APPENDIX 58.1

Terasen Inc.

Report Date: June 21, 2004
Press Released: June 18, 2004
Previous Report: August 19, 2003

Geneviève Lavallée, CFA/Matthew Kolodzie, CFA
416-593-5577 x2277/x2296
glavallee@dbrs.com

Rating

Rating	Trend	Rating Action	Debt Rated
R-1 (low)	Stable	Confirmed	Commercial Paper
A (low)	Stable	Confirmed	Medium-Term Note Debentures
BBB (high)y	Stable	Confirmed	Unsecured Subordinated Debentures

y: denotes hybrid security

Rating History

	Current	2003	2002	2001	2000	1999	1998
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Medium-Term Note Debentures	A (low)	A (low)	A (low)	A (low)	NR	NR	NR
Unsecured Subordinated Debentures	BBB (high)y	BBB (high)y	BBB (high)y	BBB (high)y	BBB (high)y	NR	NR

Rating Update

The financial performance of Terasen Inc. ("Terasen" or the "Company") over the past year was generally in line with expectations, with strong growth in consolidated earnings and cash flows in 2003 and Q1 2004 coming from the acquisition of a one-third interest in Express system in January 2003 and the start of the commercial operation of Corridor pipeline in May 2003, but also from the higher throughput volumes at Terasen Pipelines (Trans Mountain) Inc. ("TPTM"). On a non-consolidated basis, Terasen's earnings and cash flows in 2003 were sharply higher due to a significant increase in dividend payments from TPTM to get TPTM's capital structure back to its target structure.

The medium-term outlook for Terasen remains relatively stable given the increased asset diversification providing greater stability to earnings and operating cash flows. In 2004, Terasen's consolidated results will benefit from continued strong throughput volumes at TPTM, and a full-year earnings contribution from Corridor pipeline. The projected growth in earnings from Express will likely be offset by the negative earnings impact of Terasen Gas' low allowed return on equity (ROE) (9.15% compared with 9.42% in 2003). Terasen's non-consolidated results are expected to be weaker in 2004 relative to 2003 as dividend income from TPTM returns to a more normal, sustainable level. Terasen's target capital structure on a consolidated basis is 67% debt/33% equity, an average of the approved capital structures for its existing regulated businesses. As such, Terasen's key financial ratios should remain relatively stable. On a non-consolidated basis, Terasen's level of debt is expected to rise in 2004 and remain higher due to the decision to cancel TPTM's commercial paper program and to conduct all of TPTM's short-term financing requirements at the Terasen level. Terasen's non-consolidated cash flow and coverage ratios, however, are expected to remain reasonable for the current business risk profile. The key risks to Terasen's credit ratings are related to the outcome of the large-scale projects, primarily pipeline projects, currently under active development. As the importance of Terasen's pipeline and non-regulated businesses continues to grow, Terasen will require a higher equity base to maintain the current ratings.

Rating Considerations

Strengths:

- Non-consolidated balance sheet and key financial ratios remain reasonable
- Increased diversification provides greater stability to dividend income and operating cash flows
- Majority of assets are rate regulated

Challenges:

- Gas distribution operations sensitive to changes in interest rates through allowed ROE
- Re-negotiation of TPTM toll agreement in 2005
- Potentially heavy financing requirements and increased business risk profile over medium term

Financial Information

	12 mos. ended	For the year ended December 31				
Consolidated Basis	Mar. 2004	2003	2002	2001	2000	1999
Fixed-charges coverage (times)	2.06	1.89	1.79	1.69	1.93	1.90
Cash flow/total adj. debt (1)	10.6%	9.7%	8.6%	7.6%	8.4%	10.9%
% adj. debt in capital structure (1)	65.8%	67.6%	66.8%	75.3%	72.3%	71.9%
Net income before extra. items/prefs. ($ millions) (2)	148.3	141.2	116.6	91.0	82.7	78.2
Operating cash flow ($ millions) (2)	299.5	285.2	232.4	188.5	172.5	174.4
Gas distribution throughputs (bcf) (3)	177.6	174.6	187.3	164.7	180.3	179.4
Oil pipeline throughputs (thousands bbl/day) (4)	254.8	216.1	201.2	209.3	204.6	207.5
Non-Consolidated Basis						
Fixed-charges coverage (times)	n/a	5.78	3.83	5.03	6.43	8.58
Cash flow/total adj. debt (times) (1)	n/a	28.7%	29.3%	33.6%	39.0%	52.8%
% adj. debt in capital structure (1)	n/a	28.1%	17.9%	24.0%	20.0%	19.8%
Dividend income from subs. ($ millions)	n/a	176.1	92.7	101.2	80.6	79.7

(1) The $125 million capital securities are given 80% equity treatment by DBRS. (2) DBRS-adjusted.
(3) Throughputs include sales volumes and transportation volumes only. (4) Throughputs for Trans Mountain pipeline only.

The Company

Terasen Inc. is a holding company that owns 100% of Terasen Gas Inc. and 100% of Terasen Gas (Vancouver Island) Inc. (both natural gas distributors), 100% of Terasen Pipelines (Trans Mountain) Inc. (an oil pipeline that ships from Alberta into B.C. and the U.S. north-west), and 100% of Terasen Pipelines (Corridor) Inc. (pipeline in northern Alberta to transport diluted bitumen). Terasen also owns or has interests in a variety of smaller non-regulated businesses, as well as having a one-third interest in Express/Platte Pipeline System. See separate reports for detailed analysis of these companies.

Authorized Paper Amount Limited to Cdn$300 million.

RATING APPROACH

The rating of Terasen is based on the following considerations:

- The strength of the non-consolidated balance sheet and cash flows;
- The creditworthiness of the following wholly owned operating subsidiaries:
  – Terasen Gas Inc. [A/R-1 (low)],
  – Terasen Pipelines (Trans Mountain) Inc. ("TPTM") [A (low)],
  – Terasen Pipelines (Corridor) Inc. [R-1 (low)], and
  – Terasen Gas (Vancouver Island) Inc. ("TGVI") [not rated separately];
- The creditworthiness and characteristics of its other investments; and
- The benefits of business (gas distribution and oil pipeline), product (oil and gas), and geographic diversification (B.C., Alberta, and the western U.S.).

For a more detailed analysis on the rated wholly operating subsidiaries, see separate DBRS reports on Terasen Gas Inc., Terasen Pipelines (Trans Mountain) Inc., and Terasen Pipelines (Corridor) Inc.

RATING CONSIDERATIONS

Strengths: (1) Terasen's non-consolidated financial profile remains reasonable for the current ratings, given its current business risk profile and the increased diversification in its sources of dividend income. Its non-consolidated adjusted debt in the capital structure is just below 30%, while its cash flow/total adjusted debt is 28% and its fixed-charges coverage is 5.8 times.

(2) The various acquisitions and investments made by Terasen over the past two years have significantly increased the diversification of its asset base and earnings, thus increasing the stability in its dividend income and operating cash flows. While Terasen Gas has always been a significant and stable contributor of dividends, the dividend income flow from TPTM, Terasen's second largest subsidiary, has sometimes been significant, but has been much more volatile. The increased sources of dividend income will provide Terasen with a more stable operating cash flow profile.

(3) About 90% of Terasen's asset base is rate regulated, which provides a high degree of long-term stability to Terasen's consolidated balance sheet, earnings, and operating cash flows.

Challenges: (1) The earnings and cash flows of the Company's gas distribution operations are sensitive to changes in long-term interest rates through allowed ROEs. The low interest rate environment over the past six years has resulted in low allowed ROEs, which has had a dampening impact on earnings and on key cash flow and coverage ratios. The very low allowed ROE for 2004 for Terasen Gas (9.15% compared with 9.42% in 2003) will negatively impact Terasen Gas' earnings by about $2 million. However, interest rates rising and should benefit the Company in 2005.

(2) TPTM's current incentive toll settlement expires at the end of 2005. A challenge facing TPTM and Terasen's dividend income outlook is the outcome of the re-negotiation of the incentive agreement. Given the current high level of throughputs and a reduction in some of business risks that existed at the time of the last negotiation, it is possible that the re-negotiation will result in lower tolls.

(3) There are currently a number of large-scale projects, primarily pipeline projects, currently under active development that will require significant amounts of external financing. The key risks associated with these projects are construction risk, namely cost overruns and time delays.

EARNINGS AND OUTLOOK

Income Statement (Consolidated)	12 mos. ended	For the year ended December 31				
($ millions)	Mar. 2004	2003	2002	2001	2000	1999
Net revenues	910.3	883.3	807.5	663.1	590.2	598.4
EBITDA	515.3	499.8	452.1	390.3	342.8	339.0
Depreciation and amortization	137.6	131.2	110.7	95.1	86.2	83.1
EBIT	377.7	368.6	341.4	295.2	256.6	255.9
Gross interest expense	183.2	184.6	179.7	163.7	126.0	118.6
Net interest expense	179.3	176.0	160.8	148.3	117.5	117.6
Pre-tax income	198.4	192.6	180.6	146.9	139.1	138.3
Net income (before extras. and pfd.)	148.3	141.2	116.6	91.0	82.7	78.2
Net income (available to common)	139.9	132.7	105.8	84.6	108.8	81.2
Return on average common equity (bef. extras.)	10.8%	10.6%	11.2%	12.1%	12.0%	12.2%

Segmented Earnings (Consolidated)		For the year ended December 31				
($ millions)	%	2003	2002	2001	2000	1999
EBIT						
Gas distribution	75%	277.7	276.7	231.9	194.8	190.8
Petroleum transportation	25%	92.0	56.4	60.3	49.8	48.0
Other/corporate	0%	(1.1)	8.3	3.1	11.9	17.1
Total EBIT	100%	368.6	341.4	295.2	256.6	255.9
Net Income						
Gas distribution	68%	95.4	92.4	67.8	58.7	51.7
Petroleum transportation	40%	56.2	29.3	27.3	22.3	19.5
Other/corporate	-7%	(10.4)	(5.1)	(4.1)	1.7	7.0
Net income (before extras.)	100%	141.2	116.6	91.0	82.7	78.2
Extraordinary/unusual items		(1.8)	(4.1)	-	30.0	7.0
Preferred dividends/capital sec. dist'n		6.7	6.7	6.4	3.9	4.0
Net income (available to common)		132.7	105.8	84.6	108.8	81.2

Income Statement (Non-consolidated)	For the year ended December 31				
($ millions)	2003	2002	2001	2000	1999
Dividend income	176.1	92.7	101.2	80.6	79.7
EBIT	168.6	99.3	98.8	84.8	65.1
Gross interest expense	19.8	15.6	8.9	6.2	7.6
Net interest expense	12.9	13.6	8.8	6.1	7.5
Pre-tax income (before non-recurring/prefs.)	165.9	87.6	95.3	80.7	65.5
Net income (available to common)	157.0	76.0	69.6	76.8	65.5

Summary:

Consolidated Basis:

- EBIT and net income continued to increase in 2003 and for the 12 months ended March 31, 2004.
- Growth was largely due to:
  - Higher throughput volumes at TPTM, especially in Q1 2004; and
  - Earnings contributions from the acquisition of a one-third interest in Express system in January 2003 and the start of the commercial operation of the Corridor pipeline in May 2003.
- Growth in Terasen Gas earnings in 2003 provided an additional modest boost, while earnings were flat in Q1 2004 relative to previous year.

Non-consolidated Basis:

- EBIT was up sharply in 2003 due to significant dividend payment from TPTM ($91.2 million compared with $9.2 million in 2002), which was largely to get TPTM's capital structure back to 55% debt/45% equity.
- Gross interest expense was up again due to higher average debt levels, but much of the increase was offset by higher interest income from subsidiaries.
  - Most of the higher debt level at Terasen relates to borrowing done on behalf of subsidiaries.

Outlook:

Consolidated Basis:

- Earnings in 2004 should increase, benefiting from:
  - Continued strong throughput volumes at TPTM; and
  - Full-year earnings contribution from Corridor pipeline.
- Projected growth in Express earnings will likely be offset by the negative earnings impact of Terasen Gas' low allowed ROE (9.15% vs. 9.42% in 2003).
- Over the medium term, earnings should remain relatively stable given the increased diversification.
- Modest earnings growth will come from:

- Already announced/underway pipeline expansion projects to accommodate increasing throughput volumes;
- Customer additions and higher allowed ROEs from rising interest rates, at both gas distribution companies; and
- Improved performance from non-regulated/water and utility businesses.
- Key risks to Terasen's medium-term outlook include:
  - Re-negotiation of TPTM's toll agreement;
  - The inability of non-regulated/water and utility businesses to generate positive returns;
  - Inability of Terasen Gas to achieve productivity improvements and efficiencies under the new rate plan; and
  - Construction risks associated with the proposed large-scale expansion projects to TPTM, if undertaken.

Non-consolidated basis:

- Net income should be lower in 2004 as TPTM's dividend payments return to a more normal, sustainable level.
  - Corridor started making dividend payments in 2004, which will offset some of the drop from TPTM.
- Beyond 2004, net income should become increasingly stable given Terasen's more diversified sources of dividend income.
  - TPTM will likely remain more volatile, but dividend income from Corridor, modest distributions from Express, and dividends over time from its other/non-regulated portfolio should help stabilize earnings.

FINANCIAL PROFILE AND SENSITIVITY ANALYSIS

Consolidated Basis	12 mos. ended	For the year ended Dec. 31		
($ millions)	Mar. 2004	2003	2002	2001
EBITDA	515.3	499.8	452.1	390.3
Net income (bef. extras., after prefs.)	141.7	134.5	109.9	84.6
Depreciation & amortization	137.6	131.2	110.7	95.1
Non-cash adjustments	20.2	19.5	11.8	8.8
Operating Cash Flow	299.5	285.2	232.4	188.5
Capital expenditures	(208.3)	(222.9)	(395.7)	(469.8)
Common dividends	(81.1)	(79.4)	(59.8)	(49.8)
Gross Free Cash Flow	10.1	(17.1)	(223.1)	(331.1)
Changes in working capital & rate stabilization acct.	17.2	(22.5)	74.1	(135.1)
Free Cash Flow	27.3	(39.6)	(149.0)	(466.2)
Net investments	(4.5)	(209.0)	(315.2)	14.9
Net debt financing	(25.9)	234.5	(11.9)	435.2
Net capital securities financing	0.0	0.0	0.0	0.0
Net equity financing/other	15.5	10.1	474.2	(4.2)
Net change in cash	12.4	(4.0)	(1.9)	(20.3)
Cash flow/total adj. debt (times) (1)	10.56%	9.73%	8.62%	7.60%
% adj. debt in capital structure (1)	65.8%	67.6%	66.8%	75.3%
Fixed-charges coverage (times)	2.06	1.89	1.79	1.69

(1) Subordinated debt (capital securities) given 80% equity treatment.

Summary:

- Terasen's key financial ratios have continued to improve, with the completion of the Corridor pipeline project in 2003 resulting in significantly lower capital expenditures and higher operating cash flows.
  - The higher throughput volumes at TPTM and the Express acquisition also contributed to the increase in operating cash flows, particularly in Q1 2004.
- Given the above factors, Terasen recorded a much smaller free cash flow deficit in 2003 and, for the 12 months ended March 31, 2004, recorded a surplus.

Outlook:

- Terasen's operating cash flows should remain generally stable given the increased diversification, and be able to fund annual capital expenditures of $200 million and a 60% dividend payout.
- The Express system is expected to pay modest dividends over the medium term, providing a small boost to Terasen's cash flows.
- Absent any large-scale projects, Terasen's financial profile should remain relatively stable.

Non-consolidated Basis	For the year ended Dec. 31			**Senstivity Analysis**		
($ millions)	2003	2002	2001	Year 1	Year 2	Year 3
EBIT	168.6	99.3	98.8	130.9	130.9	130.9
Net income (bef. extras, after prefs.)	159.2	80.9	89.0	102.5	100.2	100.9
Non-cash adjustments	(7.8)	0.3	(5.4)	0.0	0.0	0.0
Operating Cash Flow	151.4	81.2	83.6	102.5	100.2	100.9
Common dividends paid out	(86.4)	(66.3)	(55.8)	(61.5)	(60.1)	(60.6)
Gross Free Cash Flow	65.0	14.9	27.8	41.0	40.1	40.4
Change in working capital	25.9	10.5	1.2	0.0	0.0	0.0
Free Cash Flow	90.9	25.4	29.0	41.0	40.1	40.4
Investments	(349.6)	(498.7)	(84.5)	(75.0)	(30.0)	(30.0)
Free Cash Flow Before Financing	(258.7)	(473.3)	(55.5)	(34.0)	10.1	10.4
Net debt financing	243.0	(4.0)	61.0	34.0	(10.1)	(10.4)
Net capital securities financing	0.0	0.0	0.0	0.0	0.0	0.0
Net equity financing	10.1	475.0	(0.8)	0.0	0.0	0.0
Net change in cash	(5.6)	(2.3)	4.7	(0.0)	0.0	0.0
Cash flow/total adj. debt (times) (1)	28.7%	29.3%	33.6%	18.3%	18.2%	18.7%
% adj. debt in capital structure (1)	28.1%	17.9%	24.0%	28.8%	27.8%	26.9%
Fixed-charges coverage (times)	5.78	3.83	5.03	3.13	2.97	3.02

(1) Subordinated debt (capital securities) given 80% equity treatment.

Summary:

- Sharply higher dividend income from TPTM provided a significant boost to Terasen's operating cash flow and free cash flow surplus.
- External financing was required to fund the significant level of investments in 2003, which included advances to subsidiaries including TPTM and TGVI.
  – Debt in the capital structure increased in 2003, but cash flow and coverage ratios were not negatively impacted.

Outlook:

- Operating cash flow will be lower in 2004 as TPTM's dividend payments return to more normal levels, but should remain sufficient to fund common dividend payments and annual investments of about $30 million.
- Terasen's level of debt is expected to increase somewhat and remain higher over the medium term given the decision earlier in the year to cancel TPTM's commercial paper program and have Terasen directly fund TPTM's short-term financing needs.
  – While leverage will increase, Terasen's key cash flow and coverage ratios should not be negatively impacted.
- The key risks to Terasen's credit ratings are related to the outcome of the large-scale projects, primarily pipeline projects, currently under active development.
  – These projects will require significant amounts of external financing and will face construction risks.

Sensitivity Analysis:

DBRS stress tests the financial strength of companies analyzed to measure their sensitivity under various extreme scenarios. The assumptions used are based neither upon any specific information provided by the Company, nor any expectations that DBRS has concerning the future performance of the Company.

Assumptions:

- EBIT declines 20% in Year 1 and stays flat thereafter.
- Dividend payments are projected at 60% of net income.
- Investments in Year 1 include the Fairbanks acquisition (US$30 million) plus $30 million of additional investments; $30 million per year assumed in Year 2 and Year 3.
- Free cash flow deficits are 100% debt financed.

Outcomes:

- Leverage would remain relatively unchanged, but key cash flow and coverage ratios would be negatively impacted.
  – However, it would continue to record fee cash flow surpluses.
- DBRS expects the Company would take steps to reduce its leverage by either reducing its dividend or adding equity.

LONG-TERM DEBT MATURITIES AND BANK LINES

Debt and Commitments ($ millions)	As at Mar. 31		As at Mar. 31
Terasen's direct debt	2004	**Consolidated**	2004
Short-term debt	182	Short-term notes	928
Long-term debt (adj.) (1)	357	Current portion of long-term debt	91
Contingent liabilities (2)	495	Long-term debt	1,792
Total	1,034	Total debt	2,811

(1) The $125 million capital securities are given 80% equity treatment by DBRS; also includes deferred payment related to the Centra Gas acquisition.

(2) As at Mar. 31, 2004, Terasen Inc. guaranteed the commercial paper issued by Terasen Pipelines (Corridor) for the Corridor Project.
Effective April 6, 2004, Terasen Inc. no longer guaranteed the commercial paper issued by Terasen Pipelines (Corridor) .

Summary:

- As at March 31, 2004, the Company's direct long-term debt consisted of:
  - A $100 million Medium-Term Notes maturing May 8, 2006; and
  - A $200 million Medium-Term Notes maturing December 1, 2008.
- In addition, it also had $182 million outstanding under its commercial paper program.
- As at March 31, 2004, Terasen Inc. guaranteed the commercial paper issued by Terasen Pipelines (Corridor) Inc., which stood at $495 million.
  - The guarantee was removed effective April 6, 2004.
- As at March 31, 2004, Terasen's per cent adjusted debt in the capital structure (non-consolidated) was about 30% excluding the Corridor guarantee.
- The Company currently has committed 364-day revolving credit facilities totalling $300 million. The credit facilities support its $300 million commercial paper program.
  - The limit on Terasen's commercial paper program was increased to $300 million in February 2004 in order to meet TPTM's short-term financing requirements following the cancellation of TPTM's commercial paper program.
- For detailed information on long-term debt maturities and bank lines of operating subsidiaries, please see separate DBRS reports.

Outlook:

- Terasen (non-consolidated) has only two maturities over the next four years, which is manageable from a refinancing perspective.
- However, its direct short-term debt is expected to remain at a higher level given that it has assumed responsibility for TPTM's short-term financing requirements.
  - This should not pose any problems.

DESCRIPTION OF OPERATIONS

Terasen Inc. is a holding company whose principal operating subsidiaries are involved in regulated natural gas distribution and regulated oil pipeline businesses. The Company's operating businesses consist of the following:

Terasen Gas Inc. (wholly owned by Terasen Inc.)

- The largest natural gas distributor in British Columbia, serving approximately 783,000 customers or 90% of the province's natural gas users.
- It is regulated by the British Columbia Utilities Commission (BCUC) and operates under performance-based regulation.
- A new performance-based rate plan was reached with stakeholders and approved in July 2003 by the BCUC for the period 2004-2007.
- Key components of the new plan include the following:
  - Operating and maintenance costs and base capital expenditures are subject to an incentive formula reflecting increasing costs as a result of customer growth and inflation less a productivity factor equal to 50% of inflation during the first two years of the plan and 66% of inflation during the last two years of the plan.
  - The 50/50 sharing with customers of earnings above or below the allowed ROE that existed under the previous plan continues under this plan.
  - The new plan also includes ten service quality measures designed to ensure the maintenance of service levels, as well as setting out the requirements for an annual review process.
  - As part of the negotiated settlement, new deferral accounts were established for insurance premiums and pension costs incurred by Terasen Gas Inc., further increasing the longer-term stability of earnings and cash flows.
- Terasen Gas Inc.'s allowed ROE is set annually according to the following formula:
  - 350 basis points above forecast long-term Government of Canada bond yields 6% or lower.
  - The formula also provides for annual adjustments capturing 80% of the change in yields when forecast yields are higher than 6%.
- Deemed equity is 33% of total capital.

<u>Terasen Gas (Vancouver Island) Inc. (wholly owned by Terasen Inc.)</u>

- A natural gas distribution utility serving Vancouver Island and the Sunshine Coast of British Columbia.
- It is regulated by the BCUC.
- In 1995, an agreement was entered into by the utility with the Province of British Columbia and the Government of Canada that included a special direction issued to the BCUC.
- The agreement expires no earlier than 2011 and includes the following key terms:
  - Rates charged to customers from 1995 to 2002 were lower than those required to recover full cost of service, with deficiency in revenues accumulated in a revenue deficiency deferral account ("RDDA"). Preferential rates ended at the end of 2002. Terasen Inc. is committed to funding this account until it has been collected from ratepayers.
  - The BCUC was directed to set rates starting in 2003 to recover this deferral account over the shortest period reasonably possible, taking into account Terasen's competitive position against alternative energy sources.
  - TGVI receives from the Province (for the benefit of customers), until 2011, quarterly payments based on deemed volumes of natural gas transported through the Vancouver Island Pipeline.
  - Variances in the achieved ROE compared to allowed ROE (other than variances arising from operating and maintenance costs) are deferred and recorded in the RDDA and subject to the BCUC's approval, are recovered/remitted from/to customers through rates.
- A new incentive-based settlement was negotiated with stakeholders in 2002 and was approved in January 2003 by the BCUC. The new settlement is for three years and was effective January 1, 2003.
- Key components of the settlement include:
  - The continuation of operating and maintenance cost incentive arrangements, with Terasen keeping 100% of any over-earnings arising from lower-than-forecast operating and maintenance costs, except for insurance and pension costs. Any differences in forecasts for these two items are recorded in a deferral account and then recovered/remitted from/to customers.
  - Deemed equity in the capital structure set at 35%; allowed ROE set at 50 basis points higher than Terasen Gas' allowed ROE.

<u>Terasen Pipelines (Trans Mountain) Inc. ("TPTM") (wholly owned by Terasen Inc. and has a 10.5% ownership interest in its parent)</u>

- Oil pipeline system (currently 1,260 kilometres with a sustainable capacity of 291,450 barrels/day) transporting crude oil and refined products from Alberta and north-eastern British Columbia to the West Coast, servicing refineries in Vancouver and Washington state.
  - It also owns and operates Westridge Marine Terminal in Vancouver harbour, where crude oil is loaded aboard ocean-going vessels and aviation fuel is landed and stored.
- It has another pipeline (41 kilometres) that transports aviation fuel from the Westridge Marine Terminal and refineries and distribution terminals in the Burnaby area to the Vancouver International Airport.
- It is regulated by three separate regulatory bodies: (1) the Canadian portion of the crude oil and refined product pipeline system by the National Energy Board; (2) the U.S. portion of the pipeline by Federal Energy Regulatory Commission on a complaint basis; and (3) The aviation turbine fuel pipeline by the BCUC.
- The Canadian portion of the pipeline system currently operates under a renewal incentive toll settlement until the end of 2005 (settlement covers 2001-2005).
  - TPTM's tolls are fixed for throughputs between 179,265 bbl/d and 201,280 bbl/d (28,500 and 32,000 cubic metres/day) and are not adjusted for inflation unless the Canadian inflation rate rises above 3.5%.
  - Shippers are responsible for revenue shortfall if average annual throughputs fall below 179,254 bbl/d; there is 50/50 sharing with shippers if average annual throughputs above 201,280 bbl/d.
  - TPTM benefits 100% from operating and efficiency improvements.
- TPTM is currently undertaking a small expansion to its system ($16 million loop and re-powering of some pumping, which will increase capacity by 27,000 bbl/d).
- TPTM is also pursuing additional significant expansions to its pipeline system related to the continued growth in the Alberta oil sands.

<u>Terasen Pipelines (Corridor) Inc. ("TPC") (wholly owned by Terasen Inc.)</u>

- TPC owns a 493-kilometre pipeline linking two facilities that are part of the Athabasca Oil Sands Project, jointly owned by Shell Canada Limited (60%), Chevron Canada Resources Limited (20%), and Western Oil Sands Inc. (20%).
- The pipeline began commercial operations in May 2003 and transports diluted bitumen from the Muskeg River Mine in Fort McMurray, Alberta, to an upgrader adjacent to Shell Canada's Scotford refinery in Fort Saskatchewan, Alberta.
  - Corridor also connects the upgrader to refineries and pipeline terminals in the Edmonton area (including the Trans Mountain Pipeline), as well as providing storage facilities.
- Operation of the Corridor pipeline is backed by a long-term ship-or-pay contract with Shell Canada-Chevron Canada-Western Oil Sands.
- The pipeline is operated by TPTM.

- Revenue requirements are governed by contractual arrangements with the above three shippers and are subject to regulation by the Alberta Energy and Utilities Board.

Other investments

- Terasen has a one-third interest in the Express/Platte Pipeline System.
  - The Express system consists of the Express Pipeline and the Platte Pipeline, transporting crude oil from Hardisty, Alberta to the Wood River, Illinois area.
  - The Express system is regulated by three separate regulatory bodies: (1) The Canadian segment of the Express Pipeline is regulated by the National Energy Board, with tolls regulated on a complaint basis only; (2) The Platte Pipeline and the U.S. segment of the Express Pipeline are regulated by the Federal Energy Regulatory Commission (FERC), with tolls also regulated on a complaint basis; and (3) Petroleum transportation on the Platte Pipeline within the state of Wyoming is regulated by the Wyoming Public Service Commission, with tolls regulated on a similar basis to those of the National Energy Board and the Federal Energy Regulatory Commission.
  - A US$110 million, 108,000 bbl/day expansion is currently in the design phase, with construction expected to start in summer 2004 and be completed by April 2005.
- Terasen has interests in a number of smaller, non-regulated energy and utility services businesses including:
  - Terasen Waterworks (Supply) Inc.,
  - Terasen International Inc.;
  - A 30% interest in CustomerWorks;
  - A 44% interest in Clean Energy, an alternative fuel re-fuelling company; and
  - Recent announcement to acquire a 50% interest in Fairbanks Sewer and Water Inc.

Terasen Inc.

(Consolidated)

Balance Sheet

($ millions)

Assets	As at Mar. 2004	As at December 31 2003	2002	**Liabilities & Equity**	As at Mar. 2004	As at December 31 2003	2002
Cash	33	2	5	Short-term debt	928	1,018	927
Accounts receivable	386	404	299	A/P + accrueds	357	408	330
Inventories	75	142	98	L.t.d. due in one year	91	52	109
Prepaids + other	24	29	80	**Current Liabilities**	1,376	1,478	1,366
Current Assets	517	577	483	Long-term debt	1,792	1,837	1,636
Net fixed assets	3,870	3,882	3,779	Def'd income taxes	70	68	58
Long-term rec. + investments	223	216	22	Other long-term liab.	108	103	96
Goodwill + def'd charges	233	239	239	Capital securities	125	125	125
Total	4,844	4,915	4,522	Shareholders' equity	1,373	1,305	1,241
				Total	4,844	4,915	4,522

Ratio Analysis	12 mos. ended	For the year ended December 31						
Liquidity Ratios	Mar. 2004	2003	2002	2001	2000	1999	1998	1997
Current ratio	37.6%	39.0%	35.4%	39.9%	51.6%	38.0%	26.2%	27.1%
Accumulated depr./gross fixed assets	19.0%	19.0%	17.8%	19.6%	20.4%	23.2%	21.9%	20.9%
Cash flow/total debt	10.7%	9.8%	8.7%	7.7%	8.5%	10.9%	9.4%	9.4%
Cash flow/total adj.debt (1)	10.6%	9.7%	8.6%	7.6%	8.4%	10.9%	9.4%	9.4%
Adj. debt/EBITDA	5.50	5.87	5.97	6.36	5.97	4.74	4.80	4.79
Cash flow/capital expenditures	1.44	1.28	0.59	0.40	0.28	1.07	1.21	1.11
Cash flow/capex (Terasen Gas)	1.31	1.27	1.34	0.98	0.25	0.85	0.99	0.90
Cash flow/capex (Trans Mountain)	-	2.34	2.54	3.16	2.23	1.68	1.68	1.68
Cash flow-dividends/capex	1.05	0.92	0.44	0.30	0.20	0.79	0.89	0.81
% debt in capital structure	65.2%	67.0%	66.2%	74.5%	71.4%	71.9%	73.7%	72.4%
% adj. debt in capital structure (1)	65.8%	67.6%	66.8%	75.3%	72.3%	71.9%	73.7%	72.4%
Average coupon on long-term debt	6.20%	6.20%	5.90%	6.22%	8.14%	8.63%	9.23%	9.50%
Common dividend payout (before extras.) (2)	57.2%	59.0%	54.4%	58.9%	59.5%	60.1%	59.0%	59.4%
Coverage Ratios								
EBIT interest coverage	2.06	2.00	1.90	1.80	2.04	2.16	2.22	2.21
EBITDA interest coverage	2.81	2.71	2.52	2.38	2.72	2.86	2.93	2.92
Fixed-charges coverage	2.06	1.89	1.79	1.69	1.93	1.90	1.92	1.90
EBIT interest coverage (non-consolidated)	n/a	8.86	6.49	11.10	13.69	8.58	17.60	10.82
Fixed-charges coverage (non-consolidated)	n/a	5.78	3.83	5.03	6.43	8.58	17.60	10.82
Profitability Ratios								
EBIT margin	24.2%	24.6%	24.3%	20.8%	23.6%	30.3%	35.1%	32.8%
EBIT margin, excludes cost of natural gas	41.5%	41.7%	42.3%	44.5%	43.5%	42.8%	44.4%	43.7%
Net margin (before extraordinary items)	16.3%	16.0%	14.4%	13.7%	14.0%	13.1%	13.0%	12.7%
Return on average common equity	10.8%	10.6%	11.2%	12.1%	12.0%	12.2%	12.1%	10.8%
Operating Efficiency and Statistics								
Throughputs – gas distribution (bcf) (3)	177.6	174.6	187.3	164.7	180.3	179.4	169.2	175.0
- Oil pipeline (thousands bbl/day) (4)	254.8	216.1	201.2	209.3	204.6	207.5	252.6	229.7
- U.S. deliveries (incl. in oil pipeline) (thousands bbl/day) (4)	98.0	54.6	47.8	73.4	65.2	61.9	101.4	94.4
- Jet fuel (thousands bbl/day)	17.9	16.5	18.5	19.3	19.8	20.1	20.5	20.6
Approved ROE (Terasen Gas Inc.)	9.15%	9.42%	9.13%	9.25%	9.50%	9.25%	10.00%	10.25%
- Oil pipeline (Cdn. Mainline)	#	#	#	#	#	#	#	#

(1) The $125 million capital securities are given 80% equity treatment by DBRS.

(2) For 1998, excludes $20 million deemed dividend exchanged for convertible debt; for 1996, excludes $55 million deemed dividend exchanged for convertible debt.

(3) Throughputs include sales volumes and transportation volumes only. (4) Throughputs for TransMountain pipeline only.

#: negotiated settlement

APPENDIX 58.2

STANDARD & POOR'S | RATINGSDIRECT

Return to Regular Format

Research:

Summary: Terasen Inc.

Publication date: 18-Apr-2005
Primary Credit Analyst(s): Bhavini Patel, CFA, Toronto (1) 416-507-2558; bhavini_patel@standardandpoors.com
Secondary Credit Analyst(s): Michelle Dathorne, Toronto (1) 416-507-2563; michelle_dathorne@standardandpoors.com

Credit Rating: BBB/Stable/NR

Rationale

The ratings on utility holding company Terasen Inc. (Terasen) reflect the company's low-risk, regulated gas distribution business and competitively positioned liquids pipelines business. These strengths are partially offset by Terasen's below-average consolidated financial profile. The ratings are based on a consolidated methodology approach, which factors in the business and financial profiles of Terasen's wholly owned subsidiaries.

Terasen's regulated gas distribution operations are considered low risk because of their dominant market positions, and the regulatory mechanisms that mitigate major operating risks, such as commodity costs. Terasen Gas and Terasen Gas (Vancouver Island) account for more than 95% of natural gas customers in the Province of British Columbia, and Standard & Poor's Ratings Services expects the gas distributions' aggregate market share will remain relatively stable in the near-to-medium term.

Terasen's pipeline business is also considered to have a stable competitive position as it controls two liquids pipelines in western Canada, which transport about 20% of the Province of Alberta's total oil throughput. The increasing oil production from western Canada will require additional pipeline capacity, and Terasen Pipelines will benefit given the markets it serves and the economical expansion capability. Although the pipelines transport a small portion of western Canada's total crude oil production, Terasen Pipelines (Trans Mountain) is the only liquids pipeline system to British Columbia and to the U.S. Pacific coast from Alberta. The Express Pipeline system's competitive position is also fairly secure, as the pipeline serves export markets not connected to the dominant Enbridge liquids pipeline grid. Terasen Pipelines (Corridor) is a dedicated pipeline that has the exclusive rights to transport bitumen from the Albian oil sands project to the upgrader in Edmonton, Alta., and has a long-term, ship-or-pay contract, which is not exposed to volume risk.

Terasen's below-average financial risk profile reflects the existing gas regulatory framework. These factors which hamper the company's consolidated financial profile are somewhat offset by the pipelines' negotiated shipper contracts. Standard & Poor's expects Terasen's financial measures will remain stable in the near-to-medium term, as the provincial regulatory framework is unlikely to change. As a result, the company's funds from operations (FFO) interest coverage of 2.4x, FFO to total debt of 10%, and total debt to capital of 66% should remain relatively stable in the near term. In addition, these ratios do not reflect the potential of heavy capital spending for various liquids and gas pipeline projects, all of which would require significant amounts of capital.

Liquidity

Standard & Poor's assesses Terasen's consolidated liquidity position to be adequate, given the company's stable cash flow generation, its ability to access capital markets, and its available bank facilities. With slightly more than C$1.5 billion in committed bank lines of credit (which are used seasonally), the company and its subsidiaries have adequate funds available for operating purposes. As at Dec. 31, 2004, C$540 million of the credit lines were unused. The credit facilities primarily serve to back up the company's CP programs.

