
Rate Schedule 7 - Interruptible Sales	8.28%	-0.09%	n/a	8.19%	1.65%
Rate Schedule 22 - Large Industrial T-Service	8.43%	0.13%	n/a	8.56%	8.56%
Rate Schedule 25 - General Firm T-Service	8.41%	-0.33%	n/a	8.08%	8.08%
Rate Schedule 27 - Interruptible T-Service	8.44%	-0.18%	n/a	8.26%	8.27%

Customer Care and Service Quality Indicators

Danielle Wensink

Terasen Gas. A Fortis company.

Service Quality Indicator Performance

■ 2008 YTD (September)

■ *On track to achieve majority of annual performance targets*

■ *Exceptions:*

■ Index of Customer Bills Not Meeting Criteria

■ Percent of Transportation Customer Bills Accurate







Due to:

❖ First quarter challenges

- January tax calculation error
- Delayed January statements after unexpected failure of statement print provider January 4th

❖ August PST / ICE Levy error

Service Quality Indicators

Performance Indicator	2008 YTD (September)	2008 Target	Status
Emergency Response	20:24 min.	≤ 21:06 min.	
Speed of Answer – Emergency (% in 30 s)	98.4%	≥ 95%	
Speed of Answer – Non-emergency (% in 30 s)	75.4%	≥ 75%	
Transmission Reportable Incidents	1	≤ 2	
Index of Customer Bills not meeting Criteria	7.87	≤ 5	
Percent of Transportation Customer Bills Accurate	94.2%	≥ 99.5%	



Billing Indicator Monthly Performance






Performance Indicator	2008 Jan	2008 Feb	2008 Mar	2008 Apr	2008 May	2008 June	2008 July	2008 Aug	2008 Sept	2008 YTD
Index of Customer Bills not Meeting Criteria	35.17	4.67	2.33	6.33	0.33	0.33	2.00	11.10	0.33	7.87
Percent of Transportation Customer Bills Accurate	66.0%	98.3%	100.0%	100.0%	99.9%	99.8%	99.8%	89.0%	95.0%	94.2%



Service Quality Indicators



Performance Indicator	2008 YTD (September)	2008 Target	Status
Meter Exchange Appointment Activity	94.7%	$\geq 92.2\%$	
Accuracy of Transportation Meter Measurement 1 st Report	98.8%	$\geq 90\%$	

Service Quality Indicators

Performance Indicator	2007 Actuals	2008 YTD (September)	Trend 2008 vs 2007
Customer Satisfaction Survey	79.3%	80.0%	
Customer Complaints to BCUC	130	74	
Number of Prior Period Adjustments	23	11	

Directional Indicators	2007 Actuals	2008 YTD (September)	2008 vs 2007
Leaks per 1,000 Kilometers of Distribution Mains	87	52	
Number of Third Party Distribution System Incidents	1,545	1,177	

Customer Initiatives



■ Customer Communications

■ *Customer Choice*

■ *Public Safety*

- Call Before You Dig
- Terasen Jr.

■ *Energy Efficiency*

- HOT TIPS
- Heating System Upgrade Offer
- Terasen Street Team



Would you use
only 60% of a
comfy chair?



Upgrade and save \$250 from Terasen Gas*

Plus up to **\$700** more in manufacturer rebates when you upgrade before January 31, 2009

*If you upgrade by December 31, 2008

terasengas.com

Customer Initiatives

Pre-Authorized Payment Plan

The Comfort Experts at Terasen Gas offer you another way to get more comfortable with your natural gas. Enrol in our Pre-Authorized Payment Plan and have your payment automatically withdrawn from your chequing account each month. **No cheques to write. No postage stamps. No dates to remember. And best of all no overdue interest to pay. Ever.** You'll still receive monthly statements, so you can track your usage and payments.

Equal payment vs. regular bill amounts



The example above shows payment amounts for the year with an adjustment at the second quarterly review.

MORE comforting ways to pay

Equal Payment Plan

This plan gives you the comfort of smoothing out your monthly payments so they don't fluctuate with the seasons. We'll estimate your usage for the year and divide the total into twelve equal instalments. The payments may be adjusted quarterly to reflect any significant change in your consumption or current gas rates. And at year's end, any difference between what you've paid and your actual gas costs will be accounted for.