Outlook

The stable outlook reflects Standard & Poor's expectation of steady operating performance for both the gas distribution and petroleum transportation segments. Any acquisitions or major projects are expected to have risk profiles consistent with regulated, energy infrastructure-type assets, and to be financed in line with the company's current capital structure. Nevertheless, a negative rating action could occur, if new business ventures weaken the company's business profile, or if the company's consolidated financial profile deteriorates as a result of any large-scale debt-financed acquisitions or capital programs. Conversely, a positive rating action is possible if noteworthy financial improvements occur over a sustained period, with no increase in business risk.

Going forward, Standard & Poor's will continue long-term ratings coverage of the Terasen companies based on publicly available information. Ratings surveillance on the Terasen companies will continue in accordance with Standard & Poor's analytical criteria. These ratings may be based solely on publicly available information and may not involve the participation of the issuers' management. Standard & Poor's has used information from sources believed to be reliable, but does not guarantee the accuracy, adequacy, or completeness of any information used. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities. Other analytic services performed by Standard & Poor's may be based on information that was not available for these ratings and this report.

APPENDIX 58.3

Equity Research

Pipelines And Utilities

Peter Case (416) 956-6169
Linda Ezergailis (416) 956-3229

December 3, 2001

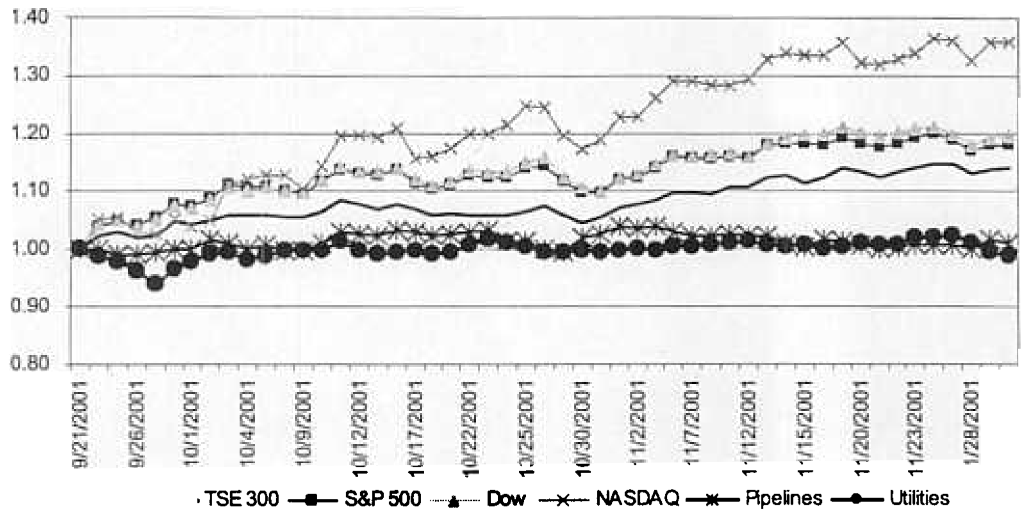
Time To Lighten Up

All figures in Canadian dollars, unless otherwise stated.

Investment Conclusion

- The recent broad market rally from September 21 lows likely signals the start of a new bull market phase and as such has significant implications for pipeline and utility stocks. In the near term, we expect a consolidation of recent market gains during which pipeline and utility stocks may outperform again; however, we would use this as an opportunity to trim exposure to the group. We would focus remaining exposure on those companies with the best potential earnings growth and, in particular, those that effectively use performance-based regulation and strategic acquisitions and increase the proportion of nonregulated assets and operations in their business mix.

Figure 1. Sector Performance Relative To Broader Indices



Prices as of market close November 30, 2001.
Source: Starquote.

- November saw the markets rally and the start of a rotation into more cyclical stocks. As a result, the pipelines and utilities underperformed the TSE in November; while the TSE 300's total return was 8.0%, that of the utilities was virtually zero, and the pipelines was negative 1.3%. Contributing to the underperformance was the back-up in long Canada bond yields, which have risen by approximately 40 basis points from recent lows. Pipeline and utility stocks are highly *negatively* correlated with long Canada bond yields. Figure 1 shows the relative performance of the sector to broader indices from the September 21 low, and figures 2 and 3 show individual company performance in November and year-to-date. The sector underperformed in the month, even after accounting for the dividend yield, as shown in Figure 4.

See page 2 for state/provincial restrictions.

- The shock of the failure of Enron and the uncertainty about any possible domino effect has put pressure on the stock prices of energy merchants and may continue to overhang the sector, and potentially the broader market, until the situation is clearer. We note, however, that all of the companies in our universe have indicated that they do not have any direct material exposure to Enron. We expect that other marketers should be able to step in and fill the gap left if EnronOnline were to be permanently turned off, although we are less certain of the duration and magnitude of any reduced liquidity and resultant increased volatility in the power and gas markets.

- Over the next 12 months, as an economic recovery unfolds, there will likely be upward pressure on short- and long-term interest rates. At the same time, a recovery will continue to diminish the defensive appeal of these stocks and highlight the better relative growth prospects of more cyclical or economically sensitive sectors. As well, we continue to have valuation concerns about the distribution utilities, which are trading at about a 2.1-multiple-point premium and a 90-basis-point yield discount compared to U.S. comparables with similar growth rates and risk profiles (see Table 1).

Table 1. Canadian Valuation Premium

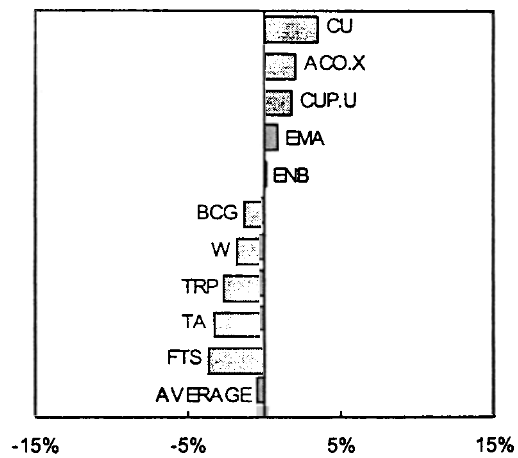
	2002 P/E	Dividend Yield
Canadian Gas & Electric Utilities	13.9	4.4%
U.S. Gas & Electric Utilities	11.8	5.3%

Source: CIBC World Markets.

- **TransAlta** (TA – Buy) A recession will reduce industrial power demand, which will likely prolong recent weakness in electricity prices; however, with most of TA's output contracted long term and at fixed prices, our recommendation has been premised on expectations of growth in TA's generation portfolio and the enhanced returns achievable from its Alberta generation assets in a deregulated environment. With its dividends providing about a 4.3% yield, the stock now offers excellent income and downside protection while preserving the longer-term upside. In the mean time, the weaker balance sheets of some of its competitors may facilitate acquisition opportunities.

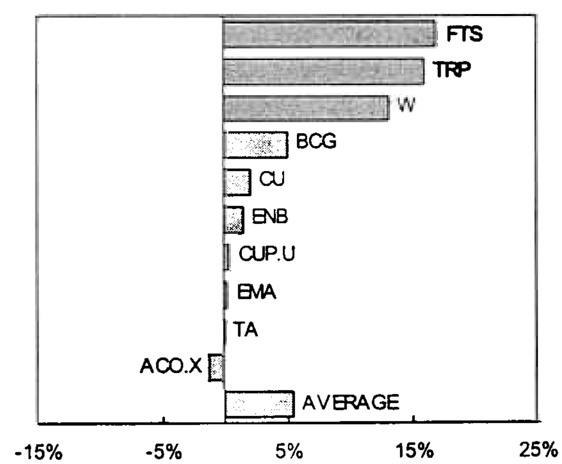
- **Enbridge** (ENB – Buy) has demonstrated the strongest and most consistent EPS growth of the sector. It is benefiting from incentive regulation at Consumers Gas, from the recently completed Midcoast Energy acquisition, and from rising oil production in Western Canada, which will boost demand for its oil pipeline. Confidence in the latter outcome is heightened by customers' recent requests that Enbridge proceed with the third phase of the Terrace expansion. We believe that the recent purchase of 25% of the Spanish energy transportation company (CLH) indicates the increasing contribution and strength of Enbridge's international operations.

Figure 2. Monthly Stock Price Performance



Prices as of market close November 30, 2001.
Source: Starquote.

Figure 3. Year-To-Date Stock Price Performance



Prices as of market close November 30, 2001
Source: Starquote.

Figure 4. Total Return Of Pipelines And Utilities

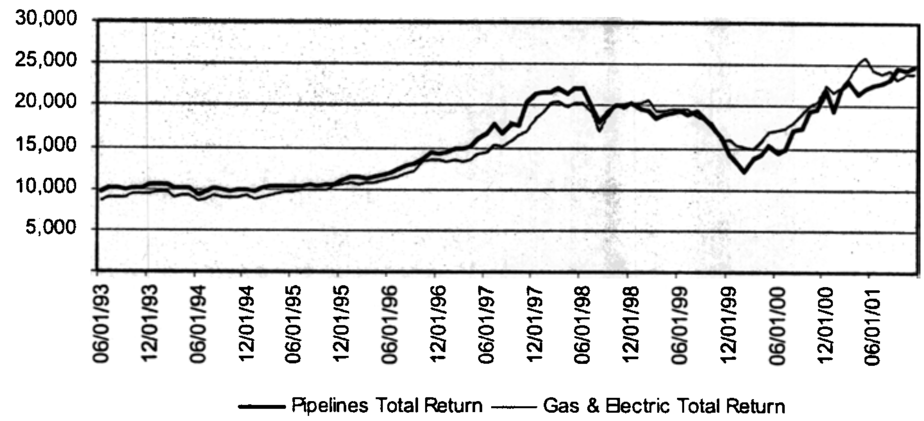


Chart data up to November 30, 2001.
Source: Bloomberg.

Figure 5. Pipeline And Utility Yields Relative To 10-Year Government Bond Yield

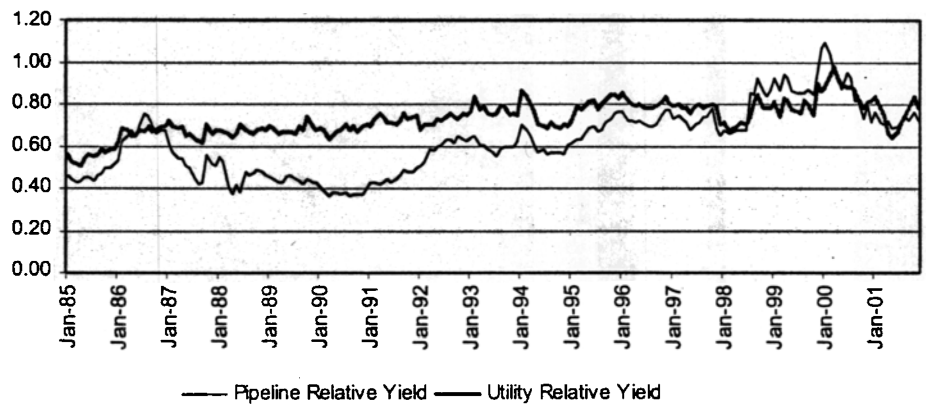


Chart data up to November 30, 2001.
Source: Bloomberg, CIBC World Markets.

Multi-Pipeline ROE Determined

The return on equity (ROE) adjustment mechanism approved in the National Energy Board's (NEB) multi-pipeline (MPP) cost-of-capital decision can now be calculated, as the November Consensus Forecast of government bond yields has been published. Based on our calculation shown in Table 2, the MPP ROE should be 9.53% for 2002 versus 9.61% in 2001. Last month we estimated the ROE to be 9.65%, but anticipated that the forecasted bond yields would fall; we have therefore already incorporated a lower ROE into our company valuation models.

Table 2. National Energy Board ROE

	November Calculation	Our High-End Estimate Last Month
Feb 2002 Gov't. 10-yr. Bond	4.90	5.10
Nov 2002 Gov't. 10-yr. Bond	5.40	5.50
Avg. 2002 Gov't. 10-yr. Consensus	5.15	5.30
Spread – 30-yr. and 10-yr. Can. Gov't. Bonds	0.48	0.48
Forecast 2002 30-yr. Bond	5.63	5.78
Forecast 2001 30-yr. Bond	5.73	5.73
Difference X 0.75	(0.08)	0.04
2001 Approved ROE	9.61	9.61
2002 Approved ROE	***9.53%***	***9.65%***

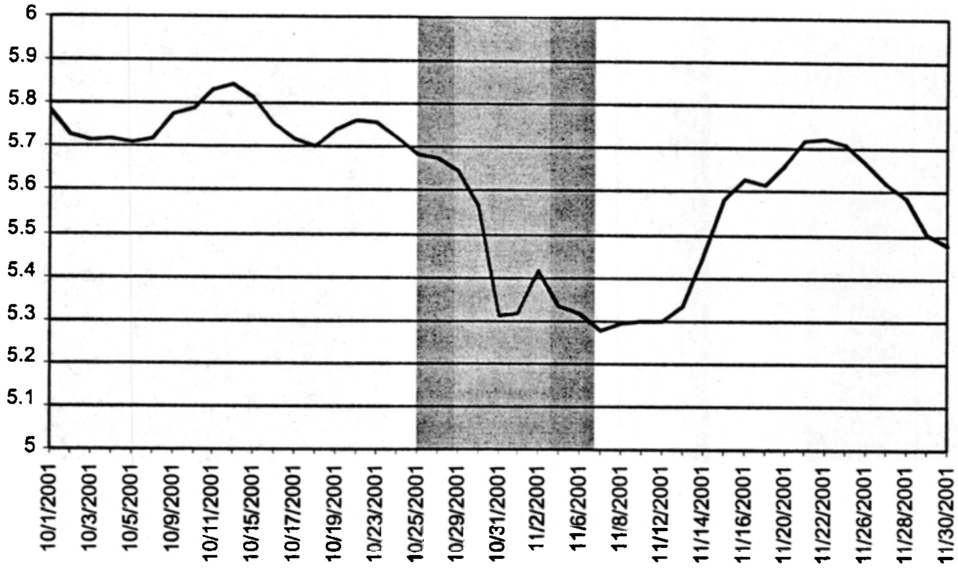
Source: Bloomberg, Consensus Economics, NEB, CIBC World Markets.

On November 9, we reduced our earnings estimates for Fortis after the Newfoundland Board of Public Utility Commissioners reduced the allowed return on equity for Newfoundland Power to 9.05% — the lowest return awarded to any Canadian utility. This return was based on a snapshot bond-yield formulaic approach to determining rates (as opposed to the NEB's consensus forecast approach). The snapshot was of Canada bond yields in the last five days of October and the first five days of November, and this time period is shaded in Figure 6.

The magnitude of the reduction in the case of Newfoundland Power illustrates the flaw in using a brief snapshot of existing rates rather than a forecast of rates that are expected to persist during the upcoming year. More importantly, however, it shows the shortcoming of the formula approach itself. Mechanically tying allowed returns on equity to long bond yields is an approach that is simple for regulators to apply; however, in recent years, with a steady decline in bond yields, it has produced-allowed returns that are out of sync with the cost of capital, and returns that are being achieved with comparable nonregulated companies or regulated returns that are achievable in the U.S.

In our view, the return produced by the Newfoundland Board of Public Utility Commissioners and that produced by the NEB formula, increases the significance of applications by TransCanada PipeLines to the NEB and by Consumers Gas to the Ontario Energy Board (OEB) for an increase in allowed returns. It will be important for investors to watch these proceedings closely.

Figure 6. Long Canada Government Bond Yields



Source: Bloomberg.

Sector's Direct Exposure To Enron Very Limited

We are not changing our earnings estimates, target prices, or ratings, for companies in our universe as a result of their counterparty exposure to Enron. Last month we noted that companies in our universe had reassured us that they did not have any material exposure to Enron, and more recently, companies have once again reassured us that the direct exposure is immaterial (we estimate less than 1% of revenues); however, there is lingering uncertainty about the possibility of a domino effect in the energy trading markets. We expect that other marketers should be able to step in and fill the gap if EnronOnline were to be permanently turned off, although we are less certain about the duration and magnitude of any reduced liquidity and resultant increased volatility in the power and gas markets.

Companies trading in EnronOnline are typically subject to a "master agreement" that provides for netting out of the contracts, and Table 3 summarizes approximate net positions. Enron bought the future output of one of TransAlta's generating plants (in a contract worth approximately $294 million), but this contract is guaranteed by the Alberta provincial balancing pool. Enron also has contracted for firm capacity on TransCanada's pipelines, but the company believes that if one shipper were to default, that this would be absorbed by the other system's shippers and not the company's shareholders.

Table 3. Summary Of Exposure To Enron

Company	Net Position	Disclosure of Net Impact	Est. % Revenue
Enbridge Inc.	Payable to Enron	approximately $9 mln. USD (through Midcoast acquisition)	0.31%
TransAlta	Neutral	payable and receivable of US$10 mln. nets out	0.02%
TransCanada PipeLines	NA	"not material" – company declined to define "material"	NA

Source: Companies, CIBC World Markets.

We believe that the competition will attempt to step in and fill the gap Enron is sure to leave. An industry publication on November 30 suggested that JP Morgan Chase and Citibank were in serious talks on November 29 to take over all or part of Enron's multi-hundred-billion-dollar notional book of trading positions. It is expected that the banks would primarily warehouse existing contracts as they wind down over the next decade or so, but could potentially continue over-the-counter (OTC) commodities derivatives trading at a lower level. Creditors with recourse to nontrading assets, however, would perhaps contest the potential bailout. We note that other trading platforms such as Intercontinental Exchange (ICE), while stretched in the shorter term, could step in to provide liquidity.

Recent Sector Activity

Enbridge Expands Into Europe

On November 26, Enbridge announced that it had signed a letter of intent to purchase 25% of the common shares of Spanish transportation company Compañía Logistica de Hidrocarburos CLH, S.A. (CLH) for approximately C$530 million. That same day, we published our favourable views on the transaction, namely that it would be immediately accretive to earnings, that it was in line with both the corporate and international strategies, and that it created options for future partnerships with large integrated oil companies. We increased our 2002 and 2003 EPS estimates slightly, and retained our target price of $50 and our Buy rating.

Companies Sign On To Alaska Highway Pipeline

On November 15, six U.S. and three Canadian companies announced the signing of a memorandum of understanding to develop a proposal for the Alaska Highway pipeline, which they expect to put before Alaska North Slope producers by year end. The Canadian companies are TransCanada, Westcoast, and Foothills.

This has not changed our investment outlook for companies in our universe, as we note that the producers, not the pipeline companies, will drive the decision as to which route and which partners make most economic sense for Northern Gas. Furthermore, gas delivery is not expected before 2008. We also note that the large number of proposed LNG projects could provide 7 Bcf/day to 8 Bcf/day of supply by 2010 and keep gas prices in the range of US$3.00/Mcf to US$3.50/Mcf. At this price, it will be difficult for Alaska gas to compete via the highway route. For example, Enbridge estimates the transportation cost alone of the highway route at US$2.39/Mcf and the over-the-top route at US$2.07/Mcf.

TransCanada Mainline Tolls And Tarriffs Approved

As expected, the NEB has approved TransCanada's 2001 and 2002 Mainline tolls and tariff application, which was based on an agreement supported by the bulk of TransCanada's customers. The agreement fixes most of the elements of TransCanada's Mainline revenue for 2001 and 2002, and retains TransCanada's immunity from volume fluctuations. Yet to be decided is the cost of capital that TransCanada will be allowed to recover in each year. This will be the subject of a hearing that will begin in February. We are maintaining our $21.00 target price and Hold rating.

Milestone Completed In Duke Acquisition Of Westcoast

On November 21, an announcement was made by Westcoast that Duke Energy has received approval from the British Columbia Utilities Commission (BCUC) to acquire indirect control of the public utilities owned wholly or in part by Westcoast Energy and regulated by the BCUC, namely Pacific Northern Gas, Pacific Northern Gas (N.E.), Centra Gas British Columbia, and Centra Gas Whistler.

Duke and Westcoast also announced that they had received a request for additional information and documents from the Federal Trade Commission (FTC) review of the proposed acquisition of Westcoast Energy by Duke Energy. This request is routine and the companies do not expect the request to have a material impact on the timing of the consummation of the proposed acquisition. If the acquisition arrangement is approved by Westcoast Energy's common shareholders and option-holders, subsequent to the B.C. Supreme Court and finally the other conditions of closing being satisfied or waived, the companies expect the acquisition will be completed during Q1/2002.

Ontario Government Considers Not-For-Profit Option For Hydro One

We note the recent media buzz around the proposal to create a not-for-profit structure for Hydro One. The province is considering all options, including one that could raise up to $14 billion in bonds — approximately $5 billion of which would be available (after repaying Hydro One's existing debt and equity investors) to pay down part of the Old Ontario Hydro's $21 billion in stranded debt. Before this month, the prevailing options were thought to be either the outright sale to another utility company or an initial public offering (IPO) to private investors and stock exchange listing. The not-for-profit option is purported to result in $2 billion – $4 billion more in initial stranded debt retirements.

Hydro One management is opposed to the not-for-profit option, not so much for the lack of ability to use employee share options as incentives, but more for the ramifications for its strategy to become a major player in the North American electricity market. Under this option it would likely not have to pay taxes, which American transmission companies would likely argue was an unfair competitive advantage for Hydro One. Also, without financial flexibility, Hydro One might have fewer resources to invest in new connections to the North American power grid, which could result in the Ontario power market becoming less fully integrated with the North American grid. At first blush this would lower electricity prices in Ontario, if excess energy is bottled up in Ontario. Over the longer term, however, the cost to consumers could increase if inadequate transmission capacity discouraged construction of sufficient generation to meet growing demand.

Some of the province's largest electricity consumers appear to favour the not-for-profit option based on the assumption that this would reduce the special levy on consumption to pay off the stranded assets. For example, currently the levy is approximately 15% of electricity consumed for large consumers such as Dofasco. We believe that this view is erroneous as the levy would not be reduced until the stranded debt is fully defused or repayed. Moreover, there is no assurance that the levy would end significantly earlier as higher up front proceeds from the bond issue could be offset in the long run by lower provincial income tax payments.

Environmentalist groups' responses have been mixed—with some in favour and others opposed.

We favour privatization, as we believe that all stakeholders would be best served over the longer term. While large industrial consumers think they might benefit in the short term through a reduced stranded debt levy, over the longer term the isolation of the Ontario power market and probable broader under investment in new technologies could drive prices up. We believe that agency issues both on the economic as well as environmental front would be mitigated if management were to be accountable to shareholders and not the broad taxpayer base through the government.

The Ontario power market is expected to be deregulated by May 2002, and we believe that a for-profit transmission company could best serve this market. Power companies feel that way as well. TransAlta recently stated that it would not invest further in Ontario until there was more certainty and clarity around deregulation in the province. Bruce Power publicly stated its belief that a private transmission company would have a more efficient, robust, and reliable infrastructure. We note that we are in good company, as Alan Greenspan, the U.S. Federal Reserve chairman, spoke on November 14 to the U.S. Chamber of Commerce about the importance of increased flexibility in electricity transmission and market forces in balancing supply and demand. He cited the need for a vibrant energy policy to foster long-term economic growth, which we believe applies to Ontario as well.

Hydro One To Partner In Merchant Transmission Line Under Lake Erie

Hydro One seems to be operating with the expectation that it will be privatized, as it is acting on its mandate to competitively connect to markets outside Ontario. On November 27, Hydro One and TransEnergie U.S., a subsidiary of Hydro-Quebec, proposed the construction of a 975-MW merchant power line under Lake Erie that could be ready for commercial service by the summer of 2004. The proposed line would be high-voltage direct current (HVDC), enabling power to flow in both directions and originate at a substation not far from the 3,920-MW and coal-fired Nanticoke generation complex, and terminate at one of two substations, either in Ohio or Pennsylvania. Because it would be a merchant line, funding would come from the sale of transmission rights and not impact the cost of transmission within Ontario.

Although Hydro One has 17 interconnections with other systems, congestion in the past led to price spikes in the U.S. Midwest markets in the summers of 1998 and 1999. Ontario typically experiences demand peaks in the winter and is capable of exporting demand south of the border in the summer. Advocates of the new line argue that not only will the new connection increase reliability within the Ontario system, it will also encourage the growth of new generation within Ontario and spur interest in outside generators to send power into the province.

Ontario Electricity Deregulation On Schedule

Deregulation of the retail markets is progressing as scheduled, with the December 14, 2001 deadline for several applications by distributors and wholesale market participants approaching. By that date, distributors must forward a self-certification and market readiness submission to the OEB. Wholesale market participants must file fully executed participant and connection agreements, as well as proof of secure exchange of information capabilities with the IMO. Furthermore, codes, rules, and regulatory approvals are due by the middle of December[1]. This will trigger the market readiness recommendation and government consultation phase, which is due to be completed in mid-January[2].

This milestone will define operation of the wholesale and retail markets, including the following: 1) market rules of the IMO-administered markets; 2) IMO market manuals, technical standards, and interfaces; 3) retail settlement and other OEB codes and standards, including structures of the various rates to be approved by the OEB, and 4) approvals by the OEB of individual rate applications.

2 The OEB and the IMO will advise the Minister of Energy, Science and Technology regarding the readiness of the market participants under the current schedule based on: 1) the readiness of individual market participants; 2) the stability of both wholesale and retail market design, as confirmed in relevant design testing; 3) the readiness of the IMO market systems; and 4) results of self-certification filings by licensed distributors.

Third-Quarter Results

Earnings season came to a completion with the release of Caribbean Utilities' earnings on November 20. Table 4 highlights actual and forecast Q3 EPS for 2001 and actual EPS for 2000. Detailed commentary is available in our Research Highlight for each company, generally published one business day after the earnings reporting date.

Table 4. Third-Quarter EPS Results

	Report Date	Actual 2001	Our Estimate	Consensus Estimate	Actual 2000
Enbridge	November 8	$0.42	$0.46	$0.47	$0.28
TransCanada PipeLines	October 30	0.34	0.34	0.34	0.32
Westcoast Energy	October 21	0.46		0.20	0.22
ATCO	November 1	0.82	0.73	NA	0.74
BC Gas	November 8	(0.58)		(0.39)	(0.34)
Canadian Utilities	October 31	0.65	0.63	0.63	0.64
Caribbean Utilities (US$)	November 20	0.24	0.23	0.22	0.23
Emera	November 2	0.17	0.16	0.14	0.06
Fortis	October 31	0.79	0.55	0.48	0.47
TransAlta	October 18	0.25	0.27	0.25	0.32

Source: CIBC World Markets, First Call.

Table 5. Comparable Valuation, Ratings, And Target Prices – November 30, 2001

Stock Rec.	Symbol	Company	Fiscal Year	Price	52-Week High	52-Week Low	Mkt. Cap. ($ mlns.)	Recent BV	P/BV	EPS 2000	EPS 2001E	EPS 2002E	EPS 2003E	EPS Growth 00-03	P/E 2001E	P/E 2002E	P/E 2003E	Current Dividend	Yield	Total Implied Return	12-mo. Target Price
Pipelines																					
Buy	ENB	Enbridge Inc.	Dec.31	$44.30	$45.55	$33.90	$7,159	$14.67	3.02	$2.17	$2.46	$2.80	$3.09	12.5%	18.0	15.8	14.3	$1.40	3.2%	16.0%	$50.00
Hold	TRP	TransCanada PipeLines	Dec.31	19.97	21.13	14.80	9,512	11.01	1.81	1.22	1.39	1.47	1.51	7.4	14.4	13.6	13.2	0.90	4.5	9.7	21.00
	W	Westcoast Energy	Dec.31	41.00	42.29	29.90	5,059	22.76	1.80	2.51					–	–	–	1.36	3.3	N/A	N/A
		Average Pipelines													**16.2**	**14.7**	**13.8**		**3.7%**		
Utilities																					
Hold	ACO.X	Atco	Dec.31	46.00	54.00	38.00	1,366	26.43	1.74	3.79	4.10	4.37	4.63	6.9	11.2	10.5	9.9	1.04	2.3	16.4	52.50
	BCG	BC Gas	Dec.31	35.00	36.88	29.00	1,341	17.86	1.96	2.06	–	–	–	–	–	–	–	1.32	3.8	–	N/A
Hold	CU	Canadian Utilities	Dec.31	52.00	56.05	43.10	3,297	23.29	2.23	3.59	3.76	3.92	4.22	5.5	13.8	13.3	12.3	1.88	3.6	11.3	56.00
Hold	CUP.U	Caribbean Utilities ($US)	Apr.30	12.05	13.50	11.00	289	3.70	3.26	0.78	0.78	0.87	1.00	8.6	15.4	13.9	12.1	0.62	5.1	11.0	12.75
Hold	EMA	Emera	Dec.31	17.75	18.20	15.55	1,737	11.85	1.50	1.20	1.16	1.18	1.18	(0.6)	15.3	15.0	15.0	0.85	4.8	0.6	17.00
Hold	FTS	Fortis	Dec.31	42.09	44.83	33.55	626	27.50	1.53	2.36	3.20	3.36	3.53	14.4	13.2	12.5	11.9	1.88	4.5	17.3	47.50
Buy	TA	TransAlta Corp.	Dec.31	22.00	30.13	19.15	3,714	11.69	1.88	1.29	1.27	1.55	1.84	12.6	17.3	14.2	12.0	1.00	4.5	22.7	26.00
		Average Utilities													**15.0**	**13.8**	**12.7**		**4.4%**		

[1] EPS estimates for Caribbean Utilities are for the period ending April 30 the following year.
[2] Averages exclude data for ATCO.

Source: CIBC World Markets, Starquote.

Equity Division — Canada

Brian Shaw, CFA – Director Toronto (416) 594-8558

Research

Director			
Peter Dawkins, CFA	Toronto	(416) 956-3775	peter.dawkins@cibc.ca
Auto Parts & Power Technology			
Rich Morrow	Toronto	(416) 594-7285	rich.morrow@cibc.ca
Robert Stabile, CFA	Toronto	(416) 594-7157	robert.stabile@cibc.ca
Biotechnology & Health Sciences			
Lennox Gibbs	Toronto	(416) 594-7289	lennox.gibbs@cibc.ca
Nelson Isabel*	Toronto	(416) 956-3548	nelson.isabel@cibc.ca
Consumer Products & Special Situations			
Michael Van Aelst, CFA	Montreal	(514) 847-6466	michael.vanaelst@cibc.ca
Keith Johansson*	Montreal	(514) 847-6620	keith.johansson@cibc.ca
Communications & Media			
Bob Bek, CFA	Toronto	(416) 594-7454	bob.bek@cibc.ca
Maria Abwunza*	Toronto	(416) 956-3802	maria.abwunza@cibc.ca
Financial Services			
Banks			
Quentin Broad	Toronto	(416) 594-7294	quentin.broad@cibc.ca
Mohammad Saleem, CFA	Toronto	(416) 956-3644	mohammad.saleem@cibc.ca
Life Insurance			
Mario Mendonca, CFA	Toronto	(416) 956-6807	mario.mendonca@cibc.ca
Priya Mehrotra*	Toronto	(416) 594-3725	priya.mehrotra@cibc.ca
Income Trusts			
David Ramsay	Toronto	(416) 956-6428	david.ramsay@cibc.ca
Damir Gunja	Toronto	(416) 594-7519	damir.gunja@cibc.ca
Gregory Shaw, CFA*	Toronto	(416) 956-3643	gregory.shaw@cibc.ca
Merchandising			
Perry Caicco	Toronto	(416) 594-7279	perry.caicco@cibc.ca
Kathleen Wong*	Toronto	(416) 956-6054	kathleen.wong@cibc.ca
Mining			
Metals & Minerals			
Stephen Bonnyman, CFA	Toronto	(416) 594-7284	stephen.bonnyman@cibc.ca
Kevin Reid*	Toronto	(416) 956-6766	kevin.reid@cibc.ca
Gold & Precious Minerals			
Barry Cooper	Toronto	(416) 956-6787	barry.cooper@cibc.ca
Ayesha Hira*	Toronto	(416) 594-7283	ayesha.hira@cibc.ca
International Mining			
Jack Jones	London	44 (207) 234-6431	jack.jones@cibc.co.uk
Oil & Gas			
Integrateds & Senior Producers			
Robert Plexman, CFA	Toronto	(416) 956-6218	robert.plexman@cibc.ca
Karin Scott, CFA*	Toronto	(416) 956-6729	karin.scott@cibc.ca
Junior & Senior Producers			
Christopher Theal, CFA	Calgary	(403) 260-0506	christopher.theal@cibc.ca
Mark Bridges*	Calgary	(403) 216-8518	mark.bridges@cibc.ca
Paper & Forest Products			
Don Roberts	Ottawa	(613) 564-0827	don.roberts@cibc.ca
Hervé Carreau, CFA	Montreal	(514) 847-6420	herve.carreau@cibc.ca
Chelsea Lucyk, CFA*	Toronto	(416) 956-3276	chelsea.lucyk@cibc.ca
Pipelines & Utilities			
Peter Case	Toronto	(416) 956-6169	peter.case@cibc.ca
Linda Ezergailis*	Toronto	(416) 956-3229	linda.ezergailis@cibc.ca
Real Estate & Multi-Industry			
Rossa O'Reilly, CFA	Toronto	(416) 594-7296	rossa.oreilly@cibc.ca
Yin Luo, CFA*	Toronto	(416) 956-3291	yin.luo@cibc.ca
Special Situations			
Ron Schwarz, CFA	Toronto	(416) 956-6341	ronald.schwarz@cibc.ca
		(514) 847-6422	
Rayna Schnapp*	Toronto	(416) 956-3278	rayna.schnapp@cibc.ca
Adam Shine, CFA	Montreal	(514) 847-6435	adam.shine@cibc.ca
Jonathan Lethbridge*	Montreal	(514) 847-6423	jonathan.lethbridge@cibc.ca
Steel & Industrial Products			
Anna Sorbo	Toronto	(416) 594-7297	anna.sorbo@cibc.ca
Strategy			
Subodh Kumar, CFA	Toronto	(416) 594-7293	subodh.kumar@cibc.ca
Yin Luo, CFA*	Toronto	(416) 956-3291	yin.luo@cibc.ca
Technology			
Hardware			
Todd Coupland, CFA	Toronto	(416) 956-6025	todd.coupland@cibc.ca
Helen Rattee*	Toronto	(416) 956-3277	helen.rattee@cibc.ca
Software			
Paul Lechem	Toronto	(416) 956-6429	paul.lechem@cibc.ca
Robert Taylor*	Toronto	(416) 594-7047	robert.j.taylor@cibc.ca
Sera Kim*	Toronto	(416) 956-3627	sera.kim@cibc.ca
Wireless			
Barry Richards	San Francisco	(415) 399-5749	barry.richards@us.cibc.com
	Toronto	(416) 956-3092	
Spencer Churchill*	Toronto	(416) 956-3723	spencer.churchill@cibc.ca
Telecommunications			
Dvai Ghose	Toronto	(416) 956-6197	dvai.ghose@cibc.ca
Darren Robinson, CFA*	Toronto	(416) 594-7261	darren.robinson@cibc.ca
Equity Advisory Group			
Lea Hill	Toronto	(416) 594-7315	lea.hill@cibc.ca
Barbara Douglas	Toronto	(416) 594-7316	barbara.douglas@cibc.ca
Joel Skodnick	New York		
Editors			
Darin Asae	Toronto	(416) 594-7026	darin.asae@cibc.ca
Gillian Rodger	Toronto	(416) 594-7747	gillian.rodger@cibc.ca
Kathie Weiss-Lefebvre	Toronto	(416) 594-7458	kathie.weiss-lefebvre@cibc.ca

*Research Associate

Sales And Trading

Canada		
Sales		
Andre Brosseau – *Director*	Toronto	(416) 594-8478
	Montreal	(514) 847-6424
Fred Acri, CFA	Toronto	(416) 594-8521
Mark Eaton	Toronto	(416) 594-7206
Naomi Ebata, CFA	Toronto	(416) 594-8531
Kyle Harrison, CFA	Vancouver	(604) 891-6336
Michael Hartmann	Montreal	(514) 847-6416
Brendan Kielty	Vancouver	(604) 891-6335
Jonathan Lansky, CFA	Toronto	(416) 594-8526
Sinclair MacDonald	Toronto	(416) 956-3639
Simon Marcotte	Montreal	(514) 847-6421
David Morrison	Toronto	(416) 956-3070
Paul Pint	Toronto	(416) 594-8522
Kevin Trotter	Vancouver	(604) 891-6334
Neil Weber	Toronto	(416) 594-8525
Trading		
Stuart Smith – *Director*	Toronto	(416) 594-8503
Peter Dunlop	Toronto	(416) 594-7620
Geoff Fell	Toronto	(416) 594-8553
Maurice Gariepy	Montreal	(514) 847-6417
Angelo Gasparatto	Toronto	(416) 594-8557
Darren Hunter	Toronto	(416) 594-8631
		(800) 563-9710
Donna Lingeman	Toronto	(416) 594-8550
Tatsy Matsushita	Montreal	(514) 847-6418
Jo-Anne O'Connor	Toronto	(416) 594-8554
Danny Paulson	Montreal	(514) 847-6419
Jason Taylor, CFA	Toronto	(416) 594-7716
Andrew Turner, CFA	Toronto	(416) 594-8549
United States — CIBC World Markets Corp.		
Sales		
Andre Brosseau – *Director*	Toronto	(416) 594-8478
	Montreal	(514) 847-6424
Roy McDowall	Boston	(617) 428-5740
Mark Taylor, CFA	New York	(212) 667-8632
David Tricker	New York	(212) 667-8631
Trading		
Stuart Smith – *Director*		(416) 594-8503
Nick Salerno	New York	(212) 667-8636
Renée Whitaker	New York	(212) 667-8634
Cheryl Witten	New York	(212) 667-8635
Chuck Lindner	Boston	(617) 428-5648
John Ridpath	Boston	(617) 428-5648
International Equities Group		
Andre Brosseau – *Director*	Toronto	(416) 594-8478
	Montreal	(514) 847-6424
Robert Desjardins	Toronto	(416) 594-7741
Christine Yuen	Toronto	(416) 594-7742
U.S. Equities Group		
Jennifer Kennedy, CFA	Toronto	(416) 594-7450
	New York	(212) 667-7377
Christian Leitzinger	Toronto	(416) 594-7025
Brent Taylor	Toronto	(416) 594-7162
Client Management		
Paul Hennessy	Toronto	(416) 594-8134
Teresa Casalinuovo	Toronto	(416) 594-8523
Equity Structured Products		
Richard Phillips – *Director*	Toronto	(416) 594-7282
Marketing — Canada		
Andre Barrett	Toronto	(416) 594-8362
Bonnie Blackwell	Toronto	(416) 594-8428
Scott Butler	Toronto	(416) 594-8541
Kelsey Gunderson	Toronto	(416) 594-7692
John Kattan	Toronto	(416) 956-6315
Brad Parkes, CFA	Toronto	(416) 594-8541
Frank Stadler	Toronto	(416) 594-8097
Philip Watanabe, CFA	Toronto	(416) 594-8541
Marketing — United States		
Gordon Gannon	New York	(212) 856-6684
Global Securities Lending		
John MacDonald	Toronto	(416) 594-8301
Tim Reid, CFA	Toronto	(416) 594-8301
Paul Varey	Toronto	(416) 594-8301
London Market Makers — CIBC World Markets plc		
Peter McSweeney – *Director*	London	44 (207) 234-7199
Andrew Gray	London	44 (207) 234-7212
Michael Sherred	London	44 (207) 234-7218
Retail Block Trading		
William Mulcahy	Toronto	(416) 594-8557
James Lailey	Toronto	(416) 594-8557
Soft Dollars		
Anthea Antonio	Toronto	(416) 956-6861
Australia — CIBC World Markets Australia Ltd.		
Sales		
David Keogh	Sydney	(612) 9275-1367
David Massey	Perth	(618) 9429-8336
Japan — CIBC World Markets (Japan) Inc.		
Sales		
Masako Ando Schenck	Tokyo	813 5512-8822
United Kingdom and Europe — CIBC World Markets plc		
Sales		
John Miles – *Director*	London	44 (207) 234-7272
Norma Bowdren	London	44 (207) 234-7488
Xavier de la Rochefoucauld	London	44 (207) 234-7788
Jonathan Denham	London	44 (207) 234-7828
Sherry Giessen	London	44 (207) 234-7827
Neil Hobson	London	44 (207) 234-6462
Emma Hunter	London	44 (207) 234-7829
Anton Katz	New York	(212) 667-5619
Ian Mills	London	44 (207) 234-6000
David Phillips	London	44 (207) 234-7243
David Scriven	London	44 (207) 234-7278
Equity Capital Markets		
Joanne Hoskin	London	44 (207) 234-7824
Zoe Jessop	London	44 (207) 234-7822

APPENDIX 58.4

Utilities

"It's the Grid, Silly"

Maureen E. Howe, Ph.D. (Finance)
(604) 257-7195
maureen.howe@rbccm.com

Fai Lee, CGA, CFA (Associate)
(604) 257-7662
fai.lee@rbccm.com

Robert Kwan, CFA (Associate)
(604) 257-7611
robert.kwan@rbccm.com

For pertinent disclosures, please see DISCLOSURE section at the end of this comment.

Maureen Howe is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

Event

The northeastern U.S. and Canada experienced a massive power outage yesterday.

Investment Opinion

- **Transmission.** With the massive power outage, we believe there will be renewed focus on North America's aging transmission and distribution system. The renewed focus could lead to increased incentives designed to promote new capital investment in transmission and distribution.

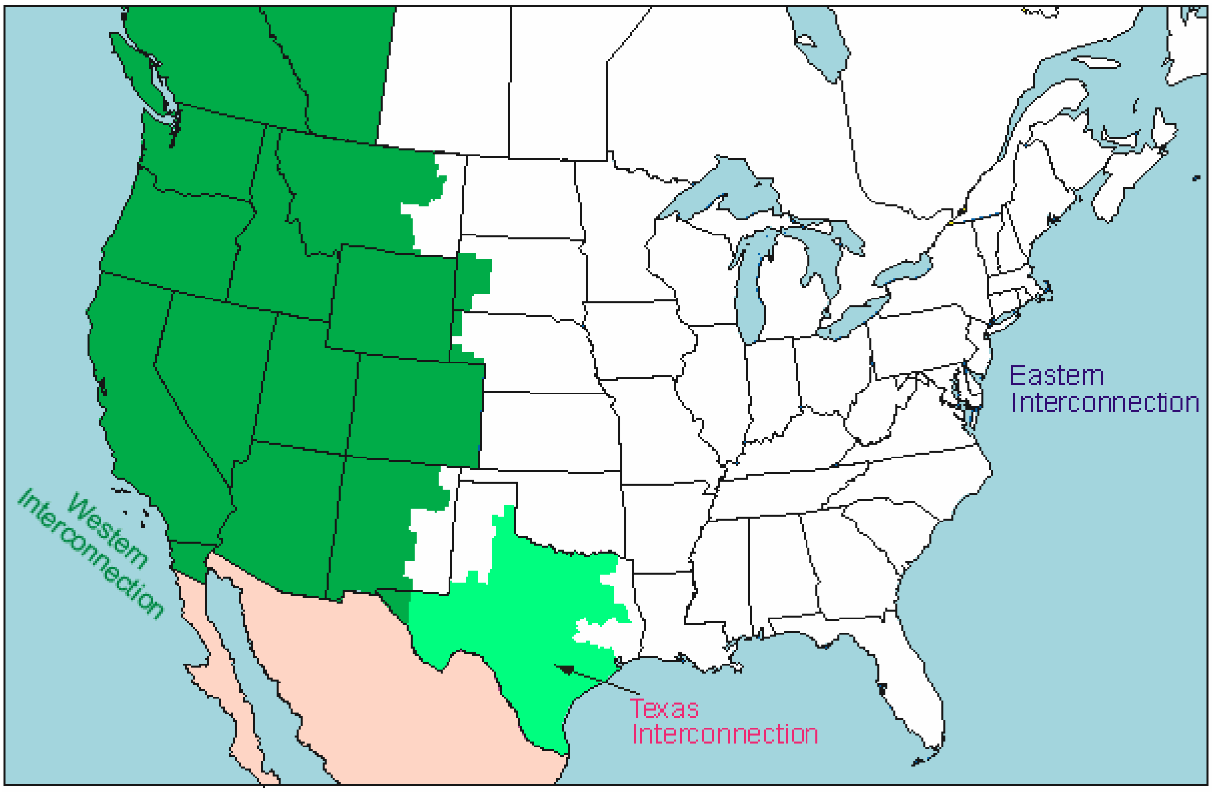
- **Low ROEs.** Allowed returns on equity (ROEs) in Canada for regulated transmission and distribution utilities are relatively low compared to the U.S. For example, the Alberta Energy and Utilities Board recently approved an allowed ROE of 9.4% based on a 34% deemed common equity component for AltaLink. In comparison, the U.S. Federal Energy Regulatory Commission (FERC) approved an allowed ROE of 13.88% for International Transmission Co., which took over DTE Energy's transmission assets in April 2003. To encourage new transmission investment, FERC has proposed additional incentives that would boost allowed ROEs for transmission investments. With renewed emphasis on new investment in the power grid, Canadian regulators could follow suit.

- **Distributed Generation.** To reduce the risk associated with power outages, some businesses could turn to distributed generation to bypass the transmission grid. Distributed generation involves generating power at or near where it is used. Examples of distributed generation technologies include gas microturbines and fuel cells. Notwithstanding the positive implications of yesterday's power outage for distributed generation, we believe that the key to preventing similar power outages in the future is to increase new capital investment in the power grid.

Details

Yesterday, a massive power outage affected the northeastern U.S. and Canada in the Eastern Interconnection (see Exhibit 1). The areas most affected include Michigan, Ohio, New York City, Ontario, Quebec, northern New Jersey, Massachusetts, and Connecticut. The south and midwestern U.S. were not affected. According to the North American Electric Reliability Council (NERC), approximately 61,800 MW of load was lost. A large number of nuclear plants in the affected areas went off line and it could take several days for them to return to service. A number of possible causes of the outage have been cited by various sources but it appears that industry and government entities are still investigating to determine the exact cause of the outage.

Exhibit 1: North American Interconnected Network



Source: U.S. Energy Information Administration

We expect that yesterday's power outage will result in renewed focus on North America's aging transmission and distribution system. The following quote by former U.S. energy secretary Bill Richardson highlights the issues surrounding the North American power grid, "In my view we're the world's greatest superpower but we have a Third World electricity grid. We have antiquated transmission lines. We have an overloaded system that has not had any new investments and we don't have mandatory reliability standards on utilities, which caused this problem." The issues surrounding the power grid were recognized in the Bush administration's May 2001 *National Energy Policy*, which concluded that "To reduce the incidence of electricity blackouts, we must greatly enhance our ability to transmit electric power between geographic regions, that is, sending power to where it is needed from where it is produced. Most of America's transmission lines, substations, and transformers were built when utilities were tightly regulated and provided service only within their assigned regions. The system is simply unequipped for large-scale swapping of power in the highly competitive market of the 21st century." To address the issue of increasing electric reliability, the *National Energy Policy* included the following recommendations:

- Grant authority to obtain rights-of way for electricity transmission lines with the goal of creating a reliable national transmission grid.
- Enact comprehensive electricity legislation that promotes competition, encourages new generation, protects consumers, enhances reliability, and promotes renewable energy.
- Implement administrative and regulatory changes to improve the reliability of the interstate transmission system and enact legislation to provide for enforcement of electricity reliability standards.

- Expand the Energy Department's research and development on transmission reliability and superconductivity.

Notwithstanding the above recommendations, the U.S. Congress still has not passed a comprehensive energy bill yet. Perhaps this will change in light of yesterday's events.

We believe that the renewed focus on the transmission grid could lead to increased incentives designed to promote new capital investment in transmission and distribution. Such incentives could include higher allowed ROEs for regulated transmission and distribution businesses. Allowed ROEs in Canada for regulated transmission and distribution assets are relatively low compared to the U.S. The Alberta Energy and Utilities Board recently approved an allowed ROE of 9.4% based on a 34% deemed common equity component for AltaLink (see Exhibit 2 for further examples). In comparison, the base return for transmission assets allowed by the U.S. Federal Energy Regulatory Commission is 12.38%.

Exhibit 2: Sample of Allowed ROEs in Canada for Electric Utilities

	Decision Date	Common Equity Component	Allowed ROE
AltaLink	Aug-03	34.0%	9.40%
Aquila Networks Canada (B.C.)	Nov-01	40.0%	9.53%
ATCO Electric(1)	Oct-97	35.7%	11.25%
Maritime Electric(2)	Oct-01	40.0%	11.00%
Newfoundland Power	Jun-03	45.0%	9.75%
Nova Scotia Power	Oct-02	35%-40%	9.9%-10.4%

Notes:
(1) Superseded by settlements for 1999/2000, and 2001/2002; ROEs and capital structures not specified.
(2) Maritime Electric's ROE and common equity ratio are set by legislation.

Source: Newfoundland Power 2003 General Rate Application, RBC Capital Markets

FERC has taken steps to provide incentives for new transmission projects and to promote its goal of having independent transmission companies control power lines rather than traditional utilities. In a January 2003 order, FERC proposed an incentive adder of 50 basis points on its allowed ROE for transmission if the utility joins a regional transmission organization. An additional incentive of 150 basis points would be provided if facilities were assumed by an independent body and an additional 100 basis points would be available for investing in new transmission facilities. FERC has also provided higher ROEs to independent transmission entities. For example, FERC approved an allowed ROE of 13.88% for International Transmission Co., when it took over DTE Energy's transmission assets in April 2003. To encourage new investment in the power grid, Canadian regulators could follow FERC's lead and provide higher allowed ROEs to transmission and distribution utilities.

Yesterday's outage highlights the risk faced by businesses that rely on the aging power grid. To reduce the risk associated with power outages, some businesses could turn to distributed generation to bypass the transmission grid. Distributed generation involves generating power at or near where it is used. Examples of distributed generation technologies include gas microturbines and fuel cells. Notwithstanding the positive implications of yesterday's power outage for distributed generation, we believe that the key to preventing similar power outages in the future is to increase new capital investment in the power grid.

EXPLANATION OF RBC CAPITAL MARKETS RATING SYSTEM

Definitions Of Rating Categories

An analyst's sector is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector, but does not attempt to provide the analyst's view of how the stock will perform relative to: (i) all companies that may actually exist in the company's sector, or (ii) any broader market index.

Ratings:

Top Pick (TP): Represents analyst's best ideas in Outperform category; expected to significantly outperform sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.
Risk Qualifiers:
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; and/or fairly liquid.
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; and/or low market cap or float.
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; and/or risk of being delisted.
Our Research Ratings Legend can be viewed at http://www.rbccmresearch.com/researchratings.

DISCLOSURES

In the event that this is a compendium report (covers more than six subject companies) RBC Capital Markets (RBC CM) may choose to provide specific disclosures for the subject companies by reference. To access these disclosures, clients should refer to http://rbc2.bluematrix.com/bluematrix/Disclosure or send a request to RBC CM Research Publishing, 60 South 6th Street, Mail Stop P16, Minneapolis, Minnesota 55402.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Distribution of Ratings, Firmwide

NASD/NYSE rules require member firms to assign all rated stocks to one of three rating categories – Buy, Hold/Neutral, or Sell – regardless of a firm's own rating categories. Although RBCCM does not consider all stocks that its analysts rate as Sector Perform to be equivalent to a Hold/Neutral rating, for purposes of this ratings distribution disclosure, RBCCM automatically treats stocks rated Sector Perform as Hold/Neutral.

	RBC Capital Markets			
			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	324	43.78	87	26.85
HOLD [SP]	314	42.43	43	13.69
SELL [U]	102	13.78	6	5.88

Material Disclosures

The author(s) of this report are employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

The author(s) of this report has received (or will receive) compensation based in part upon the investment banking revenues of RBC Capital Markets (including RBC Dain Rauscher, RBC Dominion Securities Inc., and RBC Dominion Securities Corp. or their affiliates).

Additional information is available on request.

To U.S. Residents:
This publication has been approved by RBC Dominion Securities Corp. (“RBCDS Corp.”) and RBC Dain Rauscher Inc. (“RBC DRI”), both of which are U.S. registered broker-dealers, which accept responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBCDS Corp. or RBC DRI.

To Canadian Residents:
This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:
This publication has been approved by Royal Bank of Canada Europe Limited (“RBCEL”) which is regulated by Financial Services Authority (“FSA”), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To Persons Receiving This Advice in Australia:
This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

APPENDIX 58.5

Terasen Gas Inc.

(formerly BC Gas Utility Ltd.)

Report Date: July 21, 2003
Press Released: July 18, 2003
Previous Report: April 16, 2002

Geneviève Lavallée, CFA/Matthew Kolodzie, CFA
416-593-5577 x2277/x2296
glavallee@dbrs.com

RATING

Rating	Trend	Rating Action	Debt Rated
R-1 (low)	Stable	Confirmed	Commercial Paper
"A"	Stable	Confirmed	Purchase Money Mortgages
"A"	Stable	Confirmed	MTNs & Unsecured Debentures

RATING HISTORY

	Current	2002	2001	2000	1999	1998	1997
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Long-Term Debt	"A"	"A"	"A"	"A"	"A"	"A"	"A"

RATING UPDATE

Terasen Gas Inc.'s ("Terasen Gas" or the "Company") earnings were unchanged in 2002 compared to 2001, and remained relatively stable for the 12 months ending March 31, 2003 at $68 million, despite increased natural gas sales volumes in 2002. The positive earnings impact of higher natural gas sales volumes was offset by a 10% increase in operating and maintenance (O&M) costs as a result of the outsourcing of certain functions and a sale and leaseback transaction. The resulting lower interest costs from the outsourcing of certain functions and the sale and leaseback transaction was not sufficient to offset the higher O&M costs. While operating cash flows were up in 2002 (and remained flat for the 12 months ending March 31, 2003), they remained insufficient to internally fund capital expenditures and dividends. Recovery of a significant portion of the Rate Stabilization Adjustment Mechanism and Gas Cost Reconciliation Account balances in 2002 provided sufficient cash to offset the cash flow deficit. As a result, key financial ratios improved to levels not seen in the last five years.

The outlook for Terasen Gas Inc. remains stable. The Company has filed a proposal with the regulator for a new incentive-based regulatory settlement covering 2004-2008. Over the medium term, the Company should benefit from the new settlement. Over the near term, the Company's earnings are expected to remain stable. The key short-term risks to earnings and cash flow include: (1) the degree to which high natural gas prices impact gas sales to dual-energy industrial users; and (2) a further decline in interest rates, which would result in lower approved ROEs. Free cash flow deficits are expected to continue over the next two to three years, although the capital structure is expected to remain in line with that deemed by the regulator. Key financial ratios are expected to continue to fluctuate within a narrow band in line with changes in working capital requirements.

RATING CONSIDERATIONS

Strengths:

- Operations are regulated, providing longer term earnings and balance sheet stability
- Existence of Rate Stabilization Adjustment Mechanism and Interest Rate Deferral Account provides additional financial stability
- Southern Crossing provides access to alternative sources of gas supply
- Diversified customer base

Challenges:

- Operating cash flows insufficient to fund capital expenditures and common dividends
- Earnings sensitive to economic cycle and interest rates
- Competitive pressures from dual energy industrial users, low electricity rates
- Forecast risk (customer additions)
- Tax methodology results in unrecorded (potentially unrecoverable) tax liabilities, weakens interest coverage

FINANCIAL INFORMATION

	12 mos. ending	For the year ending December 31				
	Mar. 2003	2002	2001	2000	1999	1998
Fixed-charges coverage (times)	2.00	1.98	1.82	1.77	1.90	1.88
% debt in capital structure (1)	65.6%	67.9%	68.4%	67.3%	67.2%	65.9%
Cash flow/total debt (times) (1)	0.10	0.09	0.09	0.08	0.09	0.09
Cash flow/capital expenditures (times)	1.33	1.34	0.98	0.25	0.85	0.99
Approved ROE (2)	9.42%	n/a	9.25%	9.50%	9.25%	10.00%
Net income before extraordinary items ($ millions)	68.0	67.1	67.2	61.9	59.5	59.3
Operating cash flow ($ millions)	150.7	149.1	142.4	120.1	113.3	109.8
Total throughput volumes (bcf)	192.1	206.8	225.1	235.2	220.1	217.6
Average coupon on long-term debt	7.81%	7.81%	7.76%	7.86%	8.40%	8.75%

(1) All preferred shares (prior to 2000) were treated as debt equivalents.

(2) An ROE was not set in 2002 due to Terasen Gas Inc.'s withdrawal of its 2002 Revenue Requirement Application.

THE COMPANY

Terasen Gas Inc. (formerly BC Gas Utility Ltd.) is the largest natural gas distributor in British Columbia, serving approximately 90% of the province's natural gas users. The Company is wholly owned by Terasen Inc. (formerly BC Gas Inc.).

AUTHORIZED PAPER AMOUNT Limited to Cdn$500 million

REGULATION

Terasen Gas is regulated by the British Columbia Utilities Commission ("BCUC"). The regulatory environment in British Columbia remains among the more progressive in Canada. British Columbia-based utilities were among the first utilities in Canada to operate under incentive-based regulation. Terasen Gas operated under an incentive regulatory settlement during the 1998-2001 period. The Company had filed a 2002 Revenue Requirement Application, but withdrew the application due to Terasen Inc.'s acquisition of Terasen Gas (Vancouver Island) (formerly Centra Gas B.C.) and the new provincial energy policy. As a result of the withdrawal, Terasen Gas' distribution rates for 2002 remained at their 2001 levels, while the ROE reset mechanism and interest deferral accounts were suspended for the year. In June 2002, the Company filed a 2003 Revenue Requirement Application, with the BCUC issuing its decision in February 2003. The decision issued was generally an extension of the previous incentive-based agreement. The approved ROE for 2003 was set at 9.42%, based on the following formula: 350 basis points above forecast long Canada bond yields 6% or lower. The formula also provides for annual adjustments capturing 80% of the change in yields when forecast yields are higher than 6% and 100% of the change when forecast yields are lower than 6%. Deemed equity remains at 33% for 2003. Terasen Gas has filed a proposal with the BCUC for a new incentive regulatory settlement covering 2004-2008.

Terasen Gas has the following deferral accounts, which reduce short-term earnings fluctuations/risks: (1) Gas Cost Reconciliation Account (GCRA): The Company is permitted to periodically, subject to BCUC approval, recover from (or remit to) customers any variances in gas prices from forecast. Historically, variances are amortized and recovered over a two-year to three-year period with price adjustments normally made on a semi-annual basis. (2) Rate Stabilization Adjustment Mechanism (RSAM): Terasen Gas is permitted to accumulate the variances from forecast in use per customer for residential and commercial customers. The amounts are amortized and recovered over a two-year period. Terasen Gas is, however, still exposed to the economic cyclicality of non-RSAM customers, principally industrial and transportation service customers, who account for roughly 40% of total volume throughputs or 13% of margins. (3) Interest Rate Deferral Accounts, which smooth the impact of fluctuations in both short-term and long-term interest rates.

Another issue that remains under consideration is retail unbundling, which would allow customers to purchase gas from the supplier of choice. Since gas costs are strictly a flow-through item (i.e., Terasen Gas does not make any profit on the sale of the commodity), unbundling would be earnings neutral and would therefore have no impact on credit ratings.

RATING CONSIDERATIONS

Strengths: (1) The regulatory environment within which the Company operates provides a high degree of financial stability. Since 1996, the regulatory environment has consisted of formula-based ROEs and incentive-based regulation, which minimize regulatory lag, streamline the regulatory process, and encourage utilities to improve operating efficiencies. The framework within which Terasen Gas operates allows for the recovery (and/or remittance to customers) of variances from forecasts in prudently incurred gas costs. In addition, the Company is allowed to utilize several deferral accounts that help smooth earnings and reduce business and operating risks: (a) variances from forecast in use per customer for residential and commercial customers; and (b) interest rate fluctuations, both of which are amortized and recovered in future rates. However, these deferral accounts do not impact cash flows and can artificially inflate interest coverage ratios over the short term (i.e. during periods of warmer-than-normal temperatures), but the impact is reversed as deferral balances are recovered.
(2) The Southern Crossing Pipeline project, which became operational in November 2000, provides the Company with access to lower-cost alternative sources of gas supply from Alberta. This is especially favourable during periods of high natural gas prices.
(3) The Company has a diversified customer base and has limited exposure to a single customer, which reduces earnings volatility. Residential customers account for about 40% of volume throughputs, commercial customers just over 20% and industrial customers about 40% of throughputs.

Challenges: (1) The Company has consistently generated insufficient operating cash flows to internally fund its capital expenditures and dividend payments. While this has not yet resulted in a deterioration in the Company's credit quality, largely due to periodic equity injections by its parent, growing debt levels combined with further declines in approved ROEs if interest rates continue to fall, could result in a weaker financial profile.
(2) The Company's earnings and cash flows are sensitive to the economic cycle, and to interest rates through approved ROEs. Industrial customers, who account for about 40% of gas volumes or 13% of margins, are sensitive to the economic cycle. In terms of interest rates, a 25 basis point change in approved ROEs would impact net earnings by about $1.9 million. While the approved ROE was set at 9.42% for 2003, slightly above the average over the 1999-2001 period (approved ROE not set for 2002 due to the Company's withdrawal of its 2002 rate application), the sensitivity to interest rates remains a challenge over the longer term, especially in periods of low and falling interest rates as we have seen over the past four years.
(3) In times of high natural gas prices, the Company faces not only reduced gas throughputs on the industrial side, but also competitive pressures from those customers having dual fuel switching capabilities. In addition, the Company faces ongoing competitive pressures on the residential side,

primarily multi-residential, from the low electricity rates in British Columbia due to the dominance of hydro-based generation.
(4) The Company faces forecast risk related to customer additions. Earnings are negatively impacted if actual customer additions are significantly below the Company's forecast.

(5) The use of the taxes payable method of taxation has resulted in an unrecorded future income tax liability of $246.5 million as at December 2002. The taxes payable method of taxation, whereby the Company collects taxes as paid, results in lower revenue collections, thereby reducing operating income and weakening coverage ratios. The recovery of this liability in future rates is not assured.

Earnings and Outlook

	12 mos. ending	For year ended December 31				
($ millions)	Mar. 2003	2002	2001	2000	1999	1998
Net revenues	496.6	497.0	489.2	420.9	401.1	402.8
EBITDA	301.2	303.0	307.5	261.8	253.2	250.7
EBIT	223.7	225.2	231.9	194.8	190.8	189.4
Gross interest expense	111.6	113.5	127.7	102.8	84.2	82.4
Net interest expense	110.7	112.5	124.4	91.1	82.6	80.6
Net income (before extras., after prefs.)	68.0	67.1	67.2	57.9	50.8	49.4
Net income	68.0	67.1	67.2	57.9	50.8	49.4

	12 mos. ended	For year ended December 31				
Throughput Volumes	Mar. 2003	2002	2001	2000	1999	1998
Residential	60.055	67.906	62.849	69.531	70.344	65.016
Commercial	33.581	38.378	38.107	42.170	43.705	40.996
Small industrial	5.376	5.870	7.585	9.301	7.314	5.328
Large industrial	1.074	1.084	0.632	1.445	1.896	5.870
Total Natural Gas Sales Volumes	100.085	113.236	109.173	122.447	123.260	117.209
Transportation service	58.966	60.230	53.006	55.535	58.334	52.103
Throughput under fixed-price contracts	33.050	33.321	62.939	57.250	38.468	48.311
Total Throughputs (billions of cubic feet)	192.100	206.787	225.118	235.232	220.061	217.623
Customers						
Residential	695,842	694,787	687,375	682,401	676,513	664,584
Commercial	77,354	77,894	78,756	78,948	78,249	76,547
Small industrial	498	488	515	602	619	411
Large industrial	55	61	61	66	74	84
Transportation	1,338	1,328	1,141	856	630	668
Total (thousands)	775,087	774,558	767,848	762,873	756,085	742,294

Summary:

- Net income was flat in 2002 and remained essentially unchanged for the 12 months ended March 2003.
  - Increase in O&M expenses largely offset by decline in interest costs.
  - Outsourcing of certain functions and a sale and leaseback transaction were primary reasons for higher O&M costs and lower interest costs.
- Natural gas sales volumes up in 2002.
  - Driven by residential customer additions and increased use per residential customer due to improved economics of natural gas in 2002.

Outlook:

- EBIT and net income expected to remain relatively stable over the medium term.
- Upside potential from:
  - A new multi-year incentive agreement, which could provide opportunity for incremental earnings; and
  - Cost efficiencies from the integration of certain operations with Terasen Gas (Vancouver Island).
- Current risk factors:
  - Impact of high natural gas prices on the competitiveness of gas versus other fuel sources for industrial customers; and
  - Impact of the low interest rate environment on approved ROEs.

FINANCIAL PROFILE AND SENSITIVITY ANALYSIS

($ millions)	12 mos. ending Mar. 2003	For year ended Dec. 31 2002	2001	Sensitivity Analysis Year 1	Year 2	Year 3
EBITDA	301.2	303.0	307.5	286.1	286.1	286.1
Net income before extraordinary items	68.0	67.1	67.2	61.5	58.5	55.4
Depreciaton	77.5	77.8	75.6	76.8	77.9	79.0
Other non-cash adjustments	5.2	4.2	(0.4)	0.0	0.0	0.0
Operating Cash Flow	150.7	149.1	142.4	138.3	136.4	134.4
Capital expenditures	(113.7)	(111.1)	(146.0)	(110.0)	(110.0)	(110.0)
Common dividends	(80.0)	(80.0)	(60.0)	(80.0)	(80.0)	(80.0)
Cash flow before working capital changes	(43.0)	(42.0)	(63.6)	(51.7)	(53.6)	(55.6)
Working capital changes	43.5	50.2	(106.9)	0.0	0.0	0.0
Free Cash Flow	0.5	8.2	(170.5)	(51.7)	(53.6)	(55.6)
Net investments/adjustments	56.8	52.7	45.4	0.0	0.0	0.0
Net debt financing	(49.0)	(59.5)	94.4	51.7	53.6	55.6
Net pref. share financing	0.0	0.0	0.0	0.0	0.0	0.0
Net equity financing	0.0	0.0	0.0	0.0	0.0	0.0
Net change in cash	8.3	1.4	(30.7)	0.0	0.0	0.0
Cash flow/capital expenditures (times)	1.33	1.34	0.98	1.26	1.24	1.22
Cash flow/total debt (times)	0.10	0.09	0.09	0.09	0.08	0.08
% debt in the capital structure	65.6%	67.9%	68.4%	66.9%	68.3%	69.7%
Fixed-charges coverage (times)	2.00	1.98	1.82	1.88	1.80	1.74

Summary:

- Terasen Gas' key financial ratios (per cent debt in capital structure, fixed-charges coverage, and cash flow/debt) have gradually improved since 2000 despite low approved ROEs.
  - Improvement due to earnings contribution of Southern Crossing in 2001, and improved gas sales per customer and lower capital expenditures in 2002.
- Reduced working capital requirements in 2002 provided additional boost to some of Terasen Gas' key ratios.
  - Recovery of large part of rate stabilization accounts ($71 million) was sufficient to offset free cash flow deficit before changes in working capital.

Outlook:

- Barring any significant changes to the current regulatory environment, it is expected that Terasen Gas' financial profile will remain relatively stable.
  - Annual capital expenditures are projected to remain close to current level over next two to three years.
  - Operating cash flows are expected to remain insufficient to fund capital expenditures and dividend payments.
  - Key ratios should continue to fluctuate within a narrow range in response to changes in natural gas prices and consequently, working capital requirements.
- If interest rates continue to decline, resulting in progressively lower approved ROEs, Terasen Gas' financial and credit profile could be adversely impacted.
- Over medium term, Terasen Gas could face large capital requirements if Inland Pacific Connector Project (about $500 million) is undertaken.
  - The Company's credit profile could be impacted depending on the characteristics, including regulation, of the proposed pipeline.

Sensitivity Analysis:

DBRS stress tests the financial strength of companies analyzed to measure their sensitivity under various extreme scenarios. The assumptions used are based neither upon any specific information provided by the Company, nor any expectations that DBRS has concerning the future performance of the Company.

Key Assumptions:

- EBITDA declines 5% in Year 1 and stays flat thereafter;
- Annual capital expenditures remain at $110 million;
- Annual common dividend payments remain at $80 million; and
- Free cash flow deficits are 100% debt financed.

Under This Scenario:

- Operating cash flow would continue to be insufficient to fund capital expenditures and common dividends.
- Per cent debt in the capital structure would rise modestly, but other key financial ratios would remain adequate to support the current rating.

LONG-TERM DEBT MATURITIES AND BANK LINES

Long-Term Debt Maturity Schedule – as at June 30, 2003

($ millions)	2003	2004	2005	2006	2007	2008 and beyond
Long-term debt	102.3	2.3	247.3	122.3	102.3	673.8
% of total	8.2%	0.2%	19.8%	9.8%	8.2%	53.9%

Summary:

- The Company has 364-day revolving committed lines of credit totalling Cdn$500 million, which are used to support its Cdn$500 million commercial paper program, as well as for general corporate purposes.
- As of June 30, 2003, Terasen Gas had $275 million of commercial paper outstanding. Consequently, it had $225 million available on its committed lines of credit.

Outlook:

- Maturities are reasonably well staggered over the next five years, except for 2005 when there is a larger maturity.
- While there is some refinancing risk, DBRS expects the Company will have little difficulty refinancing the above amounts.

Terasen Gas Inc.

Income Statement	12 mos. ended	3 mos. ended		For years ended December 31			
($ millions)	Mar. 2003	Mar. 2003	Mar. 2002	2002	2001	2000	1999
Residential	696.6	268.5	302.9	731.0	813.6	627.8	493.2
Commercial	356.3	121.2	136.9	372.0	442.2	336.3	262.2
Small industrial	47.2	13.8	16.2	49.6	73.6	52.3	26.7
Large industrial	3.4	0.8	0.7	3.3	6.8	7.7	8.8
Gross gas revenues	1,103.5	404.3	456.7	1,155.9	1,336.2	1,024.1	790.9
Cost of gas	694.8	257.6	312.2	749.4	932.3	658.8	442.6
Net gas revenues	408.7	146.7	144.5	406.5	403.9	365.3	348.3
Transportation service	60.4	17.2	18.8	62.0	56.0	40.9	38.2
Total gas revenues	469.1	163.9	163.3	468.5	459.9	406.2	386.5
Other revenues	27.5	6.7	7.7	28.5	29.3	14.7	14.6
Total revenues, net of gas costs	496.6	170.6	171.0	497.0	489.2	420.9	401.1
Expenses							
Operating + maintenance	155.9	39.3	38.4	155.0	140.0	125.5	116.0
Property + other taxes	39.5	10.5	10.0	39.0	41.7	33.6	31.9
Depreciation + amortization	77.5	18.9	19.2	77.8	75.6	67.0	62.4
Total operating expenses	272.9	68.7	67.6	271.8	257.3	226.1	210.3
Operating income (EBIT)	223.7	101.9	103.4	225.2	231.9	194.8	190.8
Interest expense	111.6	27.4	29.3	113.5	127.7	102.8	84.2
Non-cash financial charges	(0.9)	(0.1)	(0.2)	(1.0)	(3.3)	(11.7)	(1.6)
Net interest expense	110.7	27.3	29.1	112.5	124.4	91.1	82.6
Pre-tax income	113.0	74.6	74.3	112.7	107.5	103.7	108.2
Income taxes	45.0	13.8	14.4	45.6	40.3	41.8	48.7
Income before extraordinary items	68.0	60.8	59.9	67.1	67.2	61.9	59.5
Unusual items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	68.0	60.8	59.9	67.1	67.2	61.9	59.5
Retractable preferred dividends	0.0	0.0	0.0	0.0	0.0	0.0	4.0
Preferred div. net of tax recovery	0.0	0.0	0.0	0.0	0.0	4.0	4.7
Net income available to common shldrs.	68.0	60.8	59.9	67.1	67.2	57.9	50.8

Terasen Gas Inc.