Double the convenience

Choose the Equal Payment Plan AND the Pre-Authorized Payment Plan to enjoy the convenience of easy, equal automatic payments all year long.

Billing Communications

- *Commodity Rate Reviews*
- *Carbon Tax Implementation*
- *Equal Payment Plan*
- *Pre-authorized Payment Plan*



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Code of Conduct & Transfer Pricing Policy

Andrew Lee CA.CIA
Manager – Internal Audit Services

Code of Conduct

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

Transfer Pricing Policy

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

Compliance Reviews

- Two compliance reviews are conducted in accordance with the Negotiated Settlement:
 - Internal Audit
 - External Auditors, Ernst & Young LLP

- Objectives of IA Review:
 - To provide assurance that requirements of the Code of Conduct and Transfer Pricing Policies approved by the BCUC are being met.
 - To ensure business processes and internal controls are in place to facilitate and support compliance with these Policies.

Internal Audit Review

- Performed according to Generally accepted standards for review engagements, as set out by the Canadian Institute of Chartered Accountants.

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

Based on my review, except for the following item, nothing has come to my attention that causes me to believe that Terasen Gas Inc. is not in compliance with the Code of Conduct and Transfer Pricing Policy for the period September 1, 2007 to August 31, 2008.

Item 2 of the Code of Conduct regarding Shared Services and Personnel states:

b) [Terasen Gas] may provide shared services to NRBs, including supervision and management, while ensuring that ratepayers will not generally be negatively impacted by Utility involvement. The costs of providing such services will be as agreed upon by both parties and be in accordance with the Commission approved [Terasen Gas] Transfer Pricing Policy.

A Specific Committed Service contract between Terasen Energy Services and Terasen Gas has “as-required” pay terms for specific work performed outside of the Committed Service contract. The contract entered into dated May 2006 includes terms for Gas Supply Management services based on volumes delivered to third party contracts negotiated. Accounting was not invoicing according to the terms of the contract. As a result, the total amount of \$78,324 (2006 - \$25,152; 2007 - \$53,172) has not been billed as at the end of August 2008. Management has indicated that the amount will be invoiced in the next billing cycle before the end of October 2008. The 2008 annual revision of the Committed Service contract includes a line item for gas supply management as part of the committed services.

Signed:
Andrew Lee, CA-CIA
Manager- Internal Audit Services
September 26, 2008

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

“Based on our review, other than those items noted in the Internal Audit Services report, nothing has come to our attention that causes us to believe that the Company is not in compliance with the Code of Conduct and Transfer Pricing Policy for the period from September 1, 2007 to August 31, 2008.”

Signed:

Ernst & Young LLP, Chartered Accountants

October 2, 2008

Exogenous and Common Factors

Diane Roy

Terasen Gas. A Fortis company.

Olympic Security Costs

- Security requirements for the 2010 Winter Olympic and Paralympic Games are driven by international, national and provincial requirements
- Terasen Companies are seeking deferral account treatment for the incremental costs
- Total incremental operating costs for this initiative are currently estimated at \$3.8 million
 - *\$0.8 million in 2009 & \$3.0 million in 2010*
 - *Allocated to Terasen Gas Companies based on number of customers (89% to TGI, 10% to TGVI, 1% to TGW)*

International Financial Reporting Standards (IFRS) Implementation



- In February 2008, Accounting Standards Board confirmed that publicly accountable enterprises will be required to report under IFRS by 2011
- Estimated total incremental costs of project \$0.4 million in 2008 and \$0.7 million in 2009, with further expenditures expected in 2010 and 2011
 - *Costs applicable to all companies allocated between utility and non-utility, considering the difficulty and applicability of each standard*
 - *Of the costs applicable to utility, allocated to Terasen Gas Companies based on number of customers (89% to TGI, 10% to TGV, 1% to TGW)*

Carbon Tax Implementation

- In May 2008, the Terasen Utilities filed Carbon Tax & Provincial Tax Rate Treatment Applications
 - *In response to the Carbon Tax Act which introduced a consumption tax on the purchase or use of fossil fuels in BC*
 - *TGI requested and received Commission approval for:*
 - Deferral account treatment of one time incremental implementation costs of \$0.3 million
 - Deferral account treatment of carbon tax expenses on own use gas, offset in 2008 only by income tax savings from the rate decrease from 31.5% to 31.0%
 - *TGVI did not request increased O&M or deferral account treatment for these items*