Balance Sheet

($ millions)	As at	As at December 31			As at	As at December 31	
Assets	Mar. 2003	2002	2001	**Liabilities & Equity**	Mar. 2003	2002	2001
Cash	2	0	0	Short-term debt	276	352	237
Accounts receivable	333	230	222	A/P + accrueds	331	246	302
Inventories	27	74	101	L.t.d. due in one year	102	102	177
Prepaids + other	5	5	4	Current liabilities	709	700	716
PVGA	44	62	106	Deferred taxes	1	1	1
Current assets	410	372	434	Deferred gain	53	52	23
Net fixed assets	2,245	2,245	2,261	Long-term debt	1,147	1,148	1,249
PVGA	28	14	42	Debt equiv. pref.	0	0	0
Deferred charges	20	21	16	Preferred equity	0	0	0
Long-term rec. + investments	5	7	4	Shareholders' equity	798	758	768
Total	2,708	2,658	2,757	**Total**	2,708	2,658	2,757

Ratio Analysis	12 mos. ending	For year ending December 31					
Liquidity Ratios	Mar. 2003	2002	2001	2000	1999	1998	1997
Current ratio	0.58	0.53	0.61	0.69	0.51	0.34	0.32
Accumulated depreciation/gross fixed assets	19.7%	18.8%	17.5%	16.7%	18.7%	17.1%	16.3%
Cash flow/total debt (1)	0.10	0.09	0.09	0.08	0.09	0.09	0.08
Cash flow/capital expenditure	1.33	1.34	0.98	0.25	0.85	0.99	0.90
Cash flow-dividends/capital expenditures	0.62	0.62	0.56	0.14	0.37	0.61	0.51
% debt in capital structure (1)	65.6%	67.9%	68.4%	67.3%	67.2%	65.9%	67.6%
Average coupon on long-term debt	7.81%	7.81%	7.76%	7.86%	8.40%	8.75%	9.07%
Deemed common equity	33%	33%	33%	33%	33%	33%	33%
Common dividend payout (before extras.)	117.6%	119.2%	89.3%	96.9%	126.5%	85.6%	86.3%
Coverage Ratios							
EBIT interest coverage	2.00	1.98	1.82	1.90	2.27	2.30	2.26
EBITDA interest coverage	2.70	2.67	2.41	2.55	3.01	3.04	2.96
Fixed-charges coverage	2.00	1.98	1.82	1.77	1.90	1.88	1.84
Earnings Quality/Operating Efficiency and Statistics							
EBIT margin, excluding cost of natural gas	45.0%	45.3%	47.4%	46.3%	47.6%	47.0%	46.0%
Net margin (excluding preferred dividends)	13.7%	13.5%	13.7%	13.7%	12.7%	12.3%	12.4%
Return on avg. common equity (bef. extras.)	8.7%	8.8%	8.8%	8.4%	8.3%	8.6%	9.0%
Approved ROE (2)	9.42%	n/a	9.25%	9.50%	9.25%	10.00%	10.25%
Degree day deficiency - % normal (interior)	94.5%	103.0%	94.6%	99.9%	94.7%	89.7%	98.5%
Degree day deficiency - % normal (coastal)	92.0%	102.6%	102.3%	103.1%	101.6%	91.3%	94.1%
Customers/employees	n/a	574	594	521	515	482	432
Customer growth	0.1%	0.9%	0.7%	0.9%	1.9%	1.4%	2.2%
Operating costs/avg. customer (3) ($)	301	302	282	253	238	247	248
Rate base ($ millions)	n/a	2,234	2,208	1,690	1,637	1,559	1,517
Rate base growth	n/a	1.2%	30.7%	3.2%	5.0%	2.8%	5.3%
Kilometres of pipelines	n/a	43,196	37,430	37,197	36,581	36,473	35,971
Rate base/km of pipeline ($ thousands)	n/a	51.7	59.0	45.4	44.8	42.7	42.2
Rate base/throughput volumes ($ millions per bcf)	n/a	10.8	9.8	7.2	7.4	7.2	8.7

(1) All preferred shares (prior to 2000) treated as debt equivalents.

(2) An ROE was not set in 2002 due to Terasen Gas Inc.'s withdrawal of its 2002 Revenue Requirement Application.

(3) Operating costs excludes municipal + property taxes.

Terasen Gas Inc.

Report Date: June 21, 2004
Press Released: June 18, 2004
Previous Report: July 21, 2003

RATING

Rating	Trend	Rating Action	Debt Rated
R-1 (low)	Stable	Confirmed	Commercial Paper
"A"	Stable	Confirmed	Purchase Money Mortgages
"A"	Stable	Confirmed	MTNs & Unsecured Debentures

Geneviève Lavallée, CFA/Matthew Kolodzie, CFA
416-593-5577 x2277/x2296
glavallee@dbrs.com

RATING HISTORY

	Current	2003	2002	2001	2000	1999	1998
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Purchase Money Mortgages	"A"	"A"	"A"	"A"	"A"	"A"	"A"
MTNs & Unsecured Debentures	"A"	"A"	"A"	"A"	"A"	"A"	"A"

RATING UPDATE

The financial performance of Terasen Gas Inc. ("Terasen Gas" or the "Company") was in line with expectations over the past 12 months, with earnings and operating cash flows remaining generally stable in 2003 and for the 12 months ending March 31, 2004. The stability of Terasen Gas' financial profile is strongly supported by the regulatory framework in which it operates, in particular the existence of various deferral accounts that allow for the recovery (and/or remittance to customers) of variances from forecasts in: (1) prudently incurred gas costs, (2) use per customer for residential and commercial customers, and (3) interest rate fluctuations. Terasen Gas is exposed to variances from forecast only in respect of industrial and transportation service customers, but these customers account for only about 10% of net revenues.

Given Terasen Gas' business characteristics, the medium-term outlook for its financial profile remains stable. Earnings and operating cash flows will be impacted in 2004 by the low allowed return on equity (ROE) (9.15%), but this should be reversed in 2005 given the higher long-term interest rates relative to when the 2004 allowed ROE was set (allowed ROE based off forecast long-term Government of Canada bonds). The Company's financial results could be influenced in the medium term if it is unable to achieve the productivity improvements and efficiencies required under the new performance-based rate plan covering the 2004-2007 period. It should be noted, however, that under the new plan, Terasen Gas is protected from rising insurance premiums and pension costs through the establishment of new deferral accounts. Furthermore, Terasen Gas has historically been able to achieve the efficiencies necessary to maintain a stable financial profile under previous performance-based rate plans, where the productivity factor was higher.

Terasen Gas will continue to have the capacity to internally fund annual capital expenditures of about $110 million, but will require external financing to fund dividend payments to its parent, which have historically averaged 100% of net income. Free cash flow deficits will continue to be financed through a mix of debt and equity injections from its parent in order to maintain the deemed capital structure of 33% equity/67% debt. Key financial ratios are expected to continue to fluctuate within a narrow band in line with changes in working capital requirements.

RATING CONSIDERATIONS

Strengths:

- Operations are regulated, providing longer term earnings and balance sheet stability
- Existence of Rate Stabilization Adjustment Mechanism and Interest Rate Deferral Account provides additional financial stability
- Southern Crossing provides access to alternative sources of gas supply
- Diversified customer base; strong franchise area

Challenges:

- Operating cash flows are insufficient to fund both capital expenditures and common dividends
- Low allowed ROEs compared with Canadian peers
- Earnings are sensitive to the economic cycle and interest rates (through allowed ROEs)
- Competitive pressures from dual energy industrial users, low electricity rates
- Tax methodology results in unrecorded tax liabilities, weakens interest coverage

FINANCIAL INFORMATION

	12 mos. ending	For the year ended December 31				
	Mar. 2004	2003	2002	2001	2000	1999
Fixed-charges coverage (times)	1.95	1.97	1.98	1.82	1.77	1.90
% debt in capital structure (1)	65.4%	68.4%	67.9%	68.4%	67.3%	67.2%
Cash flow/total debt (times) (1)	9.7%	8.9%	9.3%	8.6%	7.7%	9.0%
Cash flow/capital expenditures (times)	1.31	1.27	1.34	0.98	0.25	0.85
Allowed ROE	9.15%	9.42%	9.13%	9.25%	9.50%	9.25%
Net income before extraordinary items ($ millions)	70.3	70.4	67.1	67.2	61.9	59.5
Operating cash flow ($ millions)	150.0	147.9	149.1	142.4	120.1	113.3
Total throughput volumes (bcf)	195.8	190.4	206.8	225.1	235.2	220.1

(1) All preferred shares (prior to 2000) were treated as debt equivalents.

THE COMPANY

Terasen Gas Inc. is the largest natural gas distributor in British Columbia, serving approximately 783,000 customers or 90% of the province's natural gas users. The Company is wholly owned by Terasen Inc.

AUTHORIZED PAPER AMOUNT Limited to Cdn$500 million.

REGULATION

- Terasen Gas is regulated by the British Columbia Utilities Commission (BCUC). The regulatory environment in British Columbia remains among the more progressive in Canada, although the approved ROEs for Terasen Gas are the lowest amongst the gas distribution companies in Canada.
  - British Columbia-based utilities were among the first utilities in Canada to operate under incentive-based regulation.
- Terasen Gas' allowed ROE is set annually according to the following formula:
  - 350 basis points above forecast long-term Government of Canada bond yields 6% or lower.
  - The formula also provides for annual adjustments capturing 80% of the change in yields when forecast yields are higher than 6%.
- Deemed equity has been set at 33% of total capital, which is below that of its Canadian peers.
- Terasen Gas has the following deferral accounts, which reduce short-term earnings fluctuations/risks:
  - Gas Cost Reconciliation Account (GCRA): The Company is permitted to periodically, subject to BCUC approval, recover from (or remit to) customers any variances in gas prices from forecast. Historically, variances are amortized and recovered over a two-year to three-year period with price adjustments normally made on a semi-annual basis.
  - Rate Stabilization Adjustment Mechanism (RSAM): Terasen Gas is permitted to accumulate the variances from forecast in use per customer for residential and commercial customers. The amounts are amortized and recovered over a two-year period. Terasen Gas is, however, still exposed to the economic cyclicality of non-RSAM customers, principally industrial and transportation service customers, who account for roughly 10% of gas revenues.
  - Interest Rate Deferral Accounts, which smooth the impact of fluctuations in both short-term and long-term interest rates.
- In July 2003, the BCUC approved a negotiated settlement of a performance-based rate plan covering the 2004-2007 period.
  - Under the new plan, operating and maintenance costs and base capital expenditures are subject to an incentive formula reflecting increasing costs as a result of customer growth and inflation less a productivity factor equal to 50% of inflation during the first two years of the plan and 66% of inflation during the last two years of the plan.
  - The 50/50 sharing of earnings with customers above or below the allowed ROE that existed under the previous plan continues under this plan.
  - The new plan also includes ten service quality measures designed to ensure the maintenance of service levels, as well as setting out the requirements for an annual review process.
  - As part of the negotiated settlement, new deferral accounts were established for insurance premiums and pension costs incurred by Terasen Gas, providing additional stability to earnings and cash flows over the medium term.
- Over the past several years, work has been underway on gas commodity unbundling, which allows customers to purchase gas from the supplier of choice.
  - On May 1, 2004, Terasen Gas' commercial customers will be able to purchase gas from a gas supplier starting on November 1, 2004.
  - Since gas costs are strictly a flow-through item (i.e. Terasen Gas does not make any profit on the sale of the commodity), unbundling should be earnings neutral and, therefore, have no impact on credit ratings.

RATING CONSIDERATIONS

Strengths: (1) The regulatory environment the Company operates within provides a relatively high degree of financial stability. Since 1996, the regulatory environment has consisted of formula-based ROEs and incentive-based regulation, which minimize regulatory lag, streamline the regulatory process, and encourage utilities to improve operating efficiencies. The framework within which Terasen Gas operates allows for the recovery (and/or remittance to customers) of variances from forecast, through deferral accounts, for a large number of items. This helps to smooth earnings and reduce business and operating risks. All of these deferral accounts are amortized and recovered in future rates. However, these deferral accounts do not impact cash flows and can artificially inflate interest coverage ratios over the short term (i.e. during periods of warmer-than-normal temperatures), but the impact is reversed as deferral balances are recovered.

(2) The Southern Crossing Pipeline project, which became operational in November 2000, provides the Company with access to lower-cost alternative sources of gas supply from Alberta. This is especially favourable during periods of high natural gas prices.
(3) The Company has a diversified customer base and has limited exposure to a single customer, which reduces earnings volatility. Residential customers account for about 60% of gas revenues, commercial customers just over 30% of gas revenues, and industrial customers about 10% of gas revenues. In addition, Terasen Gas serves a strong franchise area (Vancouver), which is densely populated.

Challenges: (1) The Company has consistently generated insufficient operating cash flows to internally fund both its capital expenditures and dividend payments. This has not resulted in a deterioration of the Company's credit quality, but it results in Terasen Gas being dependent on periodic

equity injections by its parent to maintain its capital structure. Gross free cash flow deficits have generally been around $40 million, which is manageable.
(2) Terasen Gas has historically had the lowest allowed ROEs relative to all other gas distribution utilities in Canada. This has resulted in generally weaker financial ratios relative to its Canadian peers.
(3) The Company's earnings and cash flows are mildly sensitive to the economic cycle, and to changes in interest rates through allowed ROEs. Industrial customers, who account for about 10% of gas revenues, are sensitive to the economic cycle. In terms of interest rates, a 25 basis point change in allowed ROEs would impact net earnings by about $1.9 million. The allowed ROE for 2004 was set at 9.15%, compared to 9.42% for 2003, thus reducing net earnings by about $2 million.
(4) In times of high natural gas prices, the Company faces reduced gas throughputs on the industrial side. In addition, the Company faces ongoing competitive pressures on the residential side, primarily multi-residential, from the low electricity rates in British Columbia due to the dominance of low cost hydro-based generation. However, with rising electricity prices in B.C., the competitive pressures will be much lower in the future.
(5) The use of the taxes payable method of taxation (typical of rate-regulated utilities) has resulted in an unrecorded future income tax liability of $246.5 million as at December 2003. The recovery of this liability in future rates depends on regulation. In addition, the taxes payable method of taxation, whereby the Company collects taxes as paid, results in lower revenue collections, thereby reducing operating income and weakening coverage ratios.

EARNINGS AND OUTLOOK

	12 mos. ending	For the year ended December 31				
($ millions)	Mar. 2004	2003	2002	2001	2000	1999
Net revenues	500.5	500.4	497.0	489.2	420.9	401.1
EBITDA	297.8	298.1	303.0	307.5	261.8	253.2
EBIT	219.5	221.4	225.2	231.9	194.8	190.8
Gross interest expense	112.3	112.5	113.5	127.7	102.8	84.2
Net interest expense	111.7	111.9	112.5	124.4	91.1	82.6
Pre-tax income	107.8	109.5	112.7	107.5	103.7	108.2
Income taxes	37.5	39.1	45.6	40.3	41.8	48.7
Net income (before extras., after prefs.)	70.3	70.4	67.1	67.2	57.9	50.8
Net income	70.3	70.4	67.1	67.2	57.9	50.8
Return on avg. common equity (bef. extras.)	8.9%	9.2%	8.8%	8.8%	8.4%	8.3%

Revenue breakdown	12 mos. ended	For the year ended December 31				
($ millions)	Mar. 2004	2003	2002	2001	2000	1999
Residential	807.7	769.6	731.0	813.6	627.8	493.2
Commercial	414.3	392.6	372.0	442.2	336.3	262.2
Small industrial	48.9	48.2	49.6	73.6	52.3	26.7
Large industrial	3.7	3.0	3.3	6.8	7.7	8.8
Gross gas revenues	1,274.6	1,213.4	1,155.9	1,336.2	1,024.1	790.9
Cost of gas	866.6	805.2	749.4	932.3	658.8	442.6
Net gas revenues	408.0	408.2	406.5	403.9	365.3	348.3
Transportation service	63.8	62.3	62.0	56.0	40.9	38.2
Total gas revenues	471.8	470.5	468.5	459.9	406.2	386.5
Other revenues	28.7	29.9	28.5	29.3	14.7	14.6
Total revenues, net of gas costs	500.5	500.4	497.0	489.2	420.9	401.1

Customers						
Residential	703,800	701,335	694,787	687,375	682,401	676,513
Commercial	77,100	77,013	77,894	78,756	78,948	78,249
Small industrial	500	470	488	515	602	619
Large industrial	100	50	61	61	66	74
Transportation	1,500	1,512	1,328	1,141	856	630
Total (thousands)	783,000	780,380	774,558	767,848	762,873	756,085

Summary:

- Net income was up about 4% in 2003, but remained relatively stable in Q1 2004 relative to the previous year.
- Growth in 2003 was primarily due to an increase in distribution rates following no change in distribution rates in 2002 relative to 2001.
  – The effective tax rate was higher in 2002 compared with both 2001 and 2003, but higher taxes were not recovered in 2002 rates.

Outlook:

- Earnings are expected to remain relatively stable, with some modest growth potential.

- Terasen Gas faces the challenge of achieving continued productivity improvements and efficiencies over the next four years under the new performance-based rate plan.
  - 2004 will be especially challenging given the significant decline in the allowed ROE (9.15%, currently the lowest amongst all regulated gas distribution companies in Canada, pending the outcome of the generic cost of capital hearing in Alberta).
  - The 50/50 sharing mechanism with customers on earnings above/below allowed ROE minimizes the upside potential, but more importantly, minimizes the downside risk.
- On the positive side, long-term interest rates are rising, which should result in a higher allowed ROE in 2005.
- Over the longer term, Terasen Gas should benefit from the rising electricity prices in British Columbia, which will further improve the price competitiveness of gas compared to electricity.
  - This should benefit customer growth.

FINANCIAL PROFILE AND SENSITIVITY ANALYSIS

	12 mos. ending	For year ended Dec. 31		Sensitivity Analysis		
($ millions)	Mar. 2004	2003	2002	Year 1	Year 2	Year 3
EBITDA	297.8	298.1	303.0	282.9	282.9	282.9
Net income before extraordinary items	70.3	70.4	67.1	63.1	61.6	60.0
Depreciaton & amortization	78.3	76.7	77.8	77.8	78.9	80.0
Other non-cash adjustments	1.4	0.8	4.2	0.0	0.0	0.0
Operating Cash Flow	150.0	147.9	149.1	140.9	140.5	140.0
Capital expenditures	(114.9)	(116.2)	(111.1)	(110.0)	(110.0)	(110.0)
Common dividends	(75.0)	(80.0)	(80.0)	(60.0)	(60.0)	(60.0)
Cash Flow Before Working Capital Changes	(39.9)	(48.3)	(42.0)	(29.1)	(29.5)	(30.0)
Working capital changes	(28.4)	(40.5)	(20.8)	0.0	0.0	0.0
Changes in rate stabilization account	39.8	38.2	71.0	10.0	10.0	10.0
Free Cash Flow	(28.5)	(50.6)	8.2	(19.1)	(19.5)	(20.0)
Net investments/adjustments	7.6	(3.7)	52.7	0.0	0.0	0.0
Net debt financing	23.6	52.1	(59.5)	19.1	19.5	20.0
Net pref. share financing	0.0	0.0	0.0	0.0	0.0	0.0
Net equity financing	0.0	0.0	0.0	0.0	0.0	0.0
Net change in cash	2.7	(2.2)	1.4	(0.0)	0.0	0.0
Cash flow/capital expenditures (times)	1.31	1.27	1.34	1.28	1.28	1.27
Cash flow/total debt (times)	9.7%	8.9%	9.3%	9.0%	8.8%	8.7%
% debt in the capital structure	65.4%	68.4%	67.9%	65.6%	65.8%	66.1%
Fixed-charges coverage (times)	1.95	1.97	1.98	1.93	1.89	1.86

Summary:

- Terasen Gas' financial profile has remained relatively stable since 1996, despite the low allowed ROEs, with key financial ratios fluctuating within a narrow band.
  - Fixed-charges coverage has fluctuated in the 1.80-2.00 times range, while cash flow-to-debt has been within the 8%-10% range.
  - Although key financial ratios are low relative to Canadian peers, they are acceptable for the ratings given the existence of the various deferral accounts and the high degree of stability of the ratios.
- In 2003, and for the 12 months ended March 31, 2004, operating cash flows remained insufficient to fully fund both capital expenditures and dividend payments to its parent.
  - Free cash flow deficits due to high dividend payout.
  - The capital structure has remained relatively stable, around the deemed capital structure of 33% common equity/67% debt.

Outlook:

- Terasen Gas' financial profile is expected to remain relatively stable over the medium term.
  - Operating cash flows and key financial ratios will be pressured by the low allowed ROE in 2004 and could come under additional pressure if the Company is unable to achieve the productivity improvements and efficiencies required under the new performance-based rate plan.
  - The rising long-term interest rates, however, should be positive for operating cash flows in 2005 through the allowed ROE formula.
- Operating cash flows will remain insufficient to fund both annual capital expenditures and dividend payments under current dividend payout.
- However, free cash flow deficits are manageable and are within the Company's funding capacity.

Sensitivity Analysis:

DBRS stress tests the financial strength of companies analyzed to measure their sensitivity under various extreme scenarios. The assumptions used are based neither upon any specific information provided by the Company, nor any expectations that DBRS has concerning the future performance of the Company.

Assumptions:
- EBITDA declines 5% in Year 1 and stays flat thereafter;
- Annual capital expenditures at $110 million;
- Annual common dividend payments at $60 million (based on reduced payout starting in 2004); and
- Free cash flow deficits are 100% debt financed.

Outcomes:
- Operating cash flow would continue to be insufficient to fund capital expenditures and common dividends.
  - The high dividend payout could be reduced.
- However, key financial ratios would generally remain adequate to support the current ratings given the regulatory framework and the stability it provides.

LONG-TERM DEBT MATURITIES AND BANK LINES

Long-Term Debt Maturity Schedule – as at March 31, 2004

($ millions)	2004	2005	2006	2007	2008	2009 and beyond
Long-term debt	2.2	397.2	122.2	102.2	190.2	484.8
% of total	0.2%	30.6%	9.4%	7.9%	14.6%	37.3%

Summary:
- The Company has 364-day revolving committed lines of credit totalling Cdn$500 million, which are used to support its Cdn$500 million commercial paper program, as well as for general corporate purposes.
- As of April 30, 2004, Terasen Gas had $155 million of commercial paper outstanding. Consequently, it had $345 million available on its committed lines of credit.
- In April 2004, Terasen Gas issued 30-year, $150 million of unsecured, medium-term note debentures to refinance short-term debt and provide liquidity ahead of the large maturities in 2005.

Outlook:
- Maturities are reasonably well staggered over the next five years, except for 2005 when there are two maturities (one in July and one in September).
- While there is some refinancing risk in 2005, DBRS expects the Company will have little difficulty refinancing the above amounts.

Terasen Gas Inc.

Balance Sheet

($ millions)

Assets	As at Mar. 2004	As at December 31 2003	2002
Cash	4.7	0.0	0.0
Accounts receivable	297.5	318.0	230.0
Inventories	49.1	113.6	74.2
Prepaids + other	4.7	5.8	4.9
Rate stabilization accts	3.6	6.3	62.4
Current Assets	359.6	443.7	371.5
Net fixed assets	2,274.2	2,285.8	2,245.0
Rate stabilization accts	28.3	32.2	14.3
Deferred charges	21.3	23.9	20.6
Long-term rec. + investments	5.7	5.1	6.9
Total	2,689.1	2,790.7	2,658.3

Liabilities & Equity	As at Mar. 2004	As at December 31 2003	2002
Short-term debt	250.5	357.2	352.1
A/P + accrueds	270.8	316.6	245.8
L.t.d. due in one year	42.2	2.2	102.3
Current Liabilities	563.5	676.0	700.2
Deferred taxes	0.5	0.5	0.5
Deferred gain	49.6	51.9	52.0
Long-term debt	1,256.6	1,297.3	1,148.0
Debt equiv. pref.	0.0	0.0	0.0
Preferred equity	0.0	0.0	0.0
Shareholders' equity	818.9	765.0	757.6
Total	2,689.1	2,790.7	2,658.3

Ratio Analysis

	12 mos. ending	For the year ended December 31					
Liquidity Ratios	Mar. 2004	2003	2002	2001	2000	1999	1998
Current ratio	0.64	0.66	0.53	0.61	0.69	0.51	0.34
Accumulated depreciation/gross fixed assets	20.2%	20.1%	18.8%	17.5%	16.7%	18.7%	17.1%
Cash flow/total debt (1)	9.7%	8.9%	9.3%	8.6%	7.7%	9.0%	9.3%
Cash flow/capital expenditure	1.31	1.27	1.34	0.98	0.25	0.85	0.99
Cash flow-dividends/capital expenditures	0.65	0.58	0.62	0.56	0.14	0.37	0.61
% debt in capital structure (1)	65.4%	68.4%	67.9%	68.4%	67.3%	67.2%	65.9%
Average coupon on long-term debt	7.29%	7.29%	7.81%	7.76%	7.86%	8.40%	8.75%
Deemed common equity	33%	33%	33%	33%	33%	33%	33%
Common dividend payout (before extras.)	106.7%	113.6%	119.2%	89.3%	96.9%	126.5%	85.6%
Coverage Ratios							
EBIT interest coverage	1.95	1.97	1.98	1.82	1.90	2.27	2.30
EBITDA interest coverage	2.65	2.65	2.67	2.41	2.55	3.01	3.04
Fixed-charges coverage	1.95	1.97	1.98	1.82	1.77	1.90	1.88
Earnings Quality/Operating Efficiency and Statistics							
EBIT margin, excluding cost of natural gas	43.9%	44.2%	45.3%	47.4%	46.3%	47.6%	47.0%
Net margin (excluding preferred dividends)	14.0%	14.1%	13.5%	13.7%	13.7%	12.7%	12.3%
Return on avg. common equity (bef. extras.)	8.9%	9.2%	8.8%	8.8%	8.4%	8.3%	8.6%
Allowed ROE	9.15%	9.42%	9.13%	9.25%	9.50%	9.25%	10.00%
Degree days - % normal (interior)	-	97.6%	103.0%	94.6%	99.9%	94.7%	89.7%
Degree days - % normal (coastal)	-	95.3%	102.6%	102.3%	103.1%	101.6%	91.3%
Customers/employees	-	626	574	594	521	515	482
Customer growth	1.1%	0.8%	0.9%	0.7%	0.9%	1.9%	1.4%
Operating costs/avg. customer ($) (2)	308	306	302	282	253	238	247
Rate base ($ millions)	-	2,259	2,234	2,208	1,690	1,637	1,559
Rate base growth	-	1.1%	1.2%	30.7%	3.2%	5.0%	2.8%
Kilometres of pipelines	-	43,777	43,196	37,430	37,197	36,581	36,473
Rate base/km of pipeline ($ thousands)	-	51.6	51.7	59.0	45.4	44.8	42.7
Rate base/throughput volumes ($ millions per bcf)	-	11.9	10.8	9.8	7.2	7.4	7.2

(1) All preferred shares (prior to 2000) treated as debt equivalents.

(2) Operating costs excludes municipal + property taxes.

Terasen Gas Inc.

Report Date: June 22, 2005
Press Released: June 22, 2005
Previous Report: June 21, 2004

Nick Dinkha, CFA/Matthew Kolodzie, CFA
416-593-5577 x2314/x2296
ndinkha@dbrs.com

Rating

Rating	Trend	Rating Action	Debt Rated
R-1 (low)	Stable	Confirmed	Commercial Paper
A	Stable	Confirmed	Purchase Money Mortgages
A	Stable	Confirmed	MTNs & Unsecured Debentures

(All figures in Canadian dollars, unless otherwise noted.)

Rating History

	Current	2004	2003	2002	2001	2000	1999
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Purchase Money Mortgages	A	A	A	A	A	A	A
MTNs & Unsecured Debentures	A	A	A	A	A	A	A

Rating Update

Terasen Gas Inc.'s ("Terasen Gas" or the "Company") overall performance has remained stable, in spite of the lower approved return on equity (ROE) during the past two years. The Company benefits from a supportive regulatory regime, which provides for various deferral accounts that allow for the recovery from, or remittance to, customers of variances from forecasts in: (1) prudently incurred gas costs, (2) residential and commercial customer use, and (3) interest rate fluctuations. In addition, deferral accounts are also used for funding both pension costs and insurance premiums. As a result, the Company is only exposed to variances from forecast with regard to industrial and transportation service customers, which is mitigated by the small proportion of net revenues – roughly 10% – that these customers account for.

Given Terasen Gas' business characteristics, the medium-term outlook for its financial profile remains stable. However, the Company's financial results will continue to be influenced by the performance-based regulatory (PBR) regime under which it operates. More specifically, cash flows would be negatively impacted if it is unable to achieve productivity improvements and efficiencies, particularly in light of the higher productivity factor in the final two years of the PBR period (until 2007). However, DBRS notes that Terasen Gas has been successful in achieving the efficiencies necessary to maintain a stable financial profile, recently evidenced by the $4.1 million in earnings contribution from operational efficiencies achieved through the integration of Terasen Gas Vancouver Island ("TGVI") into the Company's operations.

Terasen Gas will continue to have the capacity to internally fund annual capital expenditures averaging about $100 million; however, when combined with dividend payments to its parent the Company will require external financing to fund these combined expenses. As a result, the Company will continue to incur free cash flow deficits, funding these through dividend management and debt issuances, such that the deemed capital structure of 33% equity/67% debt is maintained. Key financial ratios are expected to continue to fluctuate within a narrow band in line with changes in working capital requirements, however, this does not pose any credit implications. Overall, the outlook remains stable.

Rating Considerations

Strengths:

- Operations are regulated, providing longer term earnings and balance sheet stability
- Existence of various deferral accounts, which provide additional financial stability
- Southern Crossing Pipeline provides access to alternative sources of gas supply
- Diversified customer base and strong franchise area

Challenges:

- Cash flow from operations insufficient to fund both capital expenditures and common dividends
- Low allowed ROEs versus Canadian peers
- Earnings are sensitive to the economic cycle and interest rates (through allowed ROEs)
- Competitive pressures from dual energy industrial users, low electricity rates
- Tax methodology results in unrecorded tax liabilities, weakens interest coverage

Financial Information

	12 mos. ended March 31, 2005	For the year ended December 31 2004	2003	2002	2001	2000
Fixed-charges coverage (times)	1.97	1.99	1.97	1.98	1.82	1.77
% debt in capital structure (1)	66.1%	65.8%	68.4%	67.9%	68.4%	67.3%
Cash flow/total debt (times) (1)	9.2%	9.7%	8.9%	9.3%	8.6%	7.7%
Cash flow/capital expenditures (times)	1.44	1.61	1.27	1.34	0.98	0.25
Allowed ROE (2)	9.03%	9.15%	9.42%	9.13%	9.25%	9.50%
Net income before extraordinary items ($ millions)	71.8	70.8	70.4	67.1	67.2	61.9
Operating cash flow ($ millions)	152.7	151.5	147.9	149.1	142.4	120.1
Total throughput volumes (bcf)	190.3	191.6	190.4	206.8	225.1	235.2

(1) All preferred shares (prior to 2000) were treated as debt equivalents. (2) 9.03% is for 2005.

The Company

Terasen Gas is the largest natural gas distributor in British Columbia, serving approximately 783,000 customers, or 90% of the province's natural gas users. The Company is wholly owned by Terasen Inc., however, the rating assigned to Terasen Gas is a stand-alone commercial rating.

Authorized Paper Amount Limited to $500 million

Regulation

- Terasen Gas is regulated by the British Columbia Utilities Commission ("BCUC"). The regulatory environment in British Columbia remains among the more progressive in Canada, although the approved ROEs for Terasen Gas are the lowest among the gas distribution companies in Canada.
  - British Columbia-based utilities were among the first utilities in Canada to operate under incentive-based regulation.
- Terasen Gas' allowed ROE is set annually according to the following formula:
  - 350 basis points above forecast long-term Government of Canada bond when yields are 6% or lower.
  - The formula also provides for annual adjustments capturing 80% of the change in yields when forecast yields are higher than 6%.
- Deemed equity has been set at 33% of total capital, which is below that of its Canadian peers.
- Terasen Gas has the following deferral accounts, which reduce short-term earnings fluctuations/risks:
  - The Gas Cost Reconciliation Account (GCRA): The Company is permitted to periodically, subject to BCUC approval, recover from, or remit to, customers any variances in gas prices from forecast. Historically, variances are amortized and recovered over a two-year to three-year period with price adjustments normally made on a semi-annual basis.
  - The GCRA was split into two new deferral accounts effective April 2004 to accommodate commodity unbundling: the Commodity Cost Reconciliation Account (CCRA) and the Midstream Cost Reconciliation Account (MCRA), which work the same way in terms of the refund/recovery mechanism, as for the GCRA.
  - Rate Stabilization Adjustment Mechanism (RSAM): Terasen Gas is permitted to accumulate the variances from forecast in use per customer for residential and commercial customers. The amounts are amortized and recovered over a two-year period. Terasen Gas is, however, still exposed to the economic cyclicality of non-RSAM customers, principally large-volume, industrial and transportation service customers, who account for roughly 10% of gas revenues.
  - Interest Rate Deferral Accounts, which smooth the impact of fluctuations in both short-term and long-term interest rates.
- Recovery of the deferral account balances in rates charged to customers led to a decline in the regulatory deferral accounts during the year.
  - During 2004, the net balances of the CCRA/MCRA, and RSAM accounts declined to $14.1 million from $38.5 million in 2003.
- In July 2003, the BCUC approved a negotiated settlement of a performance-based rate plan covering the 2004-2007 period.
  - Under the new plan, operating and maintenance costs and base capital expenditures are subject to an incentive formula reflecting increasing costs as a result of customer growth and inflation less a productivity factor equal to 50% of inflation during the first two years of the plan and 66% of inflation during the last two years of the plan.
  - The 50/50 sharing of earnings with customers above or below the allowed ROE that existed under the previous plan continues under this plan.
  - The new plan also includes ten service quality measures designed to ensure the maintenance of service levels, as well as setting out the requirements for an annual review process.
  - As part of the negotiated settlement, new deferral accounts were established for insurance premiums and pension costs incurred by Terasen Gas, providing additional stability to earnings and cash flows over the medium term.
- Over the past several years, work has been underway on gas commodity unbundling, which allows customers to purchase gas from the supplier of choice.
  - Effective May 1, 2004, Terasen Gas' commercial customers were able to purchase gas from a different gas supplier beginning November 1, 2004.
  - Terasen Gas still provides delivery of the natural gas.
  - Of the 78,000 commercial customers eligible to participate in commodity unbundling, 2,067 had participated by December 2004.
  - Since gas costs are strictly a flow-through item (i.e. Terasen Gas does not make any profit on the sale of the commodity), unbundling is earnings-neutral and, therefore, has no impact on credit ratings

Rating Considerations

Strengths: (1) The regulatory environment within which the Company operates provides a relatively high degree of financial stability. Since 1996, the regulatory environment has consisted of formula-based ROEs and incentive-based regulation, which minimize regulatory lag, streamline the regulatory process, and encourage utilities to improve operating efficiencies. The framework within which Terasen Gas operates allows for the recovery from, or remittance to, customers of variances from forecast, through deferral accounts, for a large number of items. This helps to smooth earnings and reduce business and operating risks. All of these deferral accounts are amortized and recovered

in future rates. However, these can artificially inflate interest coverage ratios due to timing factors (i.e. during periods of warmer-than-normal temperatures), but the impact is reversed as deferral balances are recovered.
(2) The Southern Crossing Pipeline project ("SouthernX"), which became operational in November 2000, provides the Company with access to lower cost alternative sources of gas supply from Alberta. This is especially favourable during periods of high natural gas prices. Terasen Gas is also exploring opportunities to cost-effectively expand the pipeline through such initiatives as the Inland Pacific Connector project – a proposal to extend the SouthernX pipeline from Oliver to the regional natural gas trading hub of Sumas, near Vancouver.
(3) The Company has a diversified customer base and has limited exposure to a single customer, which reduces earnings volatility. Residential customers account for over 60% of gas revenues, commercial customers for just over 30% of gas revenues, and industrial customers about 10% of gas revenues. In addition, Terasen Gas serves a strong franchise area (Vancouver), which is densely populated.

Challenges: (1) The Company has consistently generated insufficient cash flow from operations to internally fund both its capital expenditures and dividend payments. This has not resulted in a deterioration of the Company's credit quality and Terasen Gas is able to manage its dividend payment to its parent in order to maintain its capital structure. In the event that the Company requires significant equity contributions, it relies on its parent for support. However, Terasen Gas is rated on a stand-alone basis, and its financial strength and business profile is not impacted by activities at its parent company, Terasen Inc., currently rated A (low), R-1 (low).
(2) Terasen Gas has historically had the lowest allowed ROEs relative to all other gas distribution utilities in Canada. This has resulted in generally weaker financial ratios relative to its Canadian peers.
(3) The Company's earnings and cash flows are mildly sensitive to the economic cycle, and to changes in interest rates through allowed ROEs. Industrial customers, who account for just over 10% of gas revenues, are sensitive to the economic cycle. In terms of interest rates, a 25 basis point change in allowed ROEs would impact net earnings by about $1.9 million. The allowed ROE for 2005 is set at 9.03%, compared to 9.15% for 2004 and the impact on net earnings from this reduction in ROE would be about $1 million, resulting in relatively flat year-over-year earnings.
(4) In times of high natural gas prices, the Company faces reduced gas throughputs on the industrial side. In addition, the Company faces ongoing competitive pressures on the residential side from the low electricity rates in British Columbia due to the dominance of low-cost, hydro-based generation. In addition, the trend in housing starts, while remaining strong, has shifted from single-family dwellings to multi-family dwellings, for which natural gas has a lower penetration rate. However, with rising electricity prices in B.C., the competitive pressures have become much lower, with gas actually having a 10%-15% price advantage over electricity. In addition, in October 2004, the BCUC approved a rate increase for BC Hydro effective April 1, 2004 – the first rate increase since 1993.
(5) The use of the taxes payable method of taxation (typical of rate-regulated utilities) has resulted in an unrecorded future income tax liability of $215.8 million as at December 2004. The recovery of this liability in future rates depends on regulation. In addition, this method results in lower revenue collections, thereby reducing operating income and weakening coverage ratios, as the Company collects taxes as paid.