Future Income Taxes

- Amendments to CICA Handbook Section 3465 Income Taxes effective January 1, 2009
- Results in a regulated future income tax asset offset by an offsetting future income tax liability, for no income statement, rate or rate base impact
- Deferral accounts continue to be maintained on a net-of-tax basis for regulatory purposes but shown on a gross basis for financial statement purposes
- The recovery of income taxes for regulatory purposes remains on the taxes payable

Review & Approval of Final 2007 RDDA Balance

2008P and 2008F Rate Base, Revenue Requirement

Tom Loski

2007 RDDA – APPROVAL Needed

■ As per Schedule 1

RDDA Balance		2007 Actual
Opening Balance	\$	41,626,420
Current Year Deficiency/(Surplus)		(16,926,375)
Preferred Share Financing		0
Subordinate Debt Financing		3,207,564
Closing Balance	\$	27,907,609

Plant in Service



■ As per Schedule 4 (in millions)

	2008 Projection	2009 Forecast
Intangible Plant	\$0.8	\$0.8
Transmission - Intermediate	\$0.0	\$20.0
Transmission - High Pressure	\$236.1	\$237.3
Distribution	\$293.5	\$302.7
General Plant	\$28.3	\$28.8
Net Plant in Service (End of Year)	\$558.7	\$589.5
Allocated Common Plant	(\$0.1)	(\$0.1)
Adjusted Net Plant in Service (End of Year)	\$558.6	\$589.4

Includes Whistler Pipeline

Utility Rate Base



■ As per Schedule 3 (in millions)

	2008 Projection	2009 Forecast
Net Opening Plant in Service	\$546.4	\$558.7
Add: Closing Prior Yr. Non-AFUDC WIP	3.6	3.6
Adjusted Net Opening Plant in Service	550.1	562.4
Net Closing Plant in Service	558.7	589.5
Average Net Plant in Service	554.4	575.9
Add/Subtract: 13-month Adjustment	0.8	0.8
Net Mid-Year Plant in Service	555.2	576.8
Mid-Year Allocated Net Common Plant	-0.1	-0.1
Mid-year Contributions	-61.1	-56.2
Working Capital	20.2	19.0
Mid-Year Rate Base	\$514.2	\$539.5

Includes Whistler Pipeline

Whistler Pipeline

- Pipeline Construction completion anticipated end of March 2009
 - *Estimated at approximately \$44 million*
 - *TGW Capital Contribution estimated at \$24 million*
- Existing Customers Held Neutral
 - *2009 Rate proposals were determined exclusive of all costs and revenues associated with the Whistler Pipeline*

2009 O&M Expenses

- Set out per Negotiated Settlement Extension
- BCUC Order No. G-34-07, Appendix A, Item 4 (Table 1), Gross OM&A
- 2009 set at \$31.456 million
- O&M Capitalization of 16%
- 2009 Net O&M of \$26.178 million

Revenue Requirement

(\$ millions)

	2008 Projection	2009 Forecast	Increase/ (Decrease)
Net O&M Expense	25.7	26.2	0.5
Depreciation and Amortizations	24.1	26.0	1.9
Other	5.4	4.5	-0.9
Taxes	23.8	21.0	-2.8
Return on Rate Base	36.2	37.1	0.9
<i>Total Margin (excluding Gas Costs)</i>	<i>115.2</i>	<i>114.7</i>	<i>-0.4</i>
Royalty Adjusted Cost of Gas	69.8	80.8	11.0
<i>Sub-total</i>	<i>185.0</i>	<i>195.6</i>	<i>10.6</i>
Other Revenue	-1.1	-1.1	0.0
Surplus Before Sub-Debt Interest	17.2	10.5	-6.7
<i>Total Revenue</i>	<i>201.1</i>	<i>205.0</i>	<i>3.9</i>

as per Schedule 2 Including Whistle r Pipeline

Effective Rate Changes 2009

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

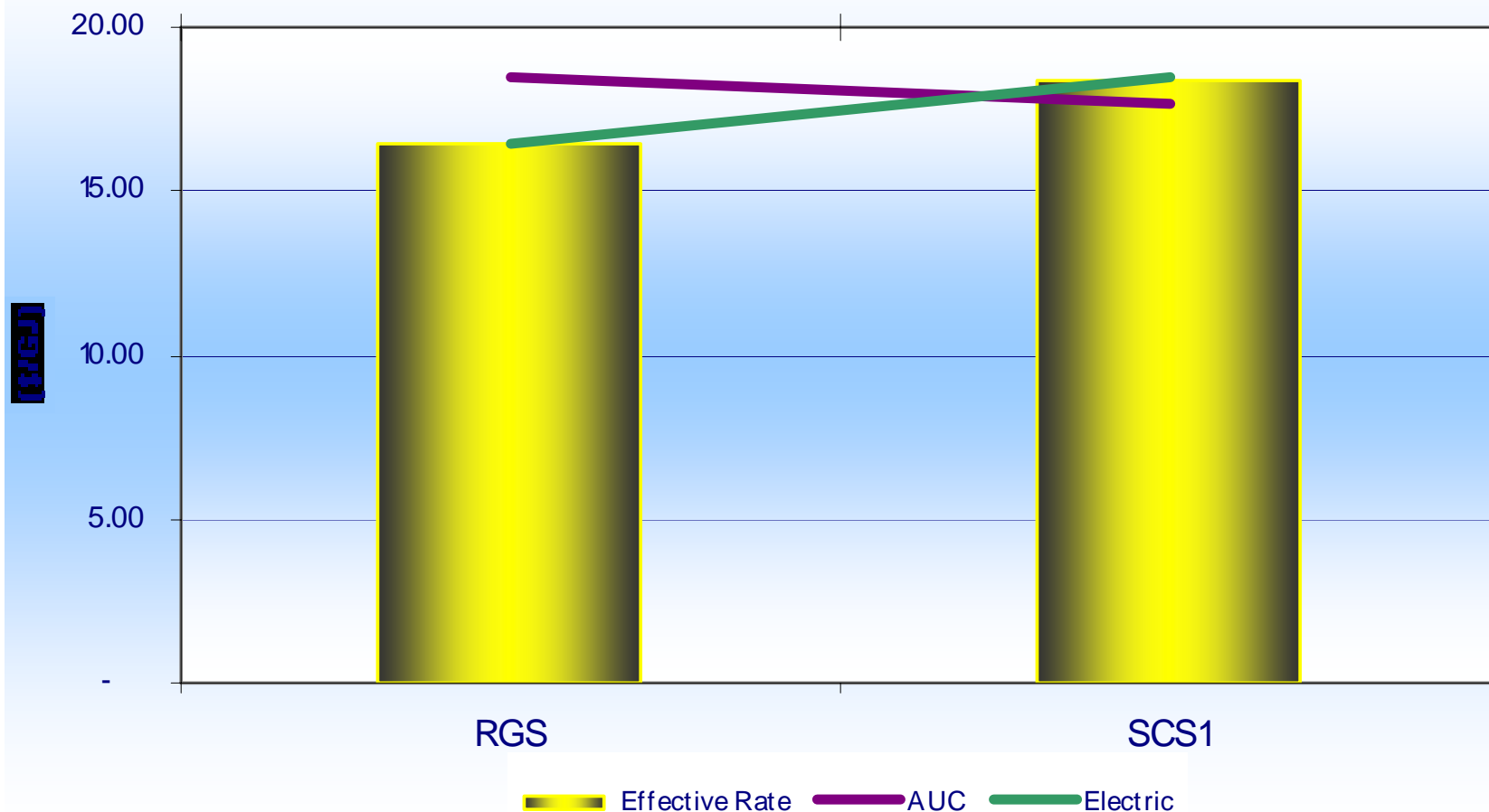
2009 Rate Comparison to Alternative Fuels Residential and Small Commercial