EARNINGS AND OUTLOOK

	12 mos. ended	For the year ended December 31				
($ millions)	March 31, 2005	2004	2003	2002	2001	2000
Net revenues	498.2	498.2	500.4	497.0	489.2	420.9
EBITDA	293.6	294.2	298.1	303.0	307.5	261.8
EBIT	212.6	212.6	221.4	225.2	231.9	194.8
Gross interest expense	107.8	106.9	112.5	113.5	127.7	102.8
Net interest expense	107.2	106.4	111.9	112.5	124.4	91.1
Pre-tax income	105.4	106.2	109.5	112.7	107.5	103.7
Income taxes	33.6	35.4	39.1	45.6	40.3	41.8
Net income (before extras., after prefs.)	71.8	70.8	70.4	67.1	67.2	57.9
Net income	70.8	70.8	70.4	67.1	67.2	57.9
Return on avg. common equity (bef. extras.)	8.9%	9.0%	9.2%	8.8%	8.8%	8.4%

Summary:

- For the 12 months ended March 31, 2005, EBIT fell slightly due to lower overall consumption compared with the year ended December 31, 2003.
  - The lower approved ROE for 2004 of 9.15%, compared with 9.42% for the previous year, also contributed to lower results.
- Net income remained relatively flat during this period due to lower interest expense and lower taxes.

Outlook:

- Earnings are expected to remain relatively stable, with some modest growth potential.
- Terasen Gas faces the challenge of having to achieve continued productivity improvements and efficiencies over the next four years under the new performance-based rate plan.

- 2005 will be especially challenging given the significant decline in the allowed ROE to 9.03%, which is currently the lowest among all regulated gas distribution companies in Canada.
- The 50/50 sharing mechanism with customers on earnings above, or below, the permitted ROE minimizes the upside potential, but more important, minimizes downside risk.

• Over the longer term, Terasen Gas should benefit from the rising electricity prices in British Columbia, which will further improve the price competitiveness of gas versus electricity.

• As well, the Company continues to pursue operational efficiencies from the integration of TGVI, particularly with regard to the installation of a liquefied natural gas (LNG) storage facility on the island.
  - This would provide additional transportation earnings for Terasen Gas.

• The completion of the 252 MW Duke Point power plant on Vancouver Island, expected in May 2007, will also provide Terasen Gas with additional earnings growth potential from greater throughput volumes.
  • Ongoing developments with the resort Municipality of Whistler to develop a sustainable energy strategy should provide further earnings growth for Terasen Gas.
  - This project includes the construction of a natural gas pipeline from Squamish to Whistler, providing additional transportation earnings for the Company.

FINANCIAL RISK PROFILE AND OUTLOOK

	12 mos. ended	For year ended Dec. 31				
($ millions)	March 31, 2005	2004	2003	2002	2001	2000
EBITDA	293.6	294.2	298.1	303.0	307.5	261.8
Net income before extraordinary items	71.4	70.8	70.4	67.1	67.2	57.9
Depreciaton & amortization	76.1	81.6	76.7	77.8	75.6	67.0
Other non-cash adjustments	5.2	(0.9)	0.8	4.2	(0.4)	(4.8)
Cash Flow From Operations	152.7	151.5	147.9	149.1	142.4	120.1
Capital expenditures	(105.9)	(93.9)	(116.2)	(111.1)	(146.0)	(472.5)
Common dividends	(65.0)	(60.0)	(80.0)	(80.0)	(60.0)	(56.1)
Free Cash Flow Before W/C Changes	(18.2)	(2.4)	(48.3)	(42.0)	(63.6)	(408.5)
Working capital changes	(0.3)	15.5	(40.5)	(20.8)	(109.3)	119.6
Changes in rate stabilization account	37.1	24.4	38.2	71.0	2.4	(117.3)
Net Free Cash Flow	18.6	37.5	(50.6)	8.2	(170.5)	(406.2)
Acquisitions/divestitures	4.4	67.7	(3.7)	52.7	45.4	(10.9)
Other	0.0	(2.4)	0.0	0.0	0.0	0.0
Cash flow before financing	23	103	(54.3)	60.9	(125.1)	(417.1)
Net change in debt financing	(35.1)	(96.8)	52.1	(59.5)	94.4	376.3
Net change in pref. share financing	0.0	0.0	0.0	0.0	0.0	(75.0)
Net change in equity financing	0.0	0.0	0.0	0.0	0.0	141.1
Net Change in Cash	(12.1)	6.0	(2.2)	1.4	(30.7)	25.3
Cash flow/capital expenditures (times)	1.44	1.61	1.27	1.34	0.98	0.25
Cash flow/total debt (times)	9.2%	9.7%	8.9%	9.3%	8.6%	7.7%
% debt in the capital structure	66.1%	65.8%	68.4%	67.9%	68.4%	67.3%
Fixed-charges coverage (times)	1.97	1.99	1.97	1.98	1.82	1.77

Summary:

• Terasen Gas' financial profile has experienced a modest improvement over the past five years, despite the low allowed ROEs.
  - Fixed-charges coverage has improved to almost 2.0 times, and
  - Cash flow/debt has been has improved to over 9.0%.

• Although key financial ratios are low relative to Canadian peers, they are acceptable for the rating given the existence of the various deferral accounts and the high degree of stability of the ratios.

• Cash flow from operations remains insufficient to fully fund both capital expenditures and dividend payments to its parent.
  - However, the Company can manage its dividend payouts in order to maintain its capital structure, typically within BCUC-approved levels.

• Terasen Gas's capital structure has remained relatively stable, around the deemed capital structure of 33% common equity/67% debt.

Outlook:

• Terasen Gas' financial profile is expected to remain relatively stable over the medium term.
  - Operating cash flows and key financial ratios will continue to be pressured by the low permitted ROE in 2005 and could come under additional pressure if the Company is unable to achieve the productivity improvements and efficiencies required under the new performance-based rate plan.

• Cash flow from operations will continue to be insufficient to fund both annual capital expenditures and dividend payments under current dividend payout.

• However, free cash flow deficits are manageable.

LONG-TERM DEBT MATURITIES AND BANK LINES

Long-Term Debt Maturity Schedule – as at March 31, 2005
($ millions)

	2005	2006	2007	2008	2009 and beyond
Long-term debt	397.2	122.2	102.2	190.2	62.1
% of total	33.1%	10.2%	8.5%	15.8%	5.2%

Summary:

- The Company has 364-day revolving committed lines of credit totalling $500 million, which are used to support its $500 million commercial paper program, as well as for general corporate purposes.
- As of December 31, 2004, Terasen Gas had $132 million of commercial paper and banker's acceptances outstanding.
  - Consequently, it had $368 million available on its committed lines of credit.
- In February 2005, the Company issued $150 million of 30-year medium-term notes (MTN) at an interest rate of 5.90%.
  - In April 2004, Terasen Gas issued $150 million of medium-term note debentures at an interest rate of 6.50%.
  - Proceeds were used repay some existing MTNs and for general corporate purposes.

Outlook:

- Maturities are reasonably well staggered over the next few years.
- The Company anticipates issuing another $250 million in fixed income during 2005.
  - In addition, the Company plans on issuing $250 million in long-term debt at sister company TGVI in order to refinance an existing $215 million credit facility maturing in January 2006, as well as to repay some intercompany debt from Terasen Inc. to TGVI.
  - The Company also plans on negotiating a new credit facility at TGVI to provide financing for LNG capital expenditures.
- While there is some refinancing risk in 2005, DBRS expects that the Company will have little difficulty refinancing, or securing additional financing for its operations.

Terasen Gas Inc.

Balance Sheet

($ millions)

Assets	As at March 31, 2005	As at December 31 2004	2003
Cash	122.3	1.7	0.0
Accounts receivable	296.4	252.9	318.0
Inventories	96.1	151.5	113.6
Prepaids + other	4.9	5.7	5.8
Rate stabilization accts	10.8	13.8	6.3
Current Assets	530.5	425.6	443.7
Net fixed assets	2,311.5	2,260.0	2,285.8
Rate stabilization accts	28.5	27.9	32.2
Deferred charges	25.2	25.5	23.9
Long-term rec. + investments	8.0	8.2	5.1
Total	2,903.7	2,747.2	2,790.7

Liabilities & Equity	As at March 31, 2005	As at December 31 2004	2003
Short-term debt	102.5	107.0	357.2
A/P + accrueds	310.0	301.4	316.6
L.t.d. due in one year	357.2	397.2	2.2
Current Liabilities	769.7	805.6	676.0
Deferred taxes	0.5	0.5	0.5
Deferred gain	80.7	80.2	51.9
Long-term debt	1,201.2	1,051.4	1,297.3
Debt equiv. pref.	0.0	0.0	0.0
Preferred equity	0.0	0.0	0.0
Shareholders' equity	851.6	809.5	765.0
Total	2,903.7	2,747.2	2,790.7

Ratio Analysis	12 mos. ended	For the year ended December 31					
Liquidity Ratios	March 31, 2005	2004	2003	2002	2001	2000	1999
Current ratio	0.69	0.53	0.66	0.53	0.61	0.69	0.51
Accumulated depreciation/gross fixed assets	20.2%	21.0%	20.1%	18.8%	17.5%	16.7%	18.7%
Cash flow/total debt (1)	9.2%	9.7%	8.9%	9.3%	8.6%	7.7%	9.0%
Cash flow/capital expenditure	1.44	1.61	1.27	1.34	0.98	0.25	0.85
Cash flow-dividends/capital expenditures	0.83	0.97	0.58	0.62	0.56	0.14	0.37
% debt in capital structure (1)	66.1%	65.8%	68.4%	67.9%	68.4%	67.3%	67.2%
Average coupon on long-term debt	7.23%	7.23%	7.29%	7.81%	7.76%	7.86%	8.40%
Deemed common equity	33%	33%	33%	33%	33%	33%	33%
Common dividend payout (before extras.)	104.5%	84.7%	113.6%	119.2%	89.3%	96.9%	126.5%
Coverage Ratios							
EBIT interest coverage	1.97	1.99	1.97	1.98	1.82	1.90	2.27
EBITDA interest coverage	2.72	2.75	2.65	2.67	2.41	2.55	3.01
Fixed-charges coverage	1.97	1.99	1.97	1.98	1.82	1.77	1.90
Earnings Quality/Operating Efficiency and Statistics							
EBIT margin, excluding cost of natural gas	42.7%	42.7%	44.2%	45.3%	47.4%	46.3%	47.6%
Net margin (excluding preferred dividends)	14.4%	14.2%	14.1%	13.5%	13.7%	13.7%	12.7%
Return on avg. common equity (bef. extras.)	8.9%	9.0%	9.2%	8.8%	8.8%	8.4%	8.3%
Allowed ROE (3)	9.03%	9.15%	9.42%	9.13%	9.25%	9.50%	9.25%
Degree days – % normal (interior)	-	97.6%	97.6%	103.0%	94.6%	99.9%	94.7%
Degree days – % normal (coastal)	-	95.3%	95.3%	102.6%	102.3%	103.1%	101.6%
Customers/employees	-	670	626	574	594	521	515
Customer growth	1.1%	1.5%	0.8%	0.9%	0.7%	0.9%	1.9%
Operating costs/avg. customer ($) (2)	316	313	306	302	282	253	238
Rate base ($ millions)	-	2,258	2,259	2,234	2,208	1,690	1,637
Rate base growth	-	0.0%	1.1%	1.2%	30.7%	3.2%	5.0%
Kilometres of pipelines	-	43,776	43,777	43,196	37,430	37,197	36,581
Rate base/km of pipeline ($ thousands)	-	51.6	51.6	51.7	59.0	45.4	44.8
Rate base/throughput volumes ($ millions per bcf)	-	11.8	11.9	10.8	9.8	7.2	7.4

(1) All preferred shares (prior to 2000) treated as debt equivalents. (2) Operating costs exclude municipal and property taxes. (3) 9.03% for 2005.

		12 mos. ended	For year ended December 31					
Throughput Volumes		March 31, 2005	2004	2003	2002	2001	2000	1999
Residential		62.272	60.050	62.126	67.906	62.849	69.531	70.344
Commercial		34.758	34.585	35.217	38.378	38.107	42.170	43.705
Small industrial		4.938	4.425	5.057	5.870	7.585	9.301	7.314
Large industrial		0.186	0.361	0.271	1.084	0.632	1.445	1.896
Total Natural Gas Sales Volumes		102.155	99.420	102.671	113.236	109.173	122.447	123.260
Transportation service		56.858	56.708	56.257	60.230	53.006	55.535	58.334
Throughput under fixed-price contracts		31.266	35.488	31.424	33.321	62.939	57.250	38.468
Total Throughputs (billions of cubic feet)		190.279	191.617	190.352	206.787	225.118	235.232	220.061
Customers								
Residential	90%	703,800	712,304	701,335	694,787	687,375	682,401	676,513
Commercial	10%	77,100	77,624	77,013	77,894	78,756	78,948	78,249
Small industrial	0%	500	416	470	488	515	602	619
Large industrial	0%	100	45	50	61	61	66	74
Transportation	0%	1,500	1,741	1,512	1,328	1,141	856	630
Total (thousands)	100%	783,000	792,130	780,380	774,558	767,848	762,873	756,085

dbrs.com

Close Window

PRESS RELEASE

Thursday, August 18, 2005

Terasen Gas Inc.

Confirms at A & R-1 (low)

Date of Release: August 2, 2005

Please click on the Issuer name below to see all research for that Issuer.

Issuer	Debt Rated	Rating Action	Rating	Trend	Notes	Latest Event
Terasen Gas Inc.	Commercial Paper	Confirmed	R-1 (low)	Stb	last rpt. 2005-06-22	Aug 2, 2005
Terasen Gas Inc.	Purchase Money Mortgages	Confirmed	A	Stb	last rpt. 2005-06-22	Aug 2, 2005
Terasen Gas Inc.	MTNs & Unsecured Debentures	Confirmed	A	Stb	last rpt. 2005-06-22	Aug 2, 2005

Dominion Bond Rating Service ("DBRS") has today confirmed the ratings of Terasen Gas Inc. ("Terasen Gas" or the "Company") as indicated above. The trends are Stable.

The rating actions follow the announcement that Kinder Morgan Inc. ("KMI") will acquire Terasen Inc. ("Terasen") for approximately US$3.1 billion (to be financed on a 65% cash/35% common stock basis), plus assumption of approximately US$2.5 billion of assumed debt, resulting in an energy company with a pro forma enterprise value of approximately US$19.2 billion. The acquisition must be approved by 75% of Terasen shareholders who will attend a special meeting held before October 31, 2005 (see concurrent DBRS press releases on Terasen and KMI). Terasen owns 100% of Terasen Gas.

In view of the stand-alone nature of these operations, DBRS believes that the business and financial risk profile of the above-noted issuer would not be changed by completion of the proposed transaction between KMI and Terasen. Consequently, DBRS is confirming its ratings as noted above.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at: info@dbrs.com.

Nick Dinkha /416-593-5577 x2314 /ndinkha@dbrs.com
Matthew Kolodzie /416-593-5577 x2296 /mkolodzie@dbrs.com

Issuers in This Press Release

Terasen Gas Inc.

Close Window

Moody's Investors Service

Global Credit Research
Rating Action
7 NOV 2001
Save as PDF

Rating Action: Terasen Inc.

MOODY'S ASSIGNS DEBT RATINGS TO BC GAS INC. AND BC GAS UTILITY LTD.

First-Time Ratings / CAD 3 Billion of Debt Securities Rated.

New York, November 07, 2001 -- Moody's Investors Service assigned first-time ratings to debt obligations of BC Gas Inc. (Holdco) and its operating subsidiary BC Gas Utility Ltd. (Utility). The rating outlooks for both companies are stable.

The following ratings were assigned:

BC Gas Inc. - (P)A3 senior unsecured/(P)Baa1 subordinated base shelf; Baa1 capital securities

BC Gas Utility Ltd. - A1 senior secured; base shelf (P)A2 senior unsecured; A2 senior unsecured medium-term note debentures

The ratings for BC Gas Inc. are based on those of the Utility, which comprises 79% of consolidated operating income and 83% of assets. The Utility's ratings reflect the stability of its results, its low business risk, and its supportive regulatory environment, but we also note it is highly leveraged and that its credit measures will likely be weaker than normal over the next few years.

The Utility's stability is derived from a highly captive customer base (about 86% of its gross margins are derived from residential and commercial customers), a mature service territory (customer growth of about 1% annually), and rate regulation that assures certain tariffs and recovery of its costs. The company operates with relative efficiency, comparing favorably against its Canadian and U.S. gas distribution peers.

We find the Utility's regulatory environment to be supportive. The Utility's chief regulatory body, the British Columbia Utility Commission (BCUC) employs a formula to calculate its rates, which are adjusted periodically for changes in costs of gas and operations, inflation, and interest. This ratemaking methodology helps to reduce regulatory risks involved in rate case filings, and periodic adjustments reduce the potential for regulatory lag. The BCUC also provides incentive mechanisms that allow the Utility to share with customers benefits from savings on expense reductions and gas procurement. There is some rate uncertainty, with the current rate settlement due to expire at year-end. However, we expect that the BCUC will extend the rate settlement with substantially similar terms.

Another positive feature of the Utility's ratemaking are deferral accounts that allow the Utility to recover its gas and interest costs. Furthermore, BCUC annually approves a gas supply plan that allows the Utility to hedge as much as over 60% of its needs for a period of 18 to 24 months, thereby allowing the company to mitigate gas cost uncertainty.

The Utility has relatively high leverage, but we recognize that this is largely a reflection of its 33% allowed common equity ratio. This high leverage results in modest coverage (EBITDA-to-interest in the 2 times range). However, these credit measures are in line with those of other Canadian gas companies that have similar levels of allowed equity and regulatory regimes. Still, we note that the C$410 million of debt from the Southern Crossing Pipeline construction project has also raised the Utility's leverage and will weaken its coverages for a few years. The recovery of the Utility's credit measures will likely be delayed if the Utility undertakes its proposed C$495 million Inland Pacific Connector Pipeline construction project.

The Utility has high payouts that are a function of maintaining its allowed equity ratio. The BCUC imposes no ringfencing restrictions, so that the Utility may well pay out more than its earnings on a regular basis. Because its internally generated cash may be insufficient to cover its capital expenditures and dividends, the Utility will likely continue to issue a significant amount of debt every year to meet cash shortfalls and debt maturities.

BC Gas, Inc. (HoldCo)'s ratings are based on the ratings of the Utility, its primary subsidiary, and reflects the structural subordination of its debt to the $2.8 billion of obligations of its operating subsidiaries: the Utility, Trans Mountain Pipe Line, and the Corridor Pipeline. The closeness in the ratings of the Utility and HoldCo reflects the lack of ringfencing or other restriction that may limit the subsidiaries' ability to make dividends to Holdco.

Holdco has low business risk, with substantially all of its cash flows derived from regulated gas distribution and petroleum transportation businesses. The company deems these subsidiaries to be its core businesses. Holdco has a few unregulated energy and utility services businesses, which account for a nominal proportion of consolidated cash flow. We believe unlikely that the unregulated business's contribution to total cash flow will grow significantly from current levels.

Trans Mountain, Holdco's second-largest subsidiary, just concluded a five-year incentive toll settlement, which reduces regulatory uncertainty during its term and allows the Pipe Line to benefit from reduced operating costs and increased throughput. Furthermore, HoldCo has no direct commodity price exposure, as the Utility passes through its cost of gas; the pipelines take no title to the crude and product transported.

Trans Mountain is currently constructing the Corridor Pipeline, a direct subsidiary of Holdco. Corridor, an oil sands pipeline, is due to come on-line late in 2002. Corridor's construction and operating risks, particularly in the near-term, are offset by long-term support from Firm Services Agreements with strong shippers. These agreements reduce volume risk for Corridor by commiting the shippers to ship-or-pay during the life of the agreements. We believe that the pipeline's integral function in the oil sands project, considered strategic by the shippers, makes it more likely that the shippers will support this project.

HoldCo is conservatively managed. Corporate strategy is focused on enhancing and selectively expanding its core gas distribution and petroleum transportation franchises in western Canada. Its stated goal of five to six percent annual earnings-per-share growth appears reasonably achievable with its existing holdings and projects under construction. Its financial targets include maintaining a consolidated capital structure that is in line with those allowed its regulated subsidiaries. Its target capital structure comprises 70% debt, 25% common equity, and 5% hybrid equity. Should there be a major acquisition, we expect that the Holdco will finance it with a prudent amount of common stock.

Moody's believes that that BC Gas's event risk is limited by provincial law restricting ownership of the Utility. Under the law, non-Canadians cannot own more than 20% of the Utility. Any exception would require legislative approval. Such restrictions limit the pool of potential bidders and the possibility of a hostile takeover.

Additional debt and capital securities from the construction of the C$410 million Southern Crossing Pipeline and the C$688 million Corridor Pipeline will weaken Holdco's near-term credit measures. For the next few years, we expect that debt plus capital securities-to-total capitalization to exceed the company's 75% target. Coverage measures (consolidated EBITDA-to-fixed charges in the low two-times range) has weakened over the last few years and will take a few years to recover as Corridor reaches full operation.

BC Gas's consolidated financial measures are in line with those of other Canadian gas companies. However, we note that BC Gas is significantly smaller and has a more concentrated asset base than some of its peers.

Moody's Baa1 debt rating on Holdco's Capital Securities reflects the subordinated claim that the noteholders have in bankruptcy. The Securities are a hybrid instrument that provides Holdco with an option in how and when it pays for debt service. Holdco has the option to settle principal at maturity with common stock and to pay interest in either cash or common. In the tenth year after issuance, the noteholder can convert the security to common stock at 90% of the market price, but Holdco has option to redeem it for cash. Interest expense on these securities is deferrable for up to five years. While recognizing a degree of flexibility that the Capital Securities afford, Moody's considers them to be less equity-like than other instruments whose obligations must be satisfied by a mandatory issuance of common stock.

In the next several months, BC Gas plans to acquire Centra Gas British Columbia Inc. from Westcoast Energy. The consideration will include C$310 million in cash to acquire Westcoast's common and preferred interests and intercompany advances and the assumption of C$228 million of debt. We believe that the ratings described above should not change with this acquisition.

The Centra acquisition will have a nominal impact on BC Gas Inc.'s consolidated coverage and leverage measures, because Centra's capitalization is similar to that of BC Gas. On a parent only basis, however, we expect a negative cash impact in the near-term until Centra begins to upstream dividends under a new rate settlement expected to be implemented in 2003. This negative cash impact will comprise incremental interest expense and common dividend requirement from the acquisition financing which the Centra dividends may not fully cover. Nevertheless, we expect this negative cash impact to lessen over time and note that the acquisition financing includes C$180 million of common stock, which adds a significant layer of permanent capital to BC Gas's capital structure.

Our rating for the Holdco is based on our assumption that BC Gas and the BCUC will be able to negotiate a favorable rate settlement which will allow Centra to begin fully recovering its costs beginning in 2003. We also expect that BC Gas will be able to apply its demonstrated ability to achieve synergies to the Centra operations and to neutralize the negative cash impact at the parent level. The service territories of BC Gas Utility and Centra are adjacent, and there will likely be opportunities to cut costs through integrating their gas control, engineering, and administrative functions.

Headquartered in Vancouver, British Columbia, BC Gas Inc. is a holding company. Through its primary subsidiaries -- BC Gas Utility, Trans Mountain Pipe Line Company Ltd., and the Corridor Pipeline -- BC Gas engages in regulated gas distribution and petroleum transmission in the Canadian provinces of British Columbia and Alberta.

New York
John Diaz
Managing Director
Corporate Finance
Moody's Investors Service
JOURNALISTS: (215) 967-6233
SUBSCRIBERS: (215) 967-6233

New York
Mihoko Manabe
Vice President - Senior Analyst
Corporate Finance
Moody's Investors Service
JOURNALISTS: (215) 967-6233
SUBSCRIBERS: (215) 967-6233

Moody's Investors Service

Global Credit Research
Rating Action
19 NOV 2002

Save as PDF

Rating Action: Terasen Inc.

MOODY'S REVIEWS FOR POSSIBLE DOWNGRADE THE RATINGS OF BC GAS INC. (A3 SENIOR UNSECURED) AND BC GAS UTILITY LTD. (A1 SENIOR SECURED)

APPROXIMATELY CAD 3 Billion of Debt Securities Affected

New York, November 19, 2002 -- Moody's Investors Service placed under review for possible downgrade the debt ratings of BC Gas Inc. and its operating subsidiary BC Gas Utility Ltd.

The following ratings have been placed under review for possible dowgrade:

BC Gas Inc. -- A3 senior unsecured medium-term notes, (P)A3 senior unsecured/(P)Baa1 subordinated base shelf, Baa1 capital securities;

BC Gas Utility Ltd. -- A1 senior secured, base shelf (P)A2 senior unsecured, A2 senior unsecured medium-term note debentures.

Moody's initiated its review following BC Gas Inc.'s announcement that it is leading a consortium including Borealis Capital and Ontario Teachers to acquire Express Pipeline Limited Partnership Inc. (Baa1 sr. sec./Baa3 subordinated) and its related entities from EnCana Corporation for C$1.2 billion. The consortium plans to form a joint venture entity, and BC Gas, Borealis, and Ontario Teachers will each provide its pro rata share of the equity that will together finance half of the sale price. The other half is expected to be financed through assumption of existing project debt. Once the acquisition closes early next year, BC Gas will become operator of Express.

Moody's review will include an evaluation of BC Gas's financing plans for its portion of the equity investment. With debt-to-capital in the mid-70% range, the company is already significantly leveraged. Moody's will consider whether this acquisition would further stress its financial position. Furthermore, Moody's will examine BC Gas's business risks vis-a-vis its financial leverage. The Express Pipeline would increase BC Gas's investments in crude oil transportation, which entails higher risks than gas distribution, the company's other core business.

Headquartered in Vancouver, British Columbia, BC Gas Inc. is a holding company. Through its primary subsidiaries -- BC Gas Utility, Trans Mountain Pipe Line Company Ltd., and the Corridor Pipeline -- BC Gas engages in regulated gas distribution and petroleum transmission in the Canadian provinces of British Columbia and Alberta.

New York
John Diaz
Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Mihoko Manabe
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Moody's Investors Service

Global Credit Research
Rating Action
12 DEC 2002

Save as PDF

Rating Action: Terasen Inc.

MOODY'S CONFIRMS DEBT RATINGS OF BC GAS INC. (A3 SENIOR UNSECURED) AND BC GAS UTILITY LTD. (A2 SENIOR UNSECURED)

Approximately CAD 3 Billion of Debt Securities Affected

New York, December 12, 2002 -- Moody's Investors Service confirmed the debt ratings of BC Gas Inc. (Holdco) and its operating subsidiary BC Gas Utility Ltd. (Utility). The rating outlook for both companies is stable.

The following ratings are confirmed:

BC Gas Inc. -- A3 senior unsecured medium-term notes, (P)A3 senior unsecured/(P)Baa1 subordinated base shelf, Baa1 capital securities;

BC Gas Utility Ltd. -- A1 senior secured purchase money mortgage bonds, (P)A2 senior unsecured base shelf, A2 senior unsecured medium-term note debentures.

These rating actions end a review initiated on November 19, 2002, following BC Gas Inc.'s announcement that it is leading a consortium including Borealis Capital and Ontario Teachers to acquire Express Pipeline Limited Partnership Inc. (Baa1 sr. sec./Baa3 subordinated) and its related entities from EnCana Corporation for C$1.2 billion. The consortium plans to form a joint venture entity, and BC Gas, Borealis, and Teachers will each provide its pro rata share of the equity that will together finance half of the sale price. The other half is expected to be financed through assumption of existing project debt. Once the acquisition closes early next year, BC Gas will become operator of Express.

The rating confirmations reflect: 1) the relatively small size of BC Gas's share of the Express investment (C$200 million compared to BC Gas's total assets of over C$4 billion); 2) the company's C$301 million equity issuance this week that serves to prefund its Express investment and to restore its leverage to near its expected levels; and 3) the sharing of capital requirements and risks related to Express with Borealis and Teachers, two pension funds that have substantial financial resources.

The rating outlook is stable. Among the factors that could cause us to take rating action in the future include: 1) acquisition event risk; 2) performance of Express deviating from expectations and causing undue commitment of resources from BC Gas; 3) a significant change in business mix, changing the business risks contemplated in the current ratings; and 4) financial leverage inappropriate for its business risks. In the near-term, Moody's will look for reduction of its short-term debt, which has been heightened by construction debt related to its just completed Corridor Pipeline.

Moody's notes that BC Gas has indicated its growth appetite through some large investments this year, including its C$333 million Centra Gas acquisition in March 2002, the C$200 million equity investment in Express, and the C$688 million Corridor Pipeline construction project. Although the company has been able to finance its recent investments in a reasonable manner, its future success in doing so is not assured. Furthermore, the company has a number of proposed pipeline projects that, if they materialize, may entail a significant amount of debt.

The Express investment signifies BC Gas's deepening commitment to the oil sands development activity in Alberta. BC Gas recently completed construction of the Corridor Pipeline, a pipeline that will transport bitumen (heavy crude produced by the local oil sands). These new investments expand BC Gas's petroleum transportation assets which for many years have consisted solely of its Trans Mountain Pipeline, a petroleum product and crude oil pipeline.

Moody's will monitor the progress of BC Gas's petroleum pipeline investments and the markets that they serve. Crude oil transportation volumes can vary with crude production activity, which in turn is affected by global crude oil prices and the relative economics of local production. The market for local non-conventional crude production (bitumen and syncrude) is still young, and there are uncertainties as to how they will develop in the near- to medium-term.

On the supply side, numerous competing projects are in various stages of development, including the Athabasca Oil Sands Project that Corridor will serve. There is uncertainty as to their completion and performance once completed. The impact on these projects from Canada's ratification of the Kyoto Protocol this week have yet to be fully assessed. Demand will be affected by refinery closings, refineries' capacity to run syncrude, and the relative cost of competing crudes. There may be risk to BC Gas's petroleum pipeline investments if the market for them do not develop as envisioned.

Furthermore, the partnership among BC Gas, Borealis, and Teachers is new, and its investment record has yet to be established. Moody's notes that the terms of many of the agreements that will govern this partnership have yet to be finalized.

Headquartered in Vancouver, British Columbia, BC Gas Inc. is a holding company. Through its primary subsidiaries -- BC Gas Utility, Trans Mountain Pipe Line Company Ltd., and the Corridor Pipeline -- BC Gas engages in regulated gas distribution and petroleum transmission in the Canadian provinces of British Columbia and Alberta.

New York
John Diaz
Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Mihoko Manabe
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

"Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Global Credit Research
Credit Opinion
15 JUL 2004

Credit Opinion: Terasen Inc.

Terasen Inc.

Vancouver, British Columbia, Canada

Ratings

Category	**Moody's Rating**
Outlook	Stable
Senior Unsecured -Dom Curr	A3
Subordinate -Dom Curr	Baa1
Terasen Gas Inc.	
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A2

Contacts

Analyst	**Phone**
Allan McLean/Toronto	1.416.214.1635
Mihoko Manabe/New York	1.212.553.1653
John Diaz/New York	

Key Indicators

Terasen Inc.

	[1]**LTM**	**2003**	**2002**	**2001**
Net Income Avail. to Common/Ave. Common Equity	**10.5%**	**10.4%**	**10.8%**	**12.1%**
Adjusted Fixed Charge Coverage	**1.9x**	**1.9x**	**1.7x**	**1.7x**
Retained Cash Flow / Adjusted Debt [2]	**8.6%**	**7.9%**	**8.1%**	**5.2%**
Adjusted Debt / Adjusted Capitalization [3]	**69.9%**	**71.7%**	**71.4%**	**78.1%**
Funds from Operations / Adjusted Fixed Charges	**2.7x**	**2.7x**	**2.5x**	**2.1x**
Common Dividends/Net Income	**58.0%**	**59.8%**	**56.5%**	**58.9%**

[1] Twelve months as of March 31, 2004 [2] Adjusted Debt includes debt equivalent of operating leases and capital securities [3] Adjusted Capitalization includes Adjusted Debt and is net of goodwill

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Credit Strengths

- Regulated businesses represent 97% of the asset base

- Gas distribution segment benefits from low business risk, stable results, supportive regulation, highly captive customer base and mature service territory

- Regulated petroleum pipelines operate with a mix of long term contracts and short term tolls

Credit Challenges

- Structural subordination of holdco debt

- Higher risk nature of petroleum pipeline investments

- Transformation/execution risk related to proposed petroleum pipeline expansion

- Gas distribution cash flow volatility - partially mitigated through regulatory deferrals

- Negative free cash flow in 2004

- Relatively high leverage and short-term debt

Rating Rationale

Terasen Inc.'s (TER) ratings (A3 senior unsecured/Baa1 subordinate) reflect the ratings of Terasen Gas (TGI) (A2 senior unsecured/A1 secured). The regulated gas distribution businesses of TGI and Terasen Gas Vancouver Island (TGVI) represent the majority of the company's assets (70%) and operating earnings (75%). TGI's ratings reflect its low business risk, stable results, highly captive customer base, mature service territory and supportive regulation which partially offset the relatively high degree of consolidated leverage for the rating category. TGI's rating also reflects the fact that the company experiences a degree of cash flow volatility related to variations in gas prices and customer demand. While earnings are largely insulated from these factors by operation of deferral mechanisms (the GCRA and RSAM), there is a near-term cash flow impact as the deferred amounts are not collected until later periods. With the completion of the Corridor Pipeline in May 2003 and the acquisition of a 1/3rd interest in the Express System, the relative contribution of the petroleum transportation segment has increased from 17% (in 2002) of operating income to 25% (in 2003). TER's ratings reflect the structural subordination of TER's debt to operating subsidiary debt including debt at TGI, TGVI, Corridor, Trans Mountain and Express. The notching of TER's ratings relative to TGI ratings reflects the lack of ringfencing or other restrictions that could limit TGI's ability to make dividends to TER. The rating also considers TER's manageable maturity schedule for 2004 and 2005. The rating also reflects the expectation that 2004 capital expenditures are projected to be slightly higher than those of 2003 which together with dividend payments should result in negative free cash flow. Moody's expects this deficit will be financed with short-term debt under the holding company's committed credit facilities.

Rating Outlook

The rating outlook is Stable reflecting Moody's expectations that TGI will continue to generate strong cash flows over time and TER will take a prudent approach to the scale and financing of investments in the petroleum pipeline segment.

What Could Change the Rating - UP

- Material improvement in leverage and coverage metrics due to enhanced cash flows from investments characterized by low levels of business risk

What Could Change the Rating - DOWN

- Execution and financial risks associated with major acquisitions or developments

- Insufficient contractual support for or excessive financial leverage of investments in petroleum pipelines

- Inability to demonstrate continued progress in strengthening balance sheet and coverage metrics

Recent Developments

TER continues to develop longer term proposals to twin the Trans Mountain system at an estimated cost of $2.1 billion and to construct its Bison Pipeline project at an estimated cost of $1.0 billion. Both projects would be constructed in phases to provide incremental takeaway capacity for the growing oilsands operations in Alberta.

Given the cost of and risks associated with projects of this magnitude, Moody's expects that should TER ultimately proceed with one or both of these projects, it will ensure adequate contractual underpinning and seek to put in place appropriate arrangements for cost and risk sharing.

In May 2004, Express received NEB approval of its proposed 108,000 bbl/day expansion (target in-service April 2005) and anticipates receipt of key US approvals by the end of July. Express plans to finance 100% of the US$110 million expansion cost with debt and is in the process of finalizing commitments for the expansion financing. Accordingly, Moody's does not anticipate that Terasen will have to inject additional cash into Express during 2004 or 2005.