R/C Ratio

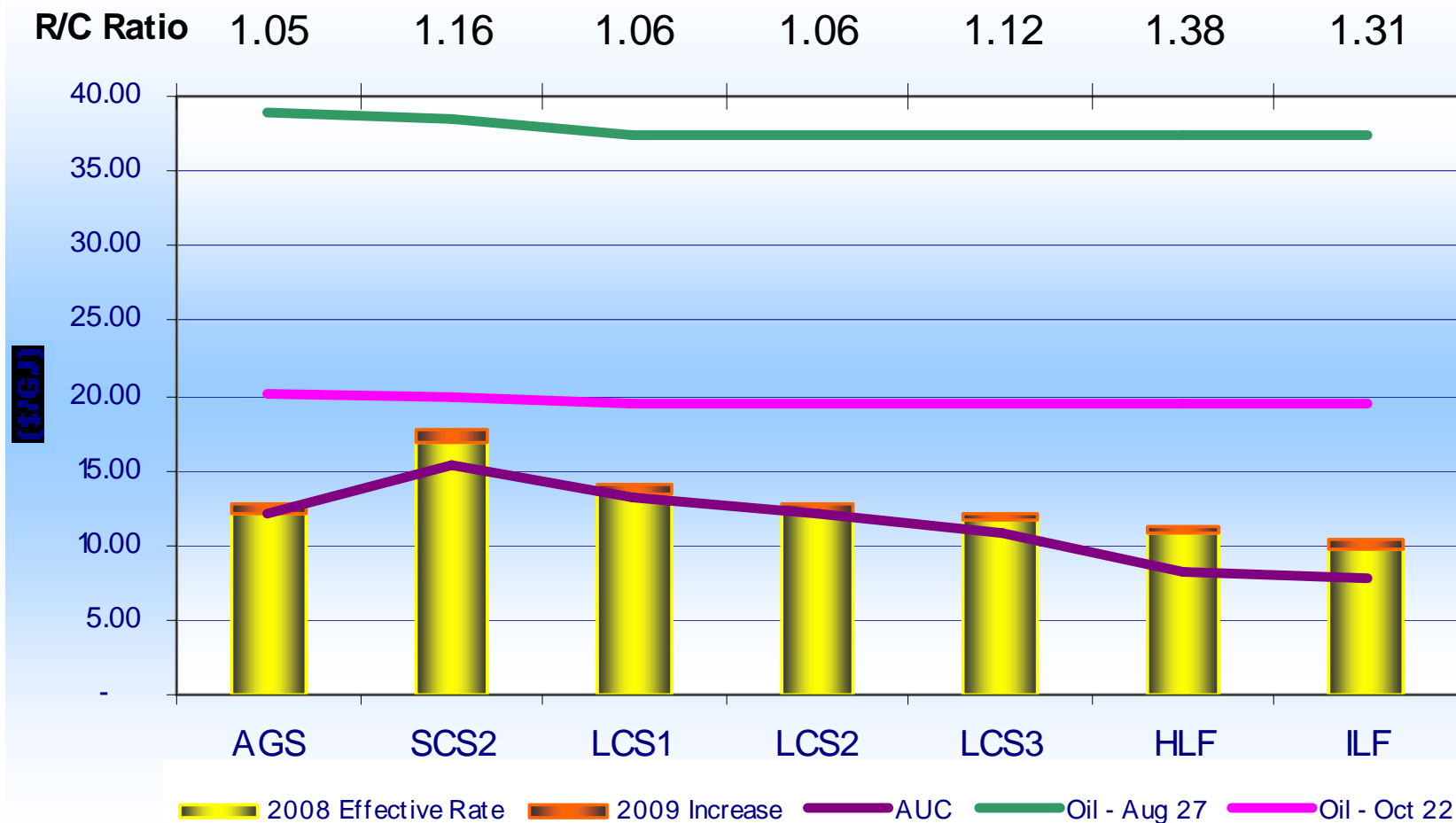
0.89

1.04



•Electric based on the approved interim rates effective April 1st, 2008

2009 Rate Comparison to Alternative Fuels Commercial

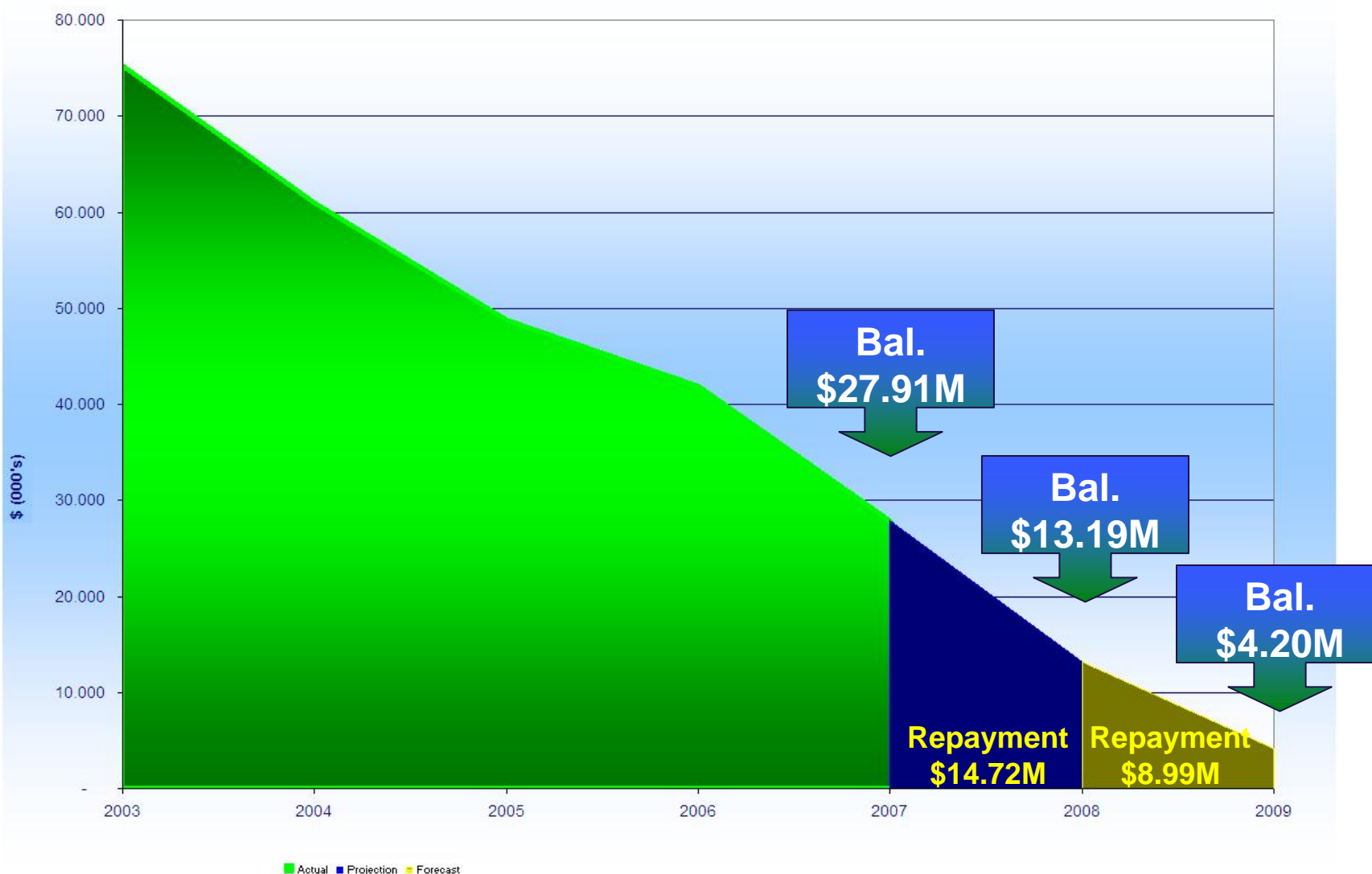


•Fuel Oil Prices reflect NYMEX Market prices dated August 27th

2009 Transport Tolls

- VIGJV toll of \$0.934/GJ/day – based on the VIGJV TSA (includes inflation)
- TGI(Squamish) toll of \$1.05/GJ – based on the TSA
- BCH toll of \$0.915/GJ/day
- TGW toll of \$1.029/GJ/day – based on BCH toll plus allocation of wheeling charge

RDDA Paydown and Balance



RDDA Paydown and Balance

■ New Deferral Account

- *In the event the RDDA is eliminated in 2009 the surplus amount is to be recorded in this account.*
- *Methodology for the disposition of the account to be determined as part of TGVl Rate Design Application, which the company anticipates it will file in 2009*

Conclusion

Scott Thomson

Conclusion

■ Questions?

■ Next Steps