During Q1, TER extended its committed bank lines (364 day +1 year) by another year and increased the aggregate amount to $300 million while Trans Mountain cancelled its $110 million bank facility resulting in a slight reduction in structural subordination. Moody's does not anticipate any further significant reductions in structural subordination given the nature of financing at TGI, TGVI, Corridor and Express.

Certain municipalities within TGI's service territory have the right to acquire the gas distribution assets of TGI within their municipal boundaries. Where municipalities have exercised this right, TGI has negotiated sale & lease-back arrangements which allow it to continue to operate the assets. In aggregate approximately $200 million of TGI's assets are subject to these purchase rights including about $83 million already sold & leased-back. According to TER, the sale & lease-back transactions do not impact the cost to the rate payer or have a material financial impact on TGI or TER but they provide certain advantages to the municipalities.

In April 2004, TER announced that it had entered into an agreement to acquire 50% of Fairbanks Sewer and Water Inc. a regulated utility in Fairbanks, Alaska. TER will hold an option to acquire the remaining 50% at FMV in 2009. The deal is expected to close in the summer of 2004 subject to regulatory approval. The transaction fits well with TER's multi-utility strategy focused on regulated utility assets and builds on its presence in Fairbanks where it has operated the gas distribution utility under contract since 2001.

Moody's Investors Service

Global Credit Research
Credit Opinion
15 AUG 2005
Save as PDF

Credit Opinion: Terasen Inc.

Terasen Inc.

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Senior Unsecured -Dom Curr	*A3
Subordinate -Dom Curr	*Baa1
Terasen Gas Inc.	
Outlook	Rating(s) Under Review
Senior Secured -Dom Curr	*A1
Senior Unsecured -Dom Curr	*A2

* Placed under review for possible downgrade on August 2, 2005

Contacts

Analyst	Phone
Allan McLean/Toronto	1.416.214.1635
Mihoko Manabe/New York	1.212.553.1653
John Diaz/New York	

Key Indicators

Terasen Inc.

	2004	2003	2002	2001
Net Income Avail. to Common/Ave. Common Equity	11.2%	10.4%	10.8%	12.1%
Adjusted Fixed Charge Coverage	2.1x	1.9x	1.7x	1.7x
Retained Cash Flow / Adjusted Debt [1][2]	6.4%	6.3%	5.9%	5.2%
Adjusted Debt / Adjusted Capitalization [3]	70.7%	71.7%	71.4%	78.1%
Funds from Operations / Adjusted Fixed Charges [1]	2.6x	2.4x	2.2x	2.1x
Common Dividends/Net Income	57.6%	59.8%	56.5%	58.9%

[1] FFO and RCF prior to rate stabilization adjustment [2] Adjusted Debt includes capital securities and debt equivalent of operating leases [3] Adjusted Capitalization includes Adjusted Debt and is net of goodwill

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Credit Strengths

- Regulated gas distribution and petroleum transportation businesses represent 95% of the asset base

- Gas distribution segment benefits from low business risk, stable results, supportive regulation, highly captive customer base and mature service territory

- Regulated petroleum pipelines operate with a mix of long term contracts and short term tolls

Credit Challenges

- Proposed acquisition by Kinder Morgan, Inc. which could place pressure on Terasen and its subsidiaries to support significant levels of acquisition debt

- Relatively high leverage, low allowed ROEs and high level of short-term debt in regulated gas distribution segment

- Higher risk nature of petroleum pipeline segment including transformation/execution risk and the need to raise significant amounts of new debt and equity capital to fund expansion opportunities

- Gas distribution cash flow volatility - partially mitigated through regulatory deferrals

- Structural subordination of holdco debt

Rating Rationale

Moody's has placed the ratings of Terasen Inc. (TER) and Terasen Gas Inc. (TGI) under review for possible downgrade due to the proposed acquisition of all of the outstanding shares of TER by Kinder Morgan, Inc. for approximately $3.8 billion with an expected closing date of Q4 2005. KMI plans to fund the purchase price with a mixture of cash (up to 65%) and KMI stock. KMI plans to finance the cash portion of the purchase price (maximum $2.47 billion) with debt to be issued by a yet to be created intermediate holding company above TER. KMI is considering guaranteeing the acquisition debt which would render it pari passu with KMI's existing senior unsecured debt. Servicing and repayment of the acquisition debt will be primarily dependent upon dividends from TER and such other support as KMI chooses to provide. Moody's is concerned that the servicing of the acquisition debt could result in a weakening of the financial condition of TGI and TER. Moody's initial assessment is that given TER's historic payout ratio, dividends from TER would not be sufficient to support the maximum amount of the acquisition debt and an increase in TER's payout ratio would, all else being equal, result in a weakening of TER's financial condition. Moody's review also reflects Moody's concerns about the execution, financial and business risks associated with the potential growth opportunities in TER's petroleum pipeline segment. Moody's views the business risk of the pipeline segment, which is expected to represent a growing percentage of TER's business going forward, to be higher than that of TER's historic core gas distribution segment. Moody's also sees execution risk associated with the possibility of undertaking the construction of multiple large and complex pipeline projects simultaneously. The pursuit of these growth opportunities will increase TER's demand for debt and equity capital as virtually all of Terasen's non-consolidated FFO would be required to service the acquisition debt. Moody's review also reflects concerns about the high degree of leverage, low allowed ROEs and high levels of short-term debt in TER's regulated gas distribution segment which result in credit metrics at TER and TGI that are low relative to their international peers. Moody's review of the ratings of TER and TGI will include an assessment of the degree to which any ring-measures exist that would serve to support the credit profiles of TER or TGI, the structure of the acquisition financing, the nature and extent of cash flow generated by the KMI group of companies and its availability to service the acquisition financing and an assessment of the operational and financial strategies that KMI plans to employ for TER and TGI.

The current ratings of TER (A3 Sr. Unsec./Baa1 Subordinate) reflect the ratings of TGI (A2 Sr. Unsec./A1 Sec.). The regulated gas distribution businesses of TGI and Terasen Gas Vancouver Island (TGVI) represent the majority of the company's assets (~68%) and operating earnings (~72%). TGI's ratings reflect its low business risk, stable results, highly captive customer base, mature service territory and supportive regulation which partially offset the relatively high degree of consolidated leverage for the rating category. TGI's rating also reflects the fact that the company experiences a degree of cash flow volatility related to variations in gas prices and customer demand. While earnings are largely insulated from these factors by operation of deferral mechanisms (the GCRA and RSAM), there is a near-term cash flow impact as the deferred amounts are not collected until later periods. With the completion of the Corridor Pipeline in May 2003 and the acquisition of a 1/3rd interest in the Express System, the proportion of TER's operating income generated by the petroleum transportation segment has increased from roughly 17% (in 2002) to 27% (in 2004). TER's ratings reflect the structural subordination of TER's debt to operating subsidiary debt including debt at TGI, TGVI, Corridor, Trans Mountain and Express. TER's ratings also considers the company's manageable maturities over the next few years.

Rating Outlook

The ratings of TER and TGI are under review for possible downgrade for the reasons outlined above. Moody's expects to conclude its review on or around the closing of the proposed acquisition.

What Could Change the Rating - UP

- In light of the weak credit metrics of TER and TGI relative to their international peers and the significant debt financing associated with KMI's proposed acquisition of TER, it is unlikely that the ratings or TER and TGI would be upgraded in the foreseeable future.

What Could Change the Rating - DOWN

- Additional financial demands placed upon TER and TGI as a result of debt raised at the intermediate holding company that will acquire TER

- Operational or integration challenges related to KMI's proposed acquisition

- The inability to demonstrate significant near-term improvements in the standalone credit metrics of TGI and TER

- Execution and financial risks associated with petroleum pipeline segment including insufficient contractual support or excessive financial leverage

---

Moody's Investors Service

Global Credit Research
Rating Action
2 AUG 2005
Save as PDF

Rating Action: Terasen Inc.

MOODY'S AFFIRMS KINDER MORGAN, INC.'S DEBT RATINGS (Baa2 SR. UNS.) WITH A STABLE OUTLOOK; PLACES TERASEN INC.'S DEBT RATINGS UNDER REVIEW FOR POSSIBLE DOWNGRADE (A3 SR. UNS.)

Over US$3 Billion of KMI's Debt Securities Affirmed / Over US$2 Billion of TER's Debt Securities Placed Under Review

New York, August 02, 2005 -- Moody's Investors Service affirmed the ratings of Kinder Morgan, Inc.'s (KMI) debt and supported obligations (Baa2 sr. uns.) with a stable outlook. Moody's also placed under review for possible downgrade the debt ratings of Terasen Inc. (TER, A3 sr. uns.) and its LDC subsidiary Terasen Gas Inc. (TGI, A2 sr. uns.). The project finance ratings of its subsidiary Terasen Pipelines (Corridor) Inc. (Corridor, A2 sr. uns.) and its equity investments Express Pipeline Limited Partnership (Baa1 sr. sec./Baa3 sub.) and Express Pipeline LLC are affirmed with stable outlooks. These rating actions were prompted by the announcement that KMI had entered into a definitive agreement to acquire TER's outstanding shares for US$3.1 billion plus the assumption of US$2.5 billion of debt.

The consummation of this transaction is subject to approval by various regulators and TER shareholders, expected to be received in 4Q05. KMI expects to finance the purchase up to 65% with debt and up to 35% through the exchange of TER shares for KMI shares. At around closing, it expects to issue about $2.0 billion of acquisition debt from a yet-to-be created finance subsidiary above the TER parent company. KMI is also considering providing a guarantee of the acquisition debt on a pari passu basis with its outstanding senior unsecured notes. At about time of closing, we expect to end the review of TER's ratings, once the requisite approvals are in hand, the final terms of the purchase are confirmed, the financing plans finalized, and further analysis is done of TER's financial prospects under KMI's ownership.

KMI

The affirmation of KMI's ratings is based on the assumption that the acquisition will be consummated in line with the above expectations. We could reconsider the rating outlook if the transaction changes materially from these expectations. KMI's ratings are affirmed, because we estimate that KMI will have sufficient free cash flows to cover the incremental interest expense and dividends from the acquisition financing. The transaction increases KMI's EBITDA by about almost 40%, raises the proportion of directly-owned stable regulated cash flows (from about half of EBITDA to about 60%), and reduces its exposure to its equity interests in Kinder Morgan Energy Partners, L.P. (KMP, Baa1 sr. uns./negative) from about half of EBITDA to about a third. It also provides diversification into Canada as well as crude oil transportation, and the potential for organic growth from rising oil sands volumes.

The acquisition debt and the debt assumed will more than double KMI's debt (unadjusted debt/debt+equity rising from 42% at 6/30/05 to about 59% at closing). The erosion in KMI's pro forma credit metrics in part reflects the low returns and equity components allowed by Canadian regulators. KMI's ratings have been suppressed by its exposure to KMP, and many of its standalone credit metrics (FFO/adjusted debt of around 20% and FFO/fixed charges in the high 4x range) have been stronger than some of its peers'.

Its strong financial position will enable KMI to absorb the acquisition debt as well as the existing debt of a smaller, leveraged entity. (TER, leveraged at about 68% debt/debt+equity, has almost as much debt outstanding as KMI, while its assets and EBITDA are roughly 40% of KMI's.) However, Moody's notes that this transaction will use up KMI's excess debt capacity. KMI's pro forma credit metrics will moderate from the additional debt and dividend requirements related to the acquisition financing, but we expect they will be at levels still commensurate with its Baa2 rating (FFO/adjusted debt in the mid-teens, FFO/fixed charges in the mid-3x range). Maintaining KMI's ratings and outlook will also entail achievement of the incremental earnings and cost savings it forecasts from TER as well as discipline in its dividend payouts. Significant deviation from these expectations will cause us to reassess KMI's ratings and outlook.

TER

TER's debt ratings are placed under review for possible downgrade, because of its pending acquisition by a lower-rated entity and a weak standalone financial profile relative to its peers. TGI's ratings are reviewed also due to the lack of ringfencing or other restrictions that could limit its ability to make dividends to TER. As part of the review, we will assess what financial strategies KMI might employ for TER, and what their implications might be for the financial strength of TER and TGI. Among the issues we will explore are how KMI plans to finance the potentially very large construction projects at TER and to manage the intercompany cash flows and supports between the two companies.

TRANSACTION VALUATION

The US$5.6 billion transaction reflects current valuation for regulated transportation and distribution assets. The transaction is valued at an enterprise value/EBITDA in the high 12x range and over 2x book value of shareholders' equity.

Both Kinder Morgan, Inc. and Terasen Inc. are engaged in energy transportation and distribution. Kinder Morgan, Inc. is a U.S. company headquartered in Houston, Texas. Terasen's head office is located in Vancouver, British Columbia, Canada.

New York
John Diaz
Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Mihoko Manabe
VP - Senior Credit Officer
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

STANDARD & POOR'S — CANADIAN RATINGS

Publication date: 06-Mar-2003
Reprinted from RatingsDirect

Canadian Utility Regulation Reassessed as a Ratings Factor

Credit Analysts: Thomas G Connell, Toronto (1) 416-507-2501; Damian DiPerna, Toronto (1) 416-507-2561; Jenny Catalfo, Toronto (1) 416-507-2557; Michelle Dathorne, Toronto (1) 416-507-2563; Daniel Parker, CFA, Toronto (1) 416-507-2559; Ronald M Barone, New York (1) 212-438-7662

(Editor's note: The original version of this report, published yesterday, misstated the rating on Oakville Hydro Corp. in Table 2. A corrected version follows.)

For many years, Standard & Poor's Ratings Services has maintained strong investment-grade ratings on a large number of Canadian utility companies, despite balance-sheet and profitability metrics that are significantly weaker than those exhibited by highly rated utilities in other countries or jurisdictions. The justification frequently cited by Standard & Poor's was that the supportive nature of Canadian utility regulation would sustain a high level of credit quality, notwithstanding what might be considered to be aggressive financial profiles. Based on a wide-ranging reassessment of business and financial risk among Canadian utilities, Standard & Poor's is now questioning the appropriateness of placing exceptional analytical reliance on the positive influence of regulatory factors in its analysis of Canadian utilities. The purpose of this report is to impart transparency to an ongoing reassessment that affects a number of utility ratings, and to define the framework within which future ratings actions will occur.

In the past two years, there has been downward pressure on Canadian utility ratings that has culminated with multiple issuers either being downgraded, assigned negative outlooks, or placed on CreditWatch with negative implications. These ratings actions have been driven by several factors. Although the general business environment and company-specific reasons have played a large role in the ratings actions, the highly leveraged financial profiles of Canadian utilities consistently have been identified by Standard & Poor's as a material contributing factor in the downward trend of the ratings.

Why now? Is this report a reaction to specific developments that suggest regulation has become less supportive, or that utilities are taking on more business risk? In fact, the basis for this reassessment emerges from deliberations over the past year within Standard & Poor's, involving many analysts based in Canada and other countries. These discussions led to a general view that the business positions of Canadian utilities remain strong in most cases, but perhaps not exceptionally so. Nevertheless, a pattern of downward ratings pressure emerged. In the background of these discussions have been regulatory rulings, utility sector policy initiatives, and developments arising from actions by various utility companies that have triggered a closer examination of each individual utility's exposure to operational, commercial, regulatory, financial, and other risks.

For the purposes of this report, regulated utilities include natural gas and power transmission and distribution networks, and in some cases companies with power generation business units. The ratings methodology applied to regulated utilities also has direct implications for the ratings on holding companies that control both regulated and unregulated business units, because the regulated business units usually make a substantial contribution to the credit profile of the consolidated entity.

A Tradition of High Leverage

The leveraged financial profiles of Canadian utilities generally stem from regulatory directives, which essentially dictate the financial profiles for most utilities. (Admittedly, some companies have taken it upon themselves to add leverage at the unregulated parent or subsidiary company level.) The interaction of regulatory and financial risks has a critical influence on ratings in this sector.

Investor-owned Canadian utilities are among the most highly levered utilities in Standard & Poor's global ratings universe, with financial profiles that are noticeably weaker than those of their global peers. Many Canadian utilities typically have lower equity layers in their capital structures than their global peers, with total debt in some cases representing 60% to 70% of total capital. The lower equity bases are the result of regulatory directives whereby the utility is allowed to earn only a (regulated) rate of return on the deemed equity base. There is little incentive to diverge from such a directive. The rate of return on any excess equity that a utility carries on its balance sheet is limited to the cost of debt and hence is punitive for shareholders. Operating successfully with less equity than allowed might signify to regulators that the allowed equity cushion is too thick. Thus, it is not surprising that the actual capital structures conform to the deemed regulatory or jurisdictional directives.

With debt leverage at these high levels, it follows that the cash flow interest protection measures are often conversely low and generally range between 2.0x to 3.0x for many issuers. Although Standard & Poor's credit analysis is not solely based on financial ratios, the standard credit protection metrics for many Canadian utilities are below average compared with global peers. Accordingly, the question becomes whether or not other aspects of these utilities' risk profiles compensate for their more aggressive financial profiles, providing justification for high investment-grade ratings.

Standard & Poor's Global Framework for Utility Analysis

Standard & Poor's utility ratings methodology considers regulation to be one of five key factors in determining a utility's overall business risk profile. Consideration is given to other qualitative factors such as markets served, competitive position, operations, and management. Regulation is often the most important determinant of a utility's business risk profile, and can directly and indirectly affect the other four factors.

Standard & Poor's evaluates regulation on the basis of how supportive it is of credit quality. Although it is in society's interest to have financially stable and efficient utilities because they provide an essential service, it is not usually the priority of the regulator to protect utility creditors. The interests of bondholders and other creditors, and a firm's access to capital in general, are often considered secondary to ratepayer interests at best. For credit purposes, the analysis focuses on whether the regulatory system allows a utility to recover its costs and generate sufficient cash in a timely manner to meet obligations, and to what degree the system exposes the utility to the combined effects of operational and financial risks. In this regard, Canadian regulation ranks quite highly. There are extensive track records of stable performance for many companies, even those carrying high leverage.

Although Canadian regulation might rank highly as a credit factor on its general merits, the issue becomes the relative degree of comfort gained from regulatory and other factors, in light of whatever degree of financial risk might be present. Standard & Poor's is reassessing the specific features of Canadian regulatory practices that might be used to justify the continuing assertion of an overall stronger business risk profile--in comparison with regulatory mechanisms and practices in other global jurisdictions--and to what extent this should offset risks arising from the capital structures and allowed returns that have been sanctioned by Canadian regulators.

Regulation in Canada typically is based on a cost of service plus regulated rate of return methodology, although some jurisdictions are starting to introduce performance-based regulation, whereby the utilities are at risk for managing their operating and administration costs in exchange for the opportunity to generate "extra" earnings. Standard & Poor's views the cost of service methodology as being quite favorable. Nevertheless, regulatory systems in which the utility enjoys rate-setting autonomy are viewed as superior with regards to creditor protection.

Financial leverage affects credit quality because it constrains the ability of a utility (or any other kind of corporation) to weather variations in business performance. For regulated utilities, the sources of variation are considerably fewer than for many other corporations, but the business risks are far from negligible. (At the same time, more limited business risk exposure is used to justify the manageability of the regulated utilities' leverage, offsetting the benefit of their limited business risk exposure.) What kinds of business risks do utilities frequently face? Several elements can lead to year-on-year variations in financial results and can eat into the degree of cushion provided by a utility's equity layer, and also can compound risks associated with liquidity management and refinancing risk, including:

- The service quality and cost impact of aging physical assets,
- The impact on revenue of demand variation arising from the economic environment, weather, demand elasticity, substitution, declining population, etcetera,
- Variations in operating costs,
- The timing uncertainty associated with commodity cost recovery deferrals,
- Uncertainties and delays in necessary rate increases,
- Wholesale customer bypass,
- The exclusion of capital investments from the rate base,
- The disallowance of certain operating costs by regulators,
- Changes in environmental or health and safety regulations,
- Adverse commodity contracting arrangements, and
- Risks arising from unsuccessful noncore business initiatives.

There are gradations of business risk exposure for utility companies. At one end of the spectrum, utilities with virtually no business risk would have rate-setting autonomy, an inelastic service area demand profile, strong financial flexibility, and a proven ability to adjust rates to counteract adverse developments of any sort. At the other end of the spectrum would be utilities that have no regulatory assurance of recovery of either invested capital or operating expenses (including commodity costs) incurred. A typical Canadian regulated network utility lies between these two end points, and likely closer to the low-risk end of the spectrum.

For the most part, Standard & Poor's view is that the various Canadian regulatory environments provide transparent and predictable foundations for solid utility credit quality (except perhaps in the Province of Ontario, where transparency has deteriorated substantially due to transitional circumstances). This reassessment of the link between regulation and credit quality has not been prompted by any perceived deficiencies associated with the various

Canadian regulatory jurisdictions. Again, the issue is one of degree; how much bondholder protection is conferred by regulated capital structures in light of the operational risks borne by the companies?

Linking Utilities' Financial Profiles to Ratings

The table below shows key global utility benchmark ratios. These reflect the general levels for certain financial indicators and how they might link to ratings for different degrees of business risk. The ratings on certain Canadian utilities currently depend on a characterization of those utilities' respective business positions as very strong, as presented in the table. The justification for this has been the supportive regulatory environment in which those companies operate. Many other Canadian utility ratings already incorporate a more conservative view of business risk, and these ratings are not likely to be affected by this criteria review. A list of the issuers with ratings that are most likely to be affected by this review is presented at the end of this report.

Table 1 Financial Ratio Benchmarks: Rating Category Midpoints

	FFO interest coverage (x)		FFO to total debt (%)		Debt to capital (%)	
Business risk position	A	BBB	A	BBB	A	BBB
Very strong	2.9	2	18	13.5	54	61
Strong	3.5	2.6	23	17	50	57
Moderately strong	4.1	3.3	27	21	47	53

FFO--Funds from operations.

Referring to the table, the interactions between different degrees of business and financial risk should be apparent. For example, a utility with a very strong business position with funds from operations (FFO) interest coverage just below 3.0x (and assuming a complementary alignment of other ratios) can achieve a rating in the 'A' category. In contrast, a utility with a moderately strong business position would need FFO interest coverage around 4.0x to achieve a 'A' rating. The ratio benchmarks shown are the midpoints for the respective ratings categories; thus, by extrapolation, a very strong business position and FFO interest cover of 2.5x might be associated with ratings of either 'BBB+' or 'A-'. (The business risk gradations shown in the table are from the top tiers of a much broader scale, extending downward to encompass less strong business positions that derive little or no benefit from protective regulation.)

Clearly, many considerations influence the proper application of financial ratio benchmarks and hence the rating on an issuer, such as parental support or nonquantitative aspects of the financial profile, financing flexibility, liquidity measures, accounting policies, etcetera. The ratings process is not a simplistic application of financial benchmarks. Considerable judgment is involved at many stages of the process, including in the determination of the overall business risk profile of an issuer, and in arriving at a balanced characterization of the forward-looking financial strength of the company. The interaction of a range of cash flow, balance sheet, and profitability measures must be considered, along with considerations of capital expenditure funding, the company's access to capital markets, liquidity, maturity schedules, and bank financing. Financial ratio benchmarks should not be considered in isolation, nor without a strong element of judgment as to the observed riskiness of an issuer's credit profile. Accepting these caveats, financial ratio benchmarks have proven to be helpful to issuers, investors, and others (including regulators) to answer questions about at what point ratings might change in response to variations in an issuer's financial performance.

With specific reference to Canadian utility ratings, the premise of a supportive regulatory environment has led to some utilities' business profiles being assessed as particularly low risk. If a slightly more conservative business-position standing is determined, this would lead to lower ratings, assuming leverage and other financial indicators remain unchanged and there are no other offsetting analytical considerations.

Questions for Discussion and Next Steps

In the next few months, Standard & Poor's will seek the views of various Canadian regulators and other market participants on the current and evolving nature of business risk in the Canadian utility sector. Certain questions frame the discussions Standard & Poor's will pursue with various industry players:

- What are the perceptions of current business risks that underlie the capital structures and allowed returns embedded in recent regulatory filings and decisions?
- How and to what extent do regulatory arrangements mitigate or eliminate certain elements of utility business risk?
- How does the perceived credit profile of a utility factor into regulatory decisions, and how might regulators respond to sustain the credit profile of a particular utility company?
- How do regulators take account of noncore activities on the part of the regulated utility's parent, and, as a practical matter, how do the regulated and unregulated parts of a utility company interact?

A possible outcome of this review may be a reduction in the degree of reliance placed on regulatory protection from business risks. Such an outcome would affect all Canadian regulated utilities. Standard & Poor's expects to have the review completed in the next few months.

Ratings That Could Be Revisited

The companies (and their subsidiaries) whose ratings are most likely to be affected negatively by this review are included in the list below. Rated utility companies not included in either list below are not expected to be affected directly by this review, because the ratings incorporate a balanced and sustainable characterization of business risks.

Although it is Standard & Poor's expectation that selected ratings downgrades will be the result of this review, some or all of the ratings listed below could end up remaining at their current levels. Standard & Poor's does not expect ratings upgrades to be prompted by this review, either for companies listed below (and their subsidiaries) or for other rated utilities or holding companies.

Table 2 Ratings on CreditWatch With Negative Implications

Company	Corporate credit rating*
ATCO Ltd.	A+/Watch Neg/--
BC Gas Inc.	BBB+/Watch Neg/--
Borealis Infrastructure Trust (Enersource)¶	A+/Watch Neg
Emera Inc.	BBB+/Watch Neg/--
Electricity Distributors Finance Corp. (EDFIN)	A-/Watch Neg/--
Foothills Pipe Lines Ltd.§	A-1(Low)/Watch Neg
Fortis Inc.	A-/Watch Neg/--
Hamilton Utilties Corp.	A+/Watch Neg/--
Hydro Ottawa Holdings Inc.	A/Watch Neg/--
London Hydro Inc.	A-/Watch Neg/--

Oakville Hydro Corp.	A-/Watch Neg/--
Toronto Hydro Corp.	A/Watch Neg/--
TQM Pipeline & Co. LP	BBB+/Watch Neg/--
TransCanada Pipelines Ltd.	A-/Watch Neg/--
Veridian Corp.	A-/Watch Neg/--
*Ratings at March 5, 2003. ¶Senior secured debt rating. §Canadian national scale CP rating.	

This review also will factor into Standard & Poor's assessment of other companies, notably Enbridge Inc., Westcoast Energy Inc., and Union Gas Ltd., where regulation is a factor in the ratings on the companies, albeit to a lesser extent than those listed above. Although the regulatory review could affect these ratings, there are other more salient factors contributing to the current ratings and outlooks on these companies.

The McGraw-Hill Companies

STANDARD & POOR'S CANADIAN RATINGS

Publication date: 01-Oct-2003
Reprinted from RatingsDirect

Terasen Gas

Credit Analysts: Daniel Parker, CFA, Toronto (1) 416-507-2559; Michelle Dathorne, Toronto (1) 416-507-2563

Corporate Credit Rating

BBB/Stable/A-2

Debt maturities:
Required principal repayments:
C$102.3 mil.
C$2.3 mil.
C$247.3 mil.
C$122.3 mil.
C$102.3 mil.

Outstanding Rating(s)	
Terasen Gas	
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	A-
CP	
Local currency	A-2
Terasen Inc	
Corporate Credit Rating	BBB/Stable/A-2
Sr unsecd debt	
Local currency	BBB-
CP	
Local currency	A-2
Sub debt	
Local currency	BB+
Terasen Pipelines (Trans Mountain) Inc.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB

Corporate Credit Rating History	
May 8, 2001	BBB+
June 26, 2003	BBB
Sept. 26, 2003	BBB/A-2

Company Contact
David Bryson (604) 443-6527

Rationale

The ratings on Terasen Gas reflect the utility's strong business profile and the consolidated credit profile of parent company Terasen Inc. (Terasen). Consistent with Standard & Poor's Ratings Services' consolidated rating methodology, the long-term corporate credit rating on core subsidiaries are equalized with the long-term corporate credit rating on the parent.

The ratings on utility holding company Terasen reflect the company's very strong consolidated business profile and weak financial profile, including subsidiaries Terasen Gas, Terasen Gas (Vancouver Island) or TGVI, Terasen Pipelines (Trans Mountain) Inc., and Terasen Pipelines (Corridor) Inc. Express Pipeline L.P. and Express Pipeline Partnership continue to be rated on a stand-alone basis as the Express Pipeline project continues to meet Standard & Poor's criteria for bankruptcy-remote entities. Terasen has about C$2.8 billion of total debt outstanding. The company's business profile is characterized by its two gas distribution subsidiaries, Terasen Gas and TGVI, which have dominant market positions and account for more than 95% of natural gas customers in British Columbia. In addition, Terasen Pipelines (Trans Mountain) is the only multiproduct shipping system from Alberta to British Columbia and the Pacific coast. Terasen Pipelines (Corridor) is a dedicated pipeline that transports bitumen from the Albian oil sands project to Shell Canada Ltd.'s upgrader in Edmonton, Alta. The Express Pipeline system transports petroleum from Hardisty, Alta., to refineries in the western and midwestern U.S. Regulated gas distribution and petroleum transportation account for the majority of Terasen's assets and virtually all of its operating income. The company's utilities and pipelines should continue to provide stable earnings and cash flows.

Terasen's below-average financial risk profile reflects the regulatory constraints imposed on its subsidiaries' capital structures. The existing regulatory framework essentially determines the financial policies of Terasen's regulated subsidiaries. Although the British Columbia Utilities Commission (BCUC) regulation mitigates the company's exposure to volatile commodity prices and poor weather, the low deemed equity levels (33% at Terasen Gas and 35% at TGVI) and low allowed ROE (9.4% and 9.92%, respectively) constrain credit quality. Terasen's deemed equity levels and allowed ROE are considered low and are substantially lower than those of its global peers. The combination of a lower amount of equity in the capital structure and low ROE results in an overall financial profile that is much weaker than the company's North American and international peers'.

Although the cash flows from the pipelines and natural gas distribution businesses should be stable, stability alone does not completely offset the risk of high leverage and weak cash flow protection measures. These measures likely will remain at levels commensurate with the 'BBB' ratings category, as the company pursues its selective growth strategy.

Standard & Poor's expects that in the near to medium term, Terasen's financial measures will improve only marginally, with funds from operations (FFO) interest coverage of 2.3x, FFO to total debt of 10%, and total debt to capital of 66%. These numbers do not reflect the potential of heavy capital spending (about C$1.5 billion combined) for the proposed Bison Pipeline or Inland Pacific Connector projects, as no definitive commitments have been made.

Liquidity.
Standard & Poor's assesses Terasen's liquidity to be adequate, given its stable cash flow generation, its ability to access capital markets, and its available bank facilities. Consolidated cash flows are sufficient to meet its near- and medium-term obligations. With about C$1.7 billion in committed bank lines of credit (which are used seasonally), the company and its subsidiaries have adequate funds available for operating purposes. The lines of credit primarily serve to back up the company's CP programs. Terasen has a C$200 million authorized CP program, Terasen Gas has a C$500 million CP program, Terasen Pipelines (Trans Mountain) has a C$125 million CP program, and Terasen Pipelines (Corridor) has a C$700 million CP program.

Outlook

The stable outlook reflects Standard & Poor's expectation of steady operating performance for both the gas distribution and petroleum transportation segments. Any acquisitions or major projects are expected to have risk profiles consistent with regulated, energy infrastructure-type assets, and to be financed in line with the company's current capital structure.

Business Description

The business description will focus on the operations of gas distribution utility Terasen Gas. For a full discussion about the consolidated credit profile of parent Terasen, please refer to the parent company report.

Business Profile

Regulation.
Terasen Gas is regulated by the BCUC. Historically, rates for Terasen Gas were set to allow the recovery of all costs in addition to a regulated rate of return. The regulation has evolved into an incentive-based system to enhance value to both customers and shareholders. The BCUC has approved a four-year negotiated settlement that will be in effect from Jan. 1, 2004, to Dec. 31, 2007. Standard & Poor's views some aspects of the regulation as quite favorable. As revenues are based on a number of estimates, the regulator has allowed deferral accounts to manage the risk of variances from the estimates. Most importantly, the cost of natural gas is a flow through expense to customers; variances in use per customer (residential and commercial) are mitigated in a similar manner. Variances from estimates are deferred and reflected in customer rates through quarterly rate adjustments following approval from the BCUC. Short-term and long-term interest rate deferral accounts are also in place to protect against interest rate fluctuations. The regulation also provides an incentive to mitigate fixed costs of gas supply.

The performance-based settlement provides the framework for determining delivery charges and incentive mechanisms for improving operating efficiency. The revenue requirement to cover the operating and maintenance expenses from 2004-2008 is determined by a formula-based approach that starts from a base in 2003, escalated by growth in customers and inflation less an adjustment factor. Earnings above or below the allowed ROE will be shared equally between customers and the utility. The utility or customer interveners can request a review by the BCUC if the achieved ROE (after shared earnings) varies from the allowed ROE by 150 basis points.

The regulation for Terasen Gas should result in stable financial performance, as revenues and all major costs are relatively certain. Nevertheless, although the deferral accounts and rate-setting process are effective, many other jurisdictions globally have adopted similar mechanisms for mitigating financial risk. Thus, Terasen Gas' stable financial performance and overall business risk profile is not exceptionally different than other regulated utilities'. The regulation is, therefore, considered weak in comparison with international peers with regard to the allowed ROE (9.42%) and thin deemed equity layers (33%). The combination of low profitability and high leverage results in an overall financial profile that is weak.

Markets.
Terasen Gas operates exclusively in British Columbia. Terasen Gas provides service to more than 100 communities (including greater Vancouver) in a service territory that has an estimated population of more than 3 million. The economy is largely resource-based with a heavy concentration in the forest products sector, which has been hit hard by the softwood lumber dispute with the U.S.

Although the forest products sector dominates the British Columbia economy and accounts for about 50% of the industrial market volumes, Terasen Gas does not have significant customer concentration risk with about 631 industrial accounts. Of those accounts, 160 industrial customers have interruptible service, and unexpected changes in industrial consumption can have an effect on the company's earnings, although the utility can seek regulatory relief if industrial margins fall significantly below forecasts.

Operations.
Terasen Gas is one of the more efficient gas distribution companies in Canada as measured by operating margin, operating costs per customer, and customers per employee. The acquisition of Terasen Gas (Vancouver Island) by parent Terasen could result in some synergies being realized, although Standard & Poor's expects that most of the economic synergies would flow through to customers.

Gas supply is plentiful, although Terasen would like to pursue more transmission pipelines into the province. The company is proposing to build a C$500 million Inland Pacific Connector pipeline, which would connect the Southern Crossing pipeline to the Huntingdon regional gas hub and would give the utility additional supply options. The company contracts five gas storage facilities to help reduce the cost of delivering gas in the winter months.

Competitive position.
Terasen Gas does not face direct competition and its business position is considered very strong. Still, alternative energy sources, primarily electricity, can be a factor as British Columbia, with its abundance of hydroelectric power, has very low rates. The previous government had instituted a rate freeze on electricity, but under the new government, rates are expected to increase. In addition, due to environmental concerns, it is highly unlikely that any new hydro dams will be built. Plans for new electricity generation are gas powered and will likely benefit Terasen Gas or TGVI. Natural gas still enjoys a price advantage over other fuel alternatives and dominates the residential single-family category for fuel of choice. Heating oil can be quite cost competitive when gas prices rise and about 25% of industrial customers have the ability to switch fuel sources.

Although the cost of gas is passed on to customers, it is obviously in the competitive interest of the utility to try and mitigate the effect of high gas prices. The company, therefore, hedges the cost of gas (for approximately 15%-25% of forecasted supply) with the use of forward contracts. The BCUC is advised in advance and supports the hedging activity and, consequently, there are no detrimental effects to the utility if gas prices move in the wrong direction. Between the hedges and the company's storage, about 45%-60% of forecasted supply is fixed in price.

Financial Policy

The financial profile of Terasen Gas reflects the regulatory directives, with debt to capital of about 67%. Standard & Poor's expects the utility's financial profile to adhere to the regulated structure, as there is no incentive to diverge from the allowed capital structure.

Financial Profile

Profitability and cash flow.
The company has demonstrated consistent earnings growth and generates stable cash flows, albeit the credit metrics are weak with FFO interest coverage at 2.2x and FFO to total debt of 9%. Although weather variability can

have a short-term effect, the ultimate effect is minimized through the deferral accounts. Although the cash flow metrics are stable, the weak cash flow metrics leave the company vulnerable to poor performance or regulatory risk.

Capital structure and financial flexibility.
Financial flexibility is limited by the regulatory constraints and the aggressive capital structure. Any major capital expenditures need approval by the BCUC to be added to the rate base. A potential pipeline project, the Inland Connector Pipeline, could require significant capital spending of about C$500 million, although the utility has had difficulties obtaining the necessary shipper commitments and the project has been delayed.

The utility's existing debt maturity schedule is generally well balanced. The utility's cash generation is weak in relation to its total debt load (FFO to total debt of 9%) and, thus, a balanced maturity profile is important to decrease the refinancing risk.

Table 1 Terasen Gas--Peer Comparison*

Industry Sector: Gas Distribution Utilities--Canada					
	--Average of past three years--				
	Sector median	**Terasen Gas**	**Enbridge Gas Distribution Inc.¶**	**Gas Metropolitian and Co. L.P.¶**	**Union Gas Ltd.**
Rating		BBB/Stable/--	A-/Negative/--	A-/Stable/--	BBB+/Negative/--
(Mil. C$)					
Sales	1,559.7	1,251.6	2,003.4	1,763.3	1,709.7
Net income from cont. oper.	105.4	65.4	158.7	146.5	116.0
Funds from oper. (FFO)	205.1	138.5	314.6	283.2	271.0
Capital expenditures	224.1	243.2	255.5	87.3	205.0
Total debt	1,881.8	1,610.4	2,153.2	1,268.8	2,322.0
Preferred stock	2.5	0.0	430.7	0.0	5.0
Total capital	2,923.7	2,458.9	4,088.2	2,134.1	3,481.0
Ratios					
EBIT interest coverage (x)	1.9	1.9	2.1	2.5	2.0
FFO interest coverage (x)	2.4	2.1	2.4	4.0	2.5
Return on common equity (%)	10.3	8.9	10.7	18.1	9.9
NCF/capital expenditures (%)	62.0	44.0	36.8	165.6	80.0
FFO/total debt (%)	10.6	8.8	12.6	21.8	11.7
Total debt/capital (%)	67.8	69.5	52.8	61.8	66.7
*Adjusted for off-balance-sheet obligations and capital operating leases. ¶Year ended Sept. 30. NCF--Net cash flow.					

Table 2 Terasen Gas--Financial Summary*							
Industry Sector: Gas Distribution Utilities--Canada							
	--Average of past three years--		**--Year ended Dec. 31--**				
Rating history			BBB+/WatchNeg/--	BBB+/Stable/--	N.R.	N.R.	N.R.
	Sector median	**Issuer**	**2002**	**2001**	**2000**	**1999**	**1998**
(Mil. C$)							
Sales	1,559.70	1,251.6	1,246.4	1,423.2	1,085.3	844.5	741.3
Net income from cont. oper.	105.4	65.4	67.1	67.2	61.9	55.5	54.0
Funds from oper. (FFO)	205.1	138.5	149.1	142.4	124.1	118.0	114.4
Capital expenditures	224.1	243.2	111.1	146.0	472.5	133.8	110.5
Total debt	1,881.80	1,610.4	1,602.4	1,663.3	1,565.4	1,189.1	1,099.8
Preferred stock	2.5	0	0	0	0	75.0	75.0
Total capital	2,923.70	2,458.9	2,482.4	2,519.7	2,374.5	1,928.7	1,800.5
Ratios							
EBIT interest coverage (x)	1.9	1.9	1.9	1.8	1.9	2.1	2.1
FFO interest coverage (x)	2.4	2.1	2.2	2.0	2.1	2.3	2.3
Return on common equity (%)	10.3	8.9	8.8	8.8	9.0	9.0	9.4
NCF/capital expenditures (%)	62	44.0	62.2	56.4	13.5	36.6	61.0
FFO/total debt (%)	10.6	8.8	8.7	8.7	8.9	10.3	10.8
Total debt/capital (%)	67.8	69.5	69.5	69.5	69.5	69.5	62.0
*Adjusted by capital operating leases. N.R.--Not rated. NCF--Net cash flow.							

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280.

The McGraw-Hill Companies

STANDARD & POOR'S | RATINGSDIRECT

Return to Regular Format

Research:
Terasen Gas Inc.

Publication date: 17-Dec-2004
Primary Credit Analyst(s): Bhavini Patel, CFA, Toronto (1) 416-507-2558; bhavini_patel@standardandpoors.com
Secondary Credit Analyst(s): Michelle Dathorne, Toronto (1) 416-507-2563; michelle_dathorne@standardandpoors.com

Corporate Credit Rating	
	BBB/Stable/NR

Debt maturities:
2004 C$2.2 mil.
2005 C$397.2 mil.
2006 C$122.2 mil.
2007 C$102.2 mil.
2008 C$190.2 mil.
Bank lines/Liquid assets:
Terasen Inc. and its subsidiaries have lines of credit in place totaling C$1,533 million.
Company Contact
David Bryson, Treasurer (604) 443-6527

Outstanding Rating(s)	
Terasen Gas Inc.	
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	A-
Terasen Inc.	
Corporate Credit Rating	BBB/Stable/NR
Sr unsecd debt	
Local currency	BBB-
Sub debt	
Local currency	BB+
Terasen Pipelines (Trans Mountain) Inc.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB

Corporate Credit Rating History	
May 8, 2001	BBB+
June 26, 2003	BBB
Sept. 26, 2003	BBB/A-2
Mar. 11, 2004	BBB/NR

Major Rating Factors

Strengths:

- Stable gas distribution franchises with no commodity risk
- Predictable cash flows from regulated business

- Efficient operator

Weaknesses:
- Highly leveraged financial profile
- Risk of fuel switching by industrial gas customers

Rationale

The ratings on Terasen Gas Inc., located in the Province of British Columbia, reflect the consolidated credit profile of the parent company, Terasen Inc. (Terasen). Consistent with Standard & Poor's Ratings Services' consolidated ratings methodology, core subsidiaries receive the same long-term corporate credit rating as the parent company.

The ratings on B.C.-based utility holding company, Terasen Inc. (Terasen), reflect the company's low-risk, regulated gas distribution business and stable liquids pipelines business. These strengths are partially offset by Terasen's below-average consolidated financial profile.

Terasen Gas is the largest gas distributor in British Columbia, serving over 860,000 customers in more than 100 communities, who represent over 95% of natural gas consumers in British Columbia. The utility is one of the more efficient gas distribution companies in Canada as measured by operating margin, operating costs per customer, and customers per employee. The integration of Terasen Gas (Vancouver Island) or TGVI has resulted in the realization of significant cost reductions and operational efficiencies.

Gas supply is plentiful, although Terasen would like to pursue more transmission pipelines into British Columbia. The company contracts five gas storage facilities to help reduce the cost of delivering gas during winter months when demand is highest. Terasen Gas is proposing to build a C$300 million-$500 million Inland Pacific Connector pipeline that would connect the Southern Crossing pipeline to the Huntingdon regional gas hub and give the utility additional supply options. The viability of this project is dependent on shipper commitments from third parties in the greater Pacific Northwest. The utility is also supporting TGVI's proposal for capacity expansion on Vancouver Island at a cost of C$100 million. The expansion would involve additional compression and construction of a new liquids natural gas (LNG) storage facility.

Terasen Gas' regulated distribution operations are considered low risk because of the regulatory mechanisms that mitigate major operating risks, such as commodity costs, and the utility's dominant position in British Columbia. Terasen Gas and TGVI account for more than 95% of natural gas customers in the province. The major risks of volatile gas commodity costs and unpredictable weather are essentially mitigated by regulatory deferral accounts and quarterly rate adjustments. The current regulated rate structures typically result in stable financial performance, as revenues and all major costs are relatively predictable. The regulation, however, is considered weak in comparison with international peers with regard to the allowed ROE (9.03% for Terasen Gas and 9.53% for TGVI for 2005) and thin deemed equity layers (33% for Terasen Gas and 35% for TGVI).

Terasen Gas' below-average financial risk profile partially reflects the existing gas regulatory framework. Standard & Poor's expects that in the near-to-medium term, the utility's financial measures will remain stable, with funds from operations (FFO) interest coverage of 2.2x, FFO-to-total debt of 9.1%, and total debt-to-capital of 66%.

The below-average deemed equity levels and allowed ROEs constrain the ratings on Terasen. The combination of a lower amount of equity in the capital structure and a low ROE results in a financial profile that is much weaker than the company's global peers. Although the cash flows from the pipelines and natural gas distribution businesses should be stable, stability alone does not completely offset the risk of high leverage and weak cash flow protection measures. These measures likely will remain at levels commensurate with the 'BBB' ratings category, as the company pursues its growth strategy.

Liquidity.

As at Sept. 30, 2004, Terasen Gas had C$500 million of lines of credit in place, C$324 million of which were unused. Standard & Poor's assesses Terasen's consolidated liquidity position to be adequate, given the company's stable cash flow generation, its ability to access capital markets, and its available bank facilities. With slightly over C$1.5 billion in committed bank lines of credit (which are used seasonally), the company and its subsidiaries have adequate funds available for operating purposes. As at Sept. 30, 2004, C$460 million of the lines of credit were unused. The lines of credit primarily serve to back up the company's CP programs. With more than C$1 billion due within the next two years, the company faces some near-term refinancing risk.

Outlook

The stable outlook reflects Standard & Poor's expectation of steady operating performance for both the gas distribution and petroleum transportation segments. Any acquisitions or major projects are expected to have risk profiles consistent with regulated, energy infrastructure-type assets, and to be financed in line with the company's current capital structure.

Going forward, Standard & Poor's will continue long-term ratings coverage of the Terasen companies based on publicly available information. Ratings surveillance on the Terasen companies will continue in accordance with Standard & Poor's analytical criteria. These ratings may be based solely on publicly available information and may not involve the participation of the issuers' management. Standard & Poor's has used information from sources believed to be reliable, but does not guarantee the accuracy, adequacy, or completeness of any information used. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities. Other analytic services performed by Standard & Poor's may be based on information that was not available for these ratings and this report.

Table 1 Terasen Gas Ltd --Peer Comparison *

Industry Sector: Gas Distribution Utilities--Canada

		--Average of past three fiscal years--			
	Sector median	**Terasen Gas Ltd.**	**Enbridge Gas Distribution Inc.**	**Gaz Metro Inc.**	**Union Gas Ltd.**
Rating		BBB/Stable/NR	A-/Stable/--	A-/Stable/--	BBB/Stable/--
(Mil. C$)					
Sales	1,766.7	1,251.6	2,177.8	1,803.9	1,783.3
Net income from continuing operations	117.7	65.4	190.5	149.7	121.0
Funds from operations (FFO)	251.9	138.5	351.8	310.9	260.0
Capital expenditures	153.2	243.2	256.1	93.8	182.0
Total debt	1,589.5	1,611.3	1,528.2	1,356.7	2,256.3
Preferred stock	57.3	0.0	500.7	0.0	114.7
Total capital	2,923.1	2,373.3	3,654.5	2,193.6	3,427.0
Ratios					
EBIT interest coverage (x)	1.9	1.8	2.3	2.5	2.0
FFO interest coverage (x)	2.5	2.2	2.6	4.2	2.5
Return on common equity (%)	11.6	8.9	12.2	18.1	11.6
NCF/capital expenditures (%)	68.5	58.8	78.2	178.8	86.1
FFO/total debt (%)	12.3	9.1	20.1	23.2	11.4
Total debt/capital (%)	63.9	68.4	41.8	61.9	65.8

* Adjusted for off-balance-sheet obligations and capital operating leases. N.R.--Not rated.

Table 2 Terasen Gas Ltd.--Financial Summary *

Industry Sector: Gas Distribution Utilities--Canada

	--Average of past three fiscal years--	--Fiscal year ended Dec. 31st--

Rating history			BBB/Stable/A-2	BBB+/Watch Neg/--	BBB+/Stable/--	N.R.	N.R.
	Sector median	**Issuer**	**2003**	**2002**	**2001**	**2000**	**1999**
(Mil. C$)							
Sales	1,766.7	1,251.6	1,305.6	1,246.4	1,423.2	1,085.3	844.5
Net income from continuing operations	117.7	65.4	70.4	67.1	67.2	61.9	55.5
Funds from operations (FFO)	251.9	138.5	147.9	149.1	142.4	124.1	118.0
Capital expenditures	153.2	243.2	116.2	111.1	146.0	472.5	133.8
Total debt	1,589.5	1,611.3	1,650.9	1,650.6	1,650.7	1,532.6	1,197.7
Preferred stock	57.3	0.0	0.0	0.0	0.0	0.0	75.0
Total capital	2,923.1	2,373.3	2,415.9	2,408.2	2,418.4	2,293.1	1,890.3
Ratios							
EBIT interest coverage (x)	1.9	1.8	1.9	1.9	1.8	1.9	2.1
FFO interest coverage (x)	2.5	2.2	2.2	2.2	2.0	2.1	2.3
Return on common equity (%)	11.6	8.9	9.2	8.8	8.8	9.0	9.0
NCF/capital expenditures (%)	68.5	58.8	58.4	62.2	56.4	13.5	36.6
FFO/total debt (%)	12.3	9.1	9.1	9.1	9.2	9.3	10.6
Total debt/capital (%)	63.9	68.4	68.3	68.5	68.3	66.8	63.4
* Adjusted for off-balance-sheet obligations and capital operating leases. N.R --Not rated.							

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

APPENDIX 58.6

BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

July 30, 2004
Research Comment
Pipelines

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Andrew Shufelt/Keith Carpenter

Q2/04 EPS in Line with Expectations; No Change in View – Market Perform

Event

Terasen reported Q2/04 EPS of $0.10 per share versus $0.08 per share in Q2/03 and our expectation of $0.10 per share. Results were directly in line with expectations. Quarterly performance from all key business segments, including gas utility operations, petroleum transportation, water utilities and other, were largely in line with expectations.

Impact

Neutral.

Forecasts

Unchanged.

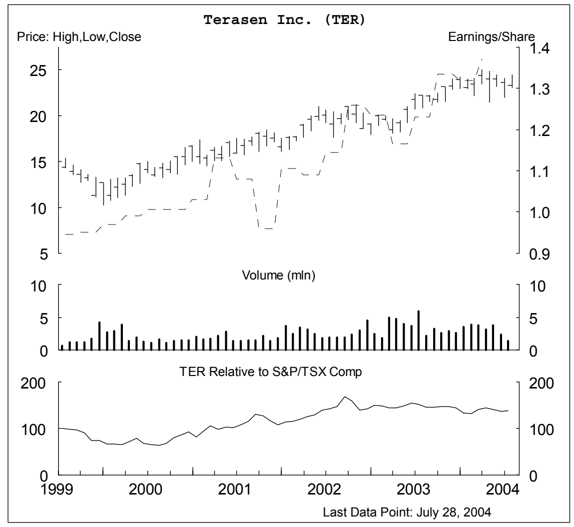
Valuation

Our target price reflects a weighted average valuation approach: 15x diluted 2005E EPS of $1.46 (12.5%), 1.75x estimated 2005 book value per share of $13.63 (12.5%) and a target yield of 3.50% (75%), assuming 2005 dividends per share of $0.87.

Recommendation

We believe the shares are reasonably valued at present levels and we rate them Market Perform.

Price (28-Jul)	$23.30	**52-Week High**	$25.00
Target Price	$24.50	**52-Week Low**	$21.50



(FY-Dec.)	2002A	2003A	2004E	2005E
EPS	$1.26	$1.28	$1.40	$1.46
P/E			16.6x	16.0x
CFPS	$3.60	$2.60	$2.34	$2.42
P/CFPS			9.9x	9.6x
Div.	$0.69	$0.77	$0.83	$0.87
EV ($mm)	$4,513	$5,348	$5,924	$6,359
EBITDA ($mm)	$456	$503	$536	$553
EV/EBITDA	9.9x	10.6x	11.0x	11.5x

Quarterly EPS	Q1	Q2	Q3	Q4
2002A	$0.78	$0.01	-$0.17	$0.62
2003A	$0.71	$0.08	-$0.07	$0.60
2004E	$0.76a	$0.10a	-$0.06	$0.61↓

Dividend	$0.84	**Yield**	3.6%
Book Value	$13.50	**Price/Book**	1.7x
Shares O/S (mm)	104.7	**Mkt. Cap ($mm)**	$2,440
Float O/S (mm)	104.7	**Float Cap ($mm)**	$2,440
Wkly Vol (000s)	684	**Wkly $ Vol (mm)**	$15.9
Net Debt ($mm)	$3,470.4	**Next Rep. Date**	4-Nov (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2004E: $1.41; 2005E: $1.50

Changes

Quarterly EPS
Q4/04E $0.62 to $0.61

Please refer to pages 6 to 8 for Disclosure Statements, including the Analyst's Certification.

Details & Analysis

Terasen reported Q2/04 EPS of $0.10 per share versus $0.08 per share in Q2/03 and our expectation of $0.10 per share. Results were directly in line with expectations. Quarterly performance from all key business segments, including gas utility operations, petroleum transportation, water utilities and other, were largely in line with expectations.

Q2/04 financial performance by segment versus Q2/03 is highlighted in Table 1.

Table 1. Performance by Segment

Q2/04	Earnings ($mm)			EPS		
	Q2/04	**Q2/03**	**% Chg.**	**Q2/04**	**Q2/03**	**% Chg.**
Natural Gas Distribution						
Terasen Gas	(8.5)	(8.3)	2.4%	-0.08	-0.08	0.0%
Terasen Gas (Vancouver Island)	6.3	5.8	8.6%	0.06	0.06	0.0%
	(2.2)	(2.5)	-12.0%	-0.02	-0.02	0.0%
Petroleum Transportation						
Trans Mountain	9.0	9.6	-6.3%	0.08	0.09	-11.1%
Corridor	4.0	2.9	37.9%	0.04	0.03	33.3%
Express Pipeline	3.2	(0.3)	nm	0.03	0.00	nm
	16.2	12.2		0.15	0.12	
Water	2.6	2.1		0.02	0.02	
Other	(6.0)	(3.6)		-0.05	-0.04	
Total	**10.6**	**8.2**	29.3%	**0.10**	**0.08**	25.0%

Natural Gas Distribution: performance was largely in line with expectations. Operating efficiencies associated with the integration of Terasen Gas Vancouver Island and Terasen Gas were partially offset by a lower allowed return on equity at Terasen Gas (9.15% in 2004 versus 9.42% in 2005) and Terasen Gas Vancouver (9.65% in 2004 versus 9.92% in fiscal 2003) and the commencement of a 50/50 sharing of performance incentive payments under the Terasen Gas incentive performance agreement.

Liquids Transportation: the contribution from the Trans Mountain pipeline was slightly lower than in Q2/03 despite higher transportation volumes on both the Canadian and U.S. portions of the pipeline. Incremental revenue growth from higher volume was partially offset by the revenue sharing mechanism in place with respect to the Canadian facilities under the multi-year incentive arrangement on the pipeline and marginally lower tolls arising from a recent Toll Settlement that reflects a change in the pattern of receipt and delivery volumes. Under the current incentive arrangement on the Canadian mainline (expiry December 31, 2005) base tolls are calculated on an agreed throughput level of 30,000 m^3/d for each year of the settlement. Trans Mountain accepts the risk and benefit associated with variations in actual throughput within a defined band 2,000 m^3/d greater and 1,500 m^3/d less than the base throughput amount. If average volume is greater than 32,000 m^3/d, then Trans Mountain and its shippers share the associated benefits 50/50. If average throughput is below 28,500 m^3/d, then the shippers bear 100% of the risk.

The contribution from the Express pipeline was also in line with expectations—the large quarter-over-quarter variance is primarily attributable to a $3.8 million foreign exchange loss recorded in Q2/03. Tolls on the Express system declined slightly quarter-over-quarter due to increased volumes of lighter crude oil (synthetic versus heavier crudes) and higher short-haul volumes that are charged lower tolls per barrel.

Other: Corporate costs are generally consistent with our expectations, however, our estimates are exclusive of mark-to-market gains and losses attributable to natural gas inventories associated with the company's minority investment in Clean Energy.

Estimates

Our 2004 and 2005 diluted EPS estimates are unchanged. We note that there was considerable discussion on the conference call regarding future petroleum pipeline and LNG facilities opportunities. We believe that the following points are relevant with respect to these opportunities:

1. As highlighted in Table 2, we continue to track a large number of project proposals. We are not, however, likely to price these projects into our earnings estimates until the respective project receives unconditional shipper support and/or regulatory approvals are obtained. We note that the vast majority of the identified projects are intended to transport incremental oils sands production and we are generally concerned that the pace of oil sands development may be slowing, with delays in the proposed in-service dates of a number of key projects, combined with scope and scale revisions.

Table 2. Proposed Energy Transportation Projects

Name	Expansion Volume	Cost (Millions)	In-Service Date	Estimated Contribution (Per Share)	Comments
Trans Mountain - Phase I	27,000 bbls/d	C$16	Mid-2004	$0.005	Increase Capacity to 225,000 from 200,000 bbls/d
Trans Mountain - Phase II	17,000 bbls/d	C$20	Early 2005	NA	Dropped December 8/03
Express/Platte - Phase I & II	108,000 bbls/d	US$110	Apr-05	$0.10	Increase Capacity to 280,000 from 172,000 bbls/d - Confirmed December 22
Corridor Pipeline	75,000 bbls/d	C$120	2008/9	NA	Increase Capacity to 230,000 from 155,000 bbls/d; 3rd Train Muskeg
Corridor Pipeline	NA	NA	2010/2012	NA	Looping of Pipeline; Contingent Upon Jackpine Mine Development
Bison Pipeline	175,000 bbls/d	C$410	2006	NA	New Pipeline Proposal
Bison Pipeline - Phase I	150,000 bbls/d	C$190	2008	NA	Increase Capacity to 325,000 from 172,000 bbls/d
Bison Pipeline - Phase II	345,000 bbls/d	C$430	2010	NA	Increase Capacity to 670,000 from 325,000 bbls/d
Trans Mountain - Loop I	75,000 bbls/d	C$6-700	Late 2008	NA	Increase Capacity to 300,000 from 225,000 bbls/d
Trans Mountain - Loop II	100,000 bbls/d	C$6-700	Late 2009	NA	Increase Capacity to 400,000 from 300,000 bbls/d
Trans Mountain - Loop III	350,000 bbls/d	C$8-900	2011	NA	Increase Capacity to 750,000 from 400,000 bbls/d
Northern Leg - Trans Mountain	550,000 bbls/d	NA	2011	NA	Increase Capacity by 550,000 above TX1 Capacity of 300,000 bbls/d
Eastern Leg - Trans Mountain	100,000 bbls/d	C$200	2007	NA	New Capacity from Edmonton to Hardisty on Trans Mountain
Terasen Gas Vancouver Island	NA	C$80	2007/08	$0.04	Compression on existing gas transmission line
Terasen Gas Vancouver Island	NA	C$100	2007/08	$0.06	LNG Storage Facility
Inland Pacific Connector	NA	C$495	NA	NA	Natural Gas; Terminum of Southern Crossing Pipeline to market hub at Sumas

Source: Company reports, BMO Nesbitt Burns

2. Terasen Gas Vancouver Island (TGVI) is expected to file an application for a certificate of public convenience and necessity for the planned $100 million liquefied natural gas storage facility on Vancouver Island. The facility is designed as a peak shaving facility and is proposed based on the company's view that it is the most efficient way to meet growing demand on the TGVI system, including residential and commercial demand growth in

addition to the needs of existing and planned natural gas-fired co-generation facilities on the Island. The proposed facility is for a single LNG storage tank with a nominal volume of up to 69,000 m^3, capable of holding the equivalent of approximately 1.5 bscf (billion standard cubic feet) of natural gas in liquid form. The facility has an expected cost of $100 million and would be in-service for the winter of 2007/08, beyond our current forecast period.

3. The acquisition of the 50% interest in Fairbanks Sewer and Water Inc., for US$30 million is expected to close on July 30. This successful close of this transaction is fully reflected in our financial model and is expected to modestly contribute to fiscal 2004 and 2005 diluted EPS ($0.01 and $0.02 per share in 2004 and 2005, respectively).

Valuation

Our target price reflects a weighted average valuation approach: 15x diluted 2005E EPS of $1.46 (12.5%), 1.75x estimated 2005 book value per share of $13.63 (12.5%) and a target yield of 3.50% (75%), assuming 2005 dividends per share of $0.87.

Recommendation

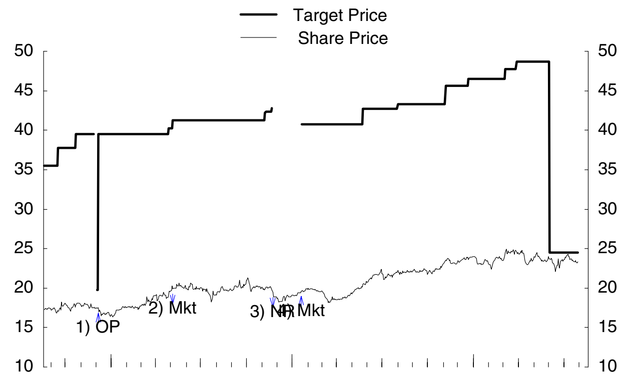
We believe the shares are reasonably valued at present levels and we rate them Market Perform.

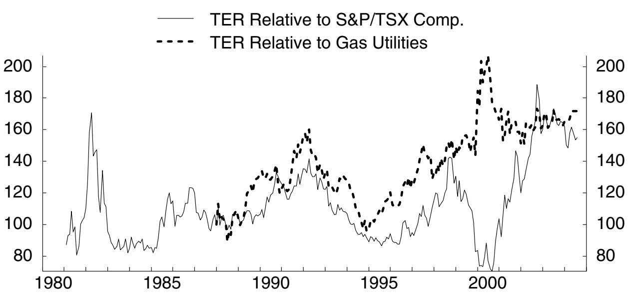
Table 3. Consolidated Summary Sheet

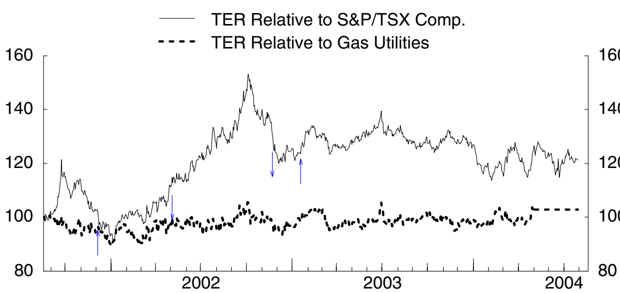
29/07/2004			Karen J. Taylor
Current Price:	$23.44		BMO Nesbitt Burns Inc.
12-Month Target Price:	$24.50		
Rate of Return:	8.04%	Recommendation:	Market Perform

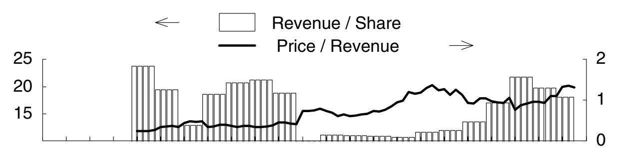
	Year Ended December 31							
	1998	1999	2000	2001	2002	2003	2004E	2005E
Diluted EPS (Prior to One-Time Items)	$0.92	$0.96	$0.99	$1.01	$1.26	$1.28	$1.40	$1.46
Total EPS (Prior to One-Time Items)	$0.93	$0.97	$1.00	$1.02	$1.27	$1.29	$1.41	$1.47
Segmented EPS: Terasen Gas Utility	$0.67	$0.68	$0.77	$0.89	$1.07	$0.93	$0.93	$0.94
Trans Mountain Pipe Line	$0.30	$0.26	$0.25	$0.27	$0.34	$0.54	$0.64	$0.68
Other Businesses	($0.05)	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	($0.16)	($0.15)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$0.55	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.87
Payout Ratio	58.9%	60.1%	61.3%	63.7%	54.5%	59.3%	58.5%	59.2%
Average Shares (mm)	77.0	76.6	76.6	76.6	86.4	103.8	104.7	104.7
Net Book Value	$7.84	$8.31	$9.02	$9.39	$12.10	$12.44	$13.03	$13.63
Market Valuation								
Price: High	$16.98	$15.50	$16.73	$18.20	$21.25	$24.00	-	-
Price: Low	$13.50	$10.50	$10.75	$14.88	$16.32	$18.18	-	-
Price: Current	-	-	-	-	-	-	$23.44	-
P/E Ratio: High	18.4	16.0	16.24	17.84	16.73	18.60	-	-
P/E Ratio: Low	14.6	10.8	10.44	14.58	12.85	14.09	-	-
P/E Ratio: Current	-	-	-	-	-	-	16.6	15.9
Price/Book Value: High	2.24	1.92	1.85	1.94	1.76	1.93	-	-
Price/Book Value: Low	1.78	1.30	1.19	1.58	1.35	1.46	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.80	1.72
Yield: High Price	3.21%	3.76%	3.66%	3.57%	3.26%	3.19%	-	-
Yield: Low Price	4.04%	5.55%	5.70%	4.37%	4.24%	4.21%	-	-
Yield: Current Price	-	-	-	-	-	-	3.52%	3.71%
Balance Sheet ($mm)								
Debt (S-T)	448.7	508.5	314.2	528.4	548.7	610.0	971.2	1,807.7
Debt (L-T)	1,101.6	1,001.8	1,561.9	1,928.0	2,123.4	2,352.9	2,316.1	1,914.3
Deferred Taxes	36.3	35.0	47.3	56.8	58.1	67.5	58.1	58.1
Minority Interest	150.0	75.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	0.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	608.6	645.1	701.5	718.7	1,244.5	1,302.3	1,364.0	1,426.9
	2,345.2	2,265.4	2,749.9	3,356.9	4,099.7	4,457.7	4,834.4	5,332.1
Balance Sheet (%)								
Debt (S-T)	19.1%	22.4%	11.4%	15.7%	13.4%	13.7%	20.1%	33.9%
Debt (L-T)	47.0%	44.2%	56.8%	57.4%	51.8%	52.8%	47.9%	35.9%
Deferred Taxes	1.5%	1.5%	1.7%	1.7%	1.4%	1.5%	1.2%	1.1%
Minority Interest	6.4%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	0.0%	4.5%	3.7%	3.0%	2.8%	2.6%	2.3%
Shareholders' Equity	26.0%	28.5%	25.5%	21.4%	30.4%	29.2%	28.2%	26.8%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	81.2	82.8	80.7	77.9	109.5	133.9	148.1	154.0
Preferred Share Dividends	10.1	8.7	4.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	71.1	74.1	76.7	77.9	109.5	133.9	148.1	154.0
Cash Flow from Operations ($mm)	80.1	117.0	173.3	53.6	311.4	267.7	245.4	253.1

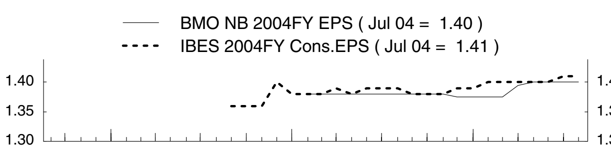
Terasen Inc. (TER)

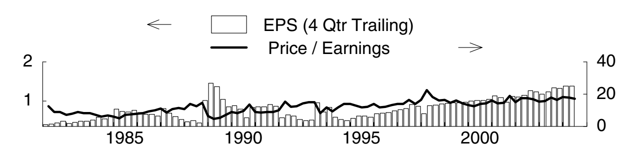


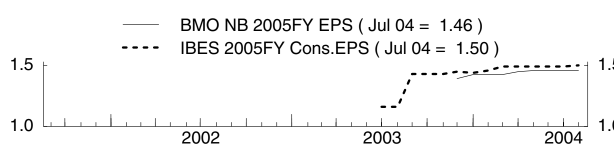












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.30	18	0.78	3.3	59	12.53	1.9	11
Current*	1.37	17	0.84	3.6	61	13.64	1.7	10
Average:		12		5.1	59		1.5	13.9
Growth(%):								
5 Year:	7.7		7.3			12.1		
10 Year:	8.9		6.4			7.7		
20 Year:	4.5		5.7			6.9		

* Current EPS is the 4 Quarter Trailing to Q1/2004.

TER - Rating as of 17-Aug-01 = OP

	Date	Rating Change	Share Price
1	5-Dec-01	NR to OP	$17.50
2	3-May-02	OP to Mkt	$20.25
3	21-Nov-02	Mkt to NR	$19.76
4	17-Jan-03	NR to Mkt	$19.39

Last Daily Data Point: July 28, 2004

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 9: HNC or an affiliate received compensation for products or services other than investment banking services from this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services & Non Securities Related Services.

Distribution of Ratings

Rating Category	**BMO NB Rating**	**BMO NB Universe**	**BMO NB I.B. Clients***	**First Call Universe****
Buy	Outperform	44%	44%	47%
Hold	Market Perform	44%	45%	45%
Sell	Underperform	13%	11%	9%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

"Nesbitt Burns" is a registered trade-mark of BMO Nesbitt Burns Corporation Limited, used under licence.

Terasen Inc.

July 30, 2004
Research Comment
Corporate Debt – Pipelines & Utilities

Q2/04 Results in Line with Expectations

Sue McNamara, CFA
(416)-359-4584
sue.mcnamara@bmonb.com

Event

Terasen Inc. reported Q2/04 net earnings of $10.6 million ($0.10 per share) versus $8.2 million ($0.08 per share) in Q2/03, in line with our expectations of $0.10 per share.

Impact

Neutral. Quarterly results were in line with expectations.

Key Points

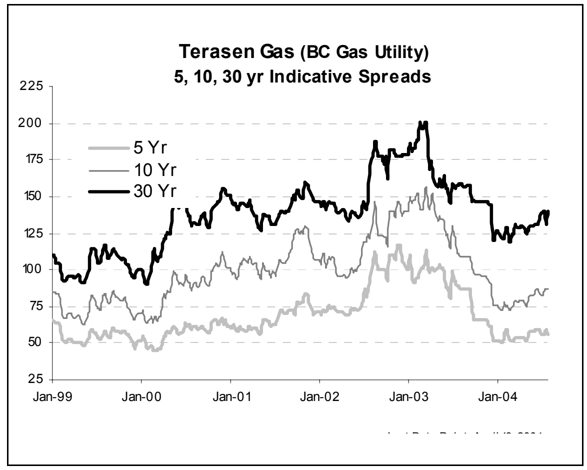
Terasen reported Q2/04 free cash flow of $25.4 million versus -$22.2 million in Q2/03. The variance was largely attributable to a 48.9% reduction in capital expenditures ($31.8 million versus $62.2 million in Q2/03) and a positive change in working capital ($32.8 million versus -$17.8 million in Q2/03). In July 2004, the Express Pipeline partnership (33.3% - Terasen, 33% - OMERS and 33% - Ontario Teachers) issued US$110 million of debt to finance the 138,000 bbls/d expansion of the system.

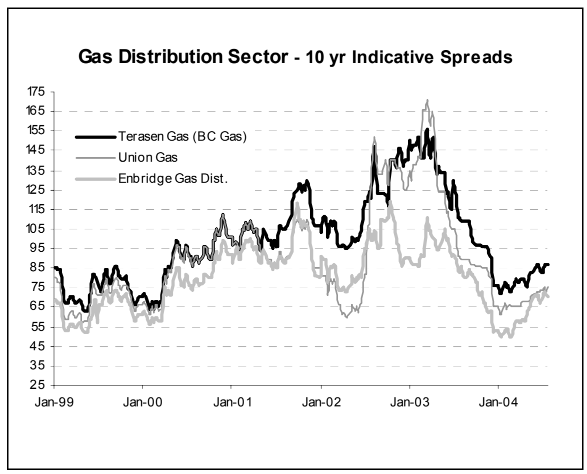
Recommendation

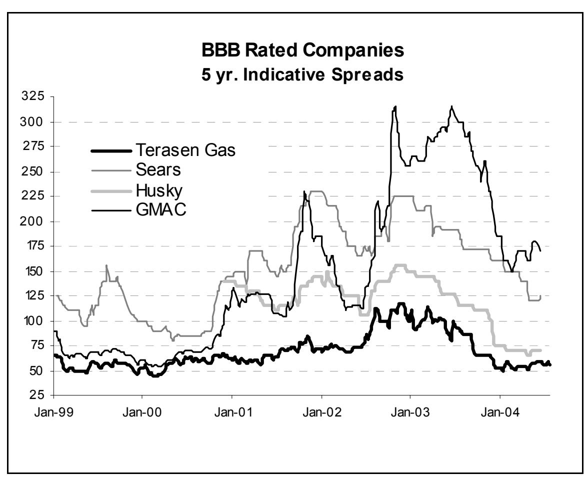
We believe Terasen's credit spreads will likely widen over the 12-month forecast period. We believe the company's financial strategy has become clearer and that it may be slightly riskier than that of its peers. Terasen has a robust list of projects under development over the 2004 to 2010 period that will likely require a combination of debt and equity financing. We note that the proposed in-service date of planned oil sands transportation projects may be deferred, as the proposed in-service dates of a number of key oil sands projects have been delayed or subject to scope and scale revisions, suggesting that the requisite pipeline infrastructure may too be deferred. We expect Terasen to aggressively pursue acquisition opportunities in its core areas of operations. We believe any acquisition will likely be a credit event, as the company is relatively thinly capitalized.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
A (Low)	BBB-	A3
Stable	Stable	Stable







Please refer to page 7 for Disclosure Statements, including the Analyst's Certification.

Q2/04 Results

Terasen Inc. reported Q2/04 net earnings of $10.6 million ($0.10 per share) versus $8.2 million ($0.08 per share) in Q2/03, in line with our expectations of $0.10 per share. For additional views, please refer to the research comment on Terasen Inc. by BMO Nesbitt Burns' equity analyst Karen Taylor.

Cash Flow

Terasen reported Q2/04 free cash flow of $25.4 million versus -$22.2 million in Q2/03. The variance was largely attributable to a 48.9% reduction in capital expenditures ($31.8 million versus $62.2 million in Q2/03) and a positive change in working capital ($32.8 million versus -$17.8 million in Q2/03). Capital spending in Q2/03 included expenditures on the Corridor Pipeline pipeline that was placed in service in May 2003. Terasen used the free cash flow generated during the quarter as well as proceeds from a $150 million medium term note issue to pay down $181.5 million of short-term debt. Year to date, Terasen has repaid $302.9 million of short-term debt, such that the balance as of June 30, 2004 was $251.0 million versus $553.9 million as of December 31, 2003. Debt repayments have reduced the company's leverage (total debt to total capitalization) to 63.3% in Q2/04 versus 64.5% at fiscal 2003 year-end.

Table 2. Consolidated Capitalization

	$mm	%
Bank Indebtedness	-	0.0%
Short-term Debt	251.0	5.7%
Long-term Debt	2,422.2	55.3%
Current Maturities	96.2	2.2%
Future Income Taxes/Deferred Credits	69.6	1.6%
Capital Securities	125.0	2.9%
Equity	1,413.8	32.3%
Total Capitalization	**4,377.8**	**100.0%**

Source: Company Reports

Capital Resources

Terasen has one debt maturity remaining in 2004 at Terasen Pipelines for $30 million (November 22, 2004). We expect that the debt repayment will be financed with cash flow. In July 2004, the Express Pipeline partnership (33.3% - Terasen, 33% - OMERS and 33% - Ontario Teachers) issued US$110 million of debt to finance the 138,000 bbls/d expansion of the system. US$400 million of secured (US$150 million) and unsecured (US$250 million) debt was previously issued directly by Express Pipeline. The new notes are secured by the sponsors' equity interest in the pipeline system and a senior secured guarantee (US$90 million at the beginning, ramping to US$110 million by completion of the project). The new notes are exchangeable for senior secured notes issued upon the Express operating entities. Standard and Poor's, DBRS and Moody's rate Express Pipeline's senior unsecured debt at BBB- (stable outlook), BBB Low (stable outlook), and Baa3 (negative outlook), respectively. All three rating agencies rate Express Pipeline's senior secured debt three notches higher at A-, A Low and A3, respectively.

Credit Ratings

Terasen Inc.'s senior unsecured debt is rated A (Low), BBB- and A3 by DBRS, Standard and Poor's and Moody's, respectively. The outlook from all three rating agencies is stable. Terasen Inc. announced on March 15, 2004 the discontinuation of the engagement of S&P to provide credit ratings in respect of the company's MTN programs. S&P stated that it intends to provide ratings coverage of the Terasen companies based on publicly available information. S&P rates Terasen's Medium Term Notes at BBB- (Stable), three notches below the DBRS and Moody's ratings.

Recommendation

We believe Terasen's credit spreads will likely widen over the 12-month forecast period. We believe the company's financial strategy has become clearer and that it may be slightly riskier than that of its peers. Terasen has a robust list of projects under development over the 2004 to 2010 period that will likely require a combination of debt and equity financing. We note that the proposed in service date of planned oil sands transportation projects may be deferred, as the proposed in service dates of a number of key oil sands projects have been delayed or subject to scope and scale revisions, suggesting that the requisite pipeline infrastructure may too be deferred. We expect Terasen to aggressively pursue acquisition opportunities in its core areas of operations. We believe any acquisition will likely be a credit event, as the company is relatively thinly capitalized.

Table 2. Cash Flow Statement (C$;mm)

	Q2/03	Q2/04
Operating Activities:		
Net Earnings	9.8	12.3
Depreciation and Amortization	33.1	37.8
Equity Earnings	7.9	(3.2)
Future Income Taxes	2.5	(0.2)
Long-term Rate Stabilization Accounts	23.1	2.2
Other	3.6	2.0
	80.0	50.9
Change in Working Capital	(17.8)	32.8
Net Cash Provided by Operating Activities	**62.2**	**83.7**
Investing Activities		
Capital Expenditures	(62.2)	(31.8)
Acquisitions	-	-
Dispositions	-	-
Other	(0.4)	(2.7)
Cash Flow Provided by Investing Activities	**(62.6)**	**(34.5)**
Dividends:		
Capital Securities Distributions	(1.6)	(1.7)
Common Dividends	(20.2)	(22.1)
	(21.8)	**(23.8)**
Free Cash Flow	**(22.2)**	**25.4**
Financing Activities		
Short-term Debt	73.0	(181.5)
Long-term Debt	(72.7)	139.6
Terasen Gas Preference Shares	-	-
Capital Securities	-	-
Common Shares	3.6	1.2
Other	-	-
Change in Cash	18.3	15.3
Cash Flow Provided by Financing Activities	**22.2**	**(25.4)**
Cash (ST Debt), Beginning of Period	19.8	32.6
Change in Cash	(18.3)	(15.3)
Cash (ST Debt), End of Period	**1.5**	**17.3**

Sources: Company Reports, BMO Nesbitt Burns

TERASEN INC.

29-Jul-04

Sue McNamara, CFA
Corporate Bond Research
BMO Nesbitt Burns Inc.

	Year Ending 31 December					
	2000	**2001**	**2002**	**2003**	**2004E**	**2005E**
Net Earnings	78.8	84.6	109.8	136.1	148.1	154.0
Cash Flow from Operations	65.3	191.1	304.2	340.9	245.4	253.1
Free Cash Flow	(499.4)	(451.1)	(459.3)	(252.4)	(31.0)	(23.0)
Capital Expenditures	620.6	469.8	395.7	222.9	190.0	185.0
Common Share Dividends	46.9	49.8	59.8	79.4	86.4	91.1
Capitalization ($mm)						
Short-term Debt	241.7	304.8	439.8	558.2	555.0	968.8
Long-term Debt	1,561.9	1,928.0	2,123.4	2,352.9	2,316.1	1,914.3
Current Maturities	72.5	223.6	108.9	51.8	416.2	838.9
Future Income Taxes	47.3	56.8	58.1	67.5	58.1	58.1
Capital Securities	125.0	125.0	125.0	125.0	125.0	125.0
Equity	701.5	718.7	1,244.5	1,302.3	1,364.0	1,426.9
Total Capitalization	**2,749.9**	**3,356.9**	**4,099.7**	**4,457.7**	**4,834.4**	**5,332.1**
Capitalization (%)						
Short-term Debt	8.8%	9.1%	10.7%	12.5%	11.5%	18.2%
Long-term Debt	56.8%	57.4%	51.8%	52.8%	47.9%	35.9%
Current Maturities	2.6%	6.7%	2.7%	1.2%	8.6%	15.7%
Future Income Taxes	1.7%	1.7%	1.4%	1.5%	1.2%	1.1%
Capital Securities	4.5%	3.7%	3.0%	2.8%	2.6%	2.3%
Equity	25.5%	21.4%	30.4%	29.2%	28.2%	26.8%
Total Capitalization	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Bank Lines						
Drawn				-		
Available				321.0		
Lines of Credit						
Drawn				-		
Available				1,559.0		
Key Ratios						
EBITDA Interest Coverage (x)	2.92	2.63	2.84	2.86	2.63	2.63
EBIT Interest Coverage (x)	2.18	1.99	2.12	2.10	2.15	2.16
CFO Interest Coverage (x)	0.56	1.29	1.89	1.94	1.20	1.20
Free Cash Flow Interest Coverage (x)	(4.25)	(3.04)	(2.86)	(1.43)	(0.15)	(0.11)
Preferred Dividend Coverage (x)	21.21	14.22	17.39	21.31	17.15	17.29
Net Cash Flow/Capital Expenditures (x)	(0.80)	(0.96)	(1.16)	(1.13)	(0.16)	(0.12)
Retained Cash Flow/Total Debt (x)	0.01	0.06	0.09	0.09	0.05	0.04
Current Ratio (x)	0.58	0.59	0.55	0.55	0.55	0.55
Capital Adequacy Ratio (x)	5.01	5.16	3.63	3.47	3.32	3.17
Cash Flow/Debt (%)	3.48%	7.78%	11.38%	11.51%	7.46%	6.80%
Return on Capital (%)	10.23%	9.67%	9.13%	8.64%	9.45%	8.93%
Return on Equity (%)	11.70%	11.91%	11.19%	10.69%	11.11%	11.04%
Short-term Debt/Capital (%)	8.79%	9.08%	10.73%	12.52%	11.48%	18.17%
Long-term Debt/Capital (%)	56.80%	57.43%	51.79%	52.78%	47.91%	35.90%
Total Debt/Capital (%)	68.23%	73.18%	65.18%	66.47%	68.00%	69.80%
Dividend Payout (%)	59.52%	58.87%	54.46%	58.34%	58.33%	59.14%
Average Cost of Long-term Debt	7.75%	6.76%	6.71%	5.85%	6.04%	6.67%
Average Cost of Short-term Debt	4.31%	11.41%	3.11%	4.50%	5.00%	5.00%

Terasen Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount ($mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding ($mm)
Terasen Pipelines Inc.	10.750%	22-Nov-04	$30	Senior Unsecured	NA	NA	NA	NA	$30
Terasen Gas Inc.	9.800%	9-Feb-05	$40	MTNs	9-Feb-95	NA	Non-callable	05534ZAA4	$40
Terasen Gas Inc.	8.250%	29-Jun-05	$5	MTNs	29-Jun-95	NA	Non-callable	05534ZAB2	$5
Terasen Gas Inc.	6.500%	20-Jul-05	$200	MTNs	20-Jul-00	57.0 bps	Non-callable	05534ZAG1	$200
Terasen Gas Inc.	Floating[1]	26-Sep-05	$150	Floating Rate Notes	26-Sep-03	NA	Non-callable	88079ZAAZ	$150
Terasen Gas Inc.	4.850%	8-May-06	$100	MTNs	8-May-03	NA	Non-callable	88079ZAA1	$100
Terasen Gas Inc.	6.150%	31-Jul-06	$100	MTNs	30-Jul-01	73.0 bps	Make Whole + 18 bps	88079ZAL0	$100
Terasen Gas Inc.	9.750%	17-Dec-06	$20	Debentures	17-Dec-86	NA	Callable/Putable	NA	$20
Terasen Gas Inc.	6.500%	16-Oct-07	$100	MTNs	16-Oct-00	75.0 bps	Make Whole + 18 bps	05534ZAH9	$100
Terasen Gas Inc.	6.200%	2-Jun-08	$188	MTNs	21-Oct-97	80.0 bps	Non-callable	05534ZAC0	$188
Terasen Gas Inc.	6.300%	1-Dec-08	$200	MTNs	30-Nov-01	NA	Make Whole + 27 bps	11058ZAA8	$200
Terasen Gas Inc.	10.550%	8-Jun-09	$60	Debentures	8-Jun-89	NA	Make Whole + 40 bps	457452AH3	$60
Terasen Pipelines Inc.	11.500%	1-Jun-10	$35	Senior Unsecured	NA	NA	NA	NA	$35
Express Pipeline	6.470%	31-Dec-11	US$150	Senior Notes	6-Feb-98	NA	Make Whole + 25 bps	30217VAA5	US$118.1
Terasen Gas Inc.	11.800%	30-Sep-15	$75	Mortgage	3-Dec-90	NA	Non-callable	05534RAA2	$75
Terasen Gas Inc.	10.300%	30-Sep-16	$200	Mortgage	21-Nov-91	104.0 bps	Make Whole + 35 bps	05534RAB0	$200
Express Pipeline	7.390%	31-Dec-17	US$250	Subordinated Notes	6-Feb-98	NA	Make Whole + 50 bps	NA	US$241.3
Terasen Gas Inc.	6.950%	21-Sep-29	$150	MTNs	21-Sep-99	112.0 bps	Make Whole + 28 bps	05534ZAF3	$150
Terasen Inc.	8.000%	19-Apr-40	$125	Subordinated Debentures	19-Apr-00	235.0 bps	Make Whole + 55 bps	05534KAA7	$125

[1]35 basis points to 3 month Bankers Acceptances

Ownership Structure

Widely held.

Credit Facilities

Company	Facility Size	Amount Drawn FY 2003	Amount Drawn FY 2002	Letters of Credit FY 2003	Letters of Credit FY 2002	Maturity	Type
Terasen Inc.	$200			$0.0	$0.0	NA	Lines of Credit
Terasen Gas Inc.	$500			$0.0	$0.0	NA	
Terasen Gas Vancouver	$224			$0.0	$0.0	NA	
Terasen Pipeline Inc.	$110			$0.0	$0.0	NA	
Corridor Pipelines	$525			$0.0	$0.0	NA	
Terasen Inc.	$321	$0.0	$0.0			NA	Bank Lines

Shelf Prospectus

Company	Type	Amount	Remaining	Date	Expiry	Instruments
Terasen Inc.	Shelf	$1,000	$800	21-Nov-01	21-Dec-03	Debentures
Terasen Gas Inc.	Shelf	$700	$700	10-Dec-03	10-Jan-05	MTNs

Pension Summary

	Pension Benefit Plans FY 2003 ($mm)	Pension Benefit Plans FY 2002 ($mm)	Other Benefit Plans FY 2003 ($mm)	Other Benefit Plans FY 2002 ($mm)
Accrued Benefit Obligation	275.5	250.8	61.0	49.9
Plan Assets	255.1	221.2	-	-
Funded Status	(20.4)	(29.6)	(61.0)	(49.9)
Accrued Benefit Asset (Liability) Net of Valuation Allowance	4.1	(1.2)	(24.6)	(17.1)
Discount Rate	6.25%	6.56%	6.25%	6.50%
Expected Long-term Rate of of Return on Assets	7.50%	7.50%	NA	NA
Rate of Future Increase in Compensation	3.39%	3.39%	NA	NA

Historical Ratings

Terasen Inc. Senior Unsecured Subordinated Debentures

DBRS Rating	DBRS Trend	DBRS Date	S&P Rating	S&P Trend	S&P Date	Moody's Rating	Moody's Trend	Moody's Date
BBB (H)	Stable	4-Apr-00	BBB	Stable	14-Nov-01	A3	Stable	8-Nov-01
			BBB	Credit Watch Negative	19-Nov-02	A3	Under Review - Negative	19-Nov-02
			BBB-	Stable	26-Jun-03	A3	Stable	12-Dec-02

Analyst's Certification

I, Sue McNamara, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc. ("BMO NBI"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO NBI. The reader should assume that BMO NBI, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO NBI as of the date of this report and are subject to change without notice. BMO NBI endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO NBI makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO NBI or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO NBI, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO NBI, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO NBI Equity Research. BMO NBI, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis.

BMO NBI, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO NBI, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. BMO NBI and HNC are subsidiaries of Bank of Montreal. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provides other remunerated services to, many issuers covered by BMO NBI Equity Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 9: HNC or an affiliate received compensation for products or services other than investment banking services from this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services & Non Securities Related Services.

Dissemination of Research

BMO NBI Corporate Debt Research is available via our web site http://corporate.bmo.com/research/default.asp

Additional Matters

TO U.S. RESIDENTS: Harris Nesbitt Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NBI, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of the Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through Harris Nesbitt Corp. and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

Terasen Inc.

(TER-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

September 22, 2004
Research Comment
Pipelines

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Andrew Shufelt/Keith Carpenter

BCUC Denies Request to Review ROE for 2005; No Change in View – Market Perform

Event

On September 20, the British Columbia Utilities Commission denied Terasen Gas Utility's (100% - Terasen Inc.) request that the Commission convene a hearing to review the mechanism used to set the return on equity for the low-risk benchmark utility and the associated matters dealing with capital structure for 2005 (see the September 1 edition of *Wires, Pipes & Btus* for more information regarding Terasen's request). While the Commission determined that Terasen had not presented sufficient information to detail deficiencies in the approach or demonstrated harm to the utility, the Panel did agree that a review of the approach is worthwhile and ordered that a review will take place in the fall of 2005, for a potential implementation date of January 1, 2006. The Commission will also extend the scope of the proceeding to include an investigation of the appropriate capital structure that should be applied to for utilities operating under an income trust capital structure.

Impact

Neutral.

Forecasts

Unchanged.

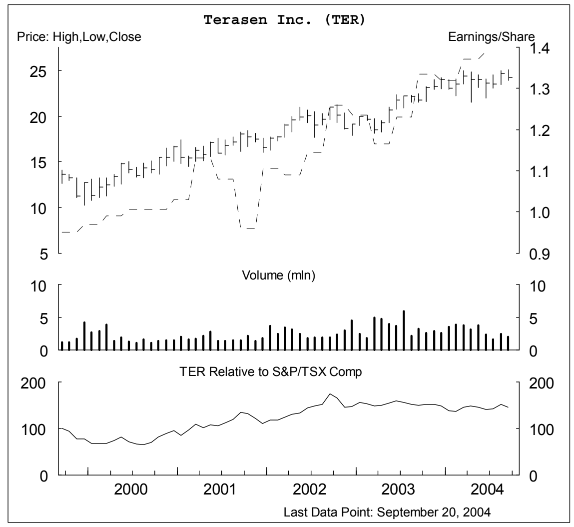
Valuation

Our target price reflects a weighted average valuation approach: 15x diluted 2005E EPS of $1.46 (12.5%), 1.75x estimated 2005 BV per share of $13.63 (12.5%), and a target yield of 3.50% (75%), assuming 2005E dividends per share of $0.87.

Recommendation

We believe the shares are reasonably valued and we rate them Market Perform.

Price (20-Sep)	$24.25	**52-Week High**	$25.05
Target Price	$24.50	**52-Week Low**	$21.50



(FY-Dec.)	2002A	2003A	2004E	2005E
EPS	$1.26	$1.28	$1.40	$1.46
P/E			17.3x	16.6x
CFPS	$3.60	$2.58	$2.34	$2.42
P/CFPS			10.3x	10.0x
Div.	$0.69	$0.77	$0.83	$0.87
EV ($mm)	$4,513	$5,348	$6,047	$6,498
EBITDA ($mm)	$456	$503	$536	$553
EV/EBITDA	9.9x	10.6x	11.3x	11.7x

Quarterly EPS	Q1	Q2	Q3	Q4
2002A	$0.78	$0.01	-$0.17	$0.62
2003A	$0.71	$0.08	-$0.07	$0.60
2004E	$0.76a	$0.10a	-$0.06	$0.61

Dividend	$0.84	**Yield**	3.5%
Book Value	$13.50	**Price/Book**	1.8x
Shares O/S (mm)	104.7	**Mkt. Cap ($mm)**	$2,539
Float O/S (mm)	104.7	**Float Cap ($mm)**	$2,539
Wkly Vol (000s)	694	**Wkly $ Vol (mm)**	$16.4
Net Debt ($mm)	$3,487.1	**Next Rep. Date**	04-Nov (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2004E: $1.40; 2005E: $1.49

Table 1. Consolidated Summary Sheet

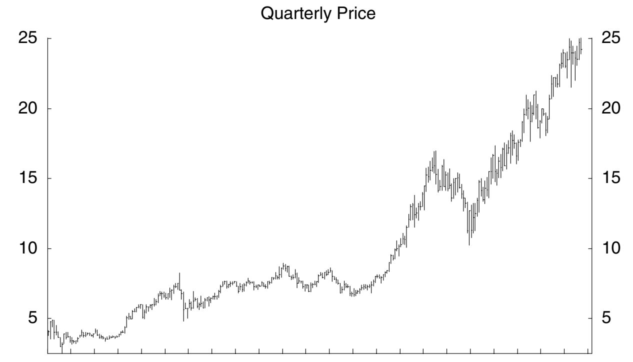
21/09/2004
Current Price: $24.30
12-Month Target Price: $24.50
Rate of Return: 4.22%

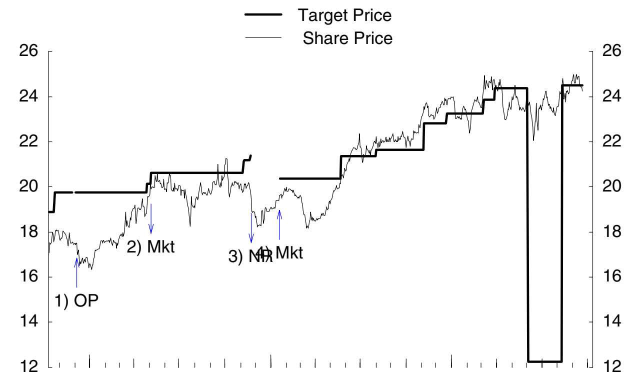
Karen J. Taylor
BMO Nesbitt Burns Inc.

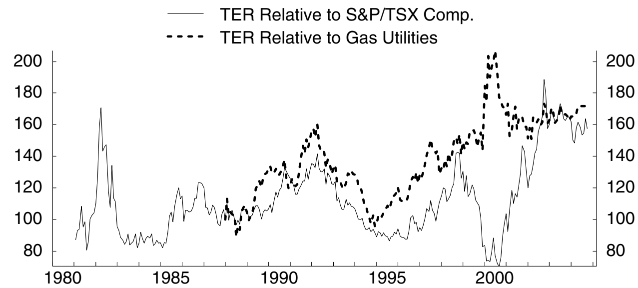
Recommendation: Market Perform

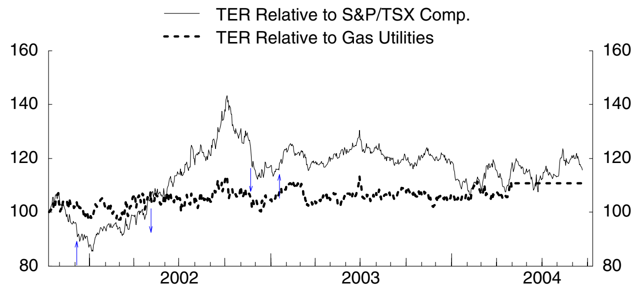
	Year Ended December 31							
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004E**	**2005E**
Diluted EPS (Prior to One-Time Items)	$0.92	$0.96	$0.99	$1.01	$1.26	$1.28	$1.40	$1.46
Total EPS (Prior to One-Time Items)	$0.93	$0.97	$1.00	$1.02	$1.27	$1.29	$1.41	$1.47
Segmented EPS: Terasen Gas Utility	$0.67	$0.68	$0.77	$0.89	$1.07	$0.93	$0.93	$0.94
Trans Mountain Pipe Line	$0.30	$0.26	$0.25	$0.27	$0.34	$0.54	$0.64	$0.68
Other Businesses	($0.05)	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	($0.16)	($0.15)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$0.55	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.87
Payout Ratio	58.9%	60.1%	61.3%	63.7%	54.5%	59.3%	58.5%	59.2%
Average Shares (mm)	77.0	76.6	76.6	76.6	86.4	103.8	104.7	104.7
Net Book Value	$7.84	$8.31	$9.02	$9.39	$12.10	$12.44	$13.03	$13.63
Market Valuation								
Price: High	$16.98	$15.50	$16.73	$18.20	$21.25	$24.00	-	-
Price: Low	$13.50	$10.50	$10.75	$14.88	$16.32	$18.18	-	-
Price: Current	-	-	-	-	-	-	$24.30	-
P/E Ratio: High	18.4	16.0	16.24	17.84	16.73	18.60	-	-
P/E Ratio: Low	14.6	10.8	10.44	14.58	12.85	14.09	-	-
P/E Ratio: Current	-	-	-	-	-	-	17.2	16.5
Price/Book Value: High	2.24	1.92	1.85	1.94	1.76	1.93	-	-
Price/Book Value: Low	1.78	1.30	1.19	1.58	1.35	1.46	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.87	1.78
Yield: High Price	3.21%	3.76%	3.66%	3.57%	3.26%	3.19%	-	-
Yield: Low Price	4.04%	5.55%	5.70%	4.37%	4.24%	4.21%	-	-
Yield: Current Price	-	-	-	-	-	-	3.40%	3.58%
Balance Sheet ($mm)								
Debt (S-T)	448.7	508.5	314.2	528.4	548.7	610.0	987.9	1,840.6
Debt (L-T)	1,101.6	1,001.8	1,561.9	1,928.0	2,123.4	2,352.9	2,316.1	1,914.3
Deferred Taxes	36.3	35.0	47.3	56.8	58.1	67.5	58.1	58.1
Minority Interest	150.0	75.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	0.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	608.6	645.1	701.5	718.7	1,244.5	1,302.3	1,364.0	1,426.9
	2,345.2	2,265.4	2,749.9	3,356.9	4,099.7	4,457.7	4,851.1	5,365.0
Balance Sheet (%)								
Debt (S-T)	19.1%	22.4%	11.4%	15.7%	13.4%	13.7%	20.4%	34.3%
Debt (L-T)	47.0%	44.2%	56.8%	57.4%	51.8%	52.8%	47.7%	35.7%
Deferred Taxes	1.5%	1.5%	1.7%	1.7%	1.4%	1.5%	1.2%	1.1%
Minority Interest	6.4%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	0.0%	4.5%	3.7%	3.0%	2.8%	2.6%	2.3%
Shareholders' Equity	26.0%	28.5%	25.5%	21.4%	30.4%	29.2%	28.1%	26.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	81.2	82.8	80.7	77.9	109.5	133.9	148.1	154.0
Preferred Share Dividends	10.1	8.7	4.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	71.1	74.1	76.7	77.9	109.5	133.9	148.1	154.0
Cash Flow from Operations ($mm)	80.1	117.0	173.3	53.6	311.4	267.7	245.4	253.1

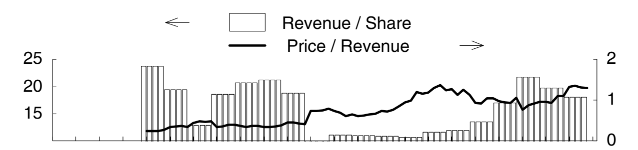
Terasen Inc. (TER)

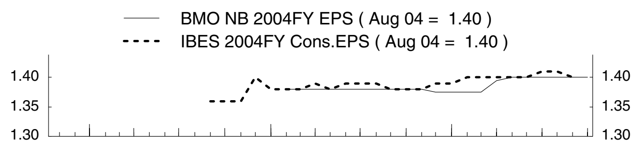


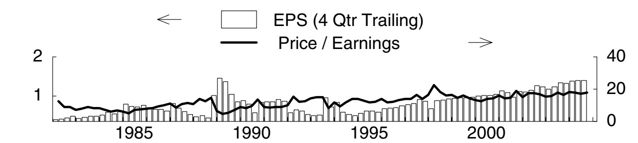


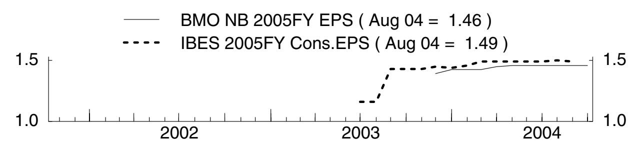












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
Current*	1.39	18	0.84	3.4	60	13.50	1.8	10
Average:		12		5.1	59		1.5	13.9
Growth(%):								
5 Year:	8.0		7.3			11.9		
10 Year:	9.0		6.4			7.6		
20 Year:	4.5		5.7			6.8		

* Current EPS is the 4 Quarter Trailing to Q2/2004.

TER - Rating as of 10-Oct-01 = OP

	Date	Rating Change	Share Price
1	5-Dec-01	NR to OP	$17.50
2	3-May-02	OP to Mkt	$20.25
3	21-Nov-02	Mkt to NR	$19.76
4	17-Jan-03	NR to Mkt	$19.39

Last Daily Data Point: September 20, 2004

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 9: HNC or an affiliate received compensation for products or services other than investment banking services from this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services & Non Securities Related Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	43%	44%	48%
Hold	Market Perform	45%	45%	44%
Sell	Underperform	12%	11%	8%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

Stock Rating: Market Perform
Industry Rating: Underperform

November 5, 2004
Research Comment
Pipelines

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Andrew Shufelt/Keith Carpenter

Q3/04 Slightly Higher Than Expected; No Change In View

Event

Terasen reported Q3/04 EPS of a loss of $0.01 versus a loss of $0.07 per share in Q3/03. After adjusting for a $2.0 million after-tax mark-to-market gain recorded in the quarter arising from the price risk management activities at Clean Energy (44.9% - Terasen), quarterly performance was a loss of $0.03 per share, slightly higher than our expectation of a loss of $0.06 per share.

Impact

Neutral.

Forecasts

Our 2004 diluted EPS estimate of $1.40 is unchanged. We have fine-tuned our 2005 EPS estimate to more accurately reflect the anticipated contribution from the company's water and utility services businesses and a slightly higher contribution from the Express Pipeline. Our 2005 diluted EPS estimate therefore increases to $1.48 from $1.46 previously. We are introducing our diluted 2006 EPS estimate of $1.54.

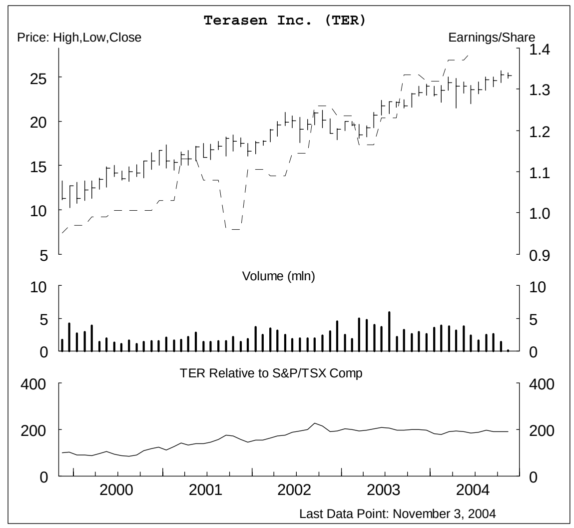
Valuation

Our target price reflects a weighted average valuation approach: 15x estimated 2006 diluted EPS of $1.52 (12.5%), 1.75x estimated 2006 book value per share of $14.28 (12.5%), and a target yield of 3.5% (75%), assuming 2006 dividends per share of $0.91.

Recommendation

We believe that the shares are reasonably valued and we rate them Market Perform.

Price (3-Nov)	$25.20	**52-Week High**	$25.74
Target Price	$25.50↑	**52-Week Low**	$21.50



(FY-Dec.)	2002A	2003A	2004E	2005E
EPS	$1.26	$1.28	$1.40	$1.48↑
P/E			18.0x	17.0x
CFPS	$3.60	$2.58	$2.34	$2.42
P/CFPS			10.8x	10.4x
Div.	$0.69	$0.77	$0.83	$0.87
EV ($mm)	$4,513	$5,348	$6,255	$6,706
EBITDA ($mm)	$456	$503	$536	$553
EV/EBITDA	9.9x	10.6x	11.7x	12.1x

Quarterly EPS	Q1	Q2	Q3	Q4
2002A	$0.78	$0.01	-$0.17	$0.62
2003A	$0.71	$0.08	-$0.07	$0.60
2004E	$0.76a	$0.10a	-$0.03a	$0.59↓

Dividend	$0.84	**Yield**	3.3%
Book Value	$13.29	**Price/Book**	1.9x
Shares O/S (mm)	104.7	**Mkt. Cap ($mm)**	$2,638
Float O/S (mm)	104.7	**Float Cap ($mm)**	$2,638
Wkly Vol (000s)	658	**Wkly $ Vol (mm)**	$15.7
Net Debt ($mm)	$3,612.1	**Next Rep. Date**	4-Feb (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2004E: $1.40; 2005E: $1.49

Changes	**Annual EPS**	**Quarterly EPS**	**Target**
	2005E $1.46 to $1.48	Q4/04E $0.61 to $0.59	$24.50 to $25.50

Please refer to pages 6 to 8 for Disclosure Statements, including the Analyst's Certification.

Details & Analysis

Terasen reported Q3/04 EPS of a loss of $0.01 versus a loss of $0.07 per share in Q3/03. After adjusting for a $2.0 million after-tax mark-to-market gain recorded in the quarter arising from the price risk management activities at Clean Energy (44.9% - Terasen), quarterly performance was a loss of $0.03 per share, slightly higher than our expectation of a loss of $0.06 per share.

The positive variance between expected and actual performance is likely attributable to:

- Contribution on the Express Pipeline of $3.8 million in the quarter is approximately $1.0 million ($0.01 per share) higher than the quarterly run-rate implicit in our financial model. We note that although the pipeline is presently being expanded to 280,000 bbls/d from the current capacity of 172,000 bbls/d and that shipper agreements are in place for total capacity of approximately 247,000 bbls/d, until the expansion is in-service on April 1, 2005, the sale of pipeline capacity that is not presently subject to contracts (approximately 30,000 bbls/d) due to higher volumes available for transportation to PADD IV enhances the contribution from the pipeline.

- Contribution from the Water and Utility Services segment in Q3/04 was approximately $0.02 per share higher than expected. Quarterly results include the contribution from Fairbanks Sewer & Water Inc., acquired on July 31, 2004. The acquisition has been fully incorporated into our financial model since the transaction was announced on April 21, 2004.

Earnings by Segment are set out in Table 1 below.

Table 1. Q3/04 Earnings by Segment

Q3/04	Earnings ($mm)			EPS		
	Q3/04	Q3/03	% Chg.	Q3/04	Q3/03	% Chg.
Natural Gas Distribution						
Terasen Gas	(24.8)	(25.5)	-2.7%	(0.24)	(0.25)	-4.0%
Terasen Gas (Vancouver Island)	6.8	7.1	-4.2%	0.07	0.07	0.0%
	(18.0)	(18.4)	-2.2%	(0.17)	(0.18)	-5.6%
Petroleum Transportation						
Trans Mountain	8.8	7.9	11.4%	0.08	0.08	0.0%
Corridor	3.9	3.8	2.6%	0.04	0.03	33.3%
Express Pipeline	3.8	2.8	35.7%	0.04	0.03	33.3%
	16.5	14.5		0.16	0.14	
Water	3.3	2.2		0.03	0.02	
Other	(3.2)	(5.9)		(0.03)	(0.05)	
Total	**(1.4)**	**(7.6)**	81.6%	**(0.01)**	**(0.07)**	85.7%

Source: Company Reports, BMO Nesbitt Burns

Performance in the gas distribution and liquids pipeline segment, excluding the Express Pipeline, was largely in line with expectations.

Estimates

Our 2004 diluted EPS estimate of $1.40 is unchanged. We have fine-tuned our 2005 EPS estimate to more accurately reflect the anticipated contribution from the company's water and utility services businesses and a slightly higher contribution from the Express Pipeline. Our 2005 diluted EPS estimate therefore increases to $1.48 from $1.46 previously. We are introducing our diluted 2006 EPS estimate of $1.54.

We believe that the following points are relevant with respect to our outlook:

- Management continues to target a 6% EPS growth rate; however, a contribution from new projects under development is likely to be required to maintain this growth rate beyond 2006.
- The Water and Utility Services business segment contribution is expected to grow at a rate of approximately 2% per annum.
- Our financial model includes the contribution from a number of projects, including:

    1. Phase I expansion of the Trans Mountain Pipeline – additional 27,000 bbls/d of capacity, increasing capacity to approximately 225,000 bbls/d, at a cost of approximately $16 to $18 million. Only half of this amount is eligible under the present incentive tolling arrangement to be rolled into the existing ratebase; however, the incentive arrangement in place gives the company positive earnings leverage to throughput. Tolls are set using an assumed throughput of 189,000 bbls/d. If throughput is below 179,000 bbls/d, the negative variance is for the account of the shippers. If throughput is greater than 179,000 bbls/d but less than 201,000 bbls/d, the variance is 100% attributable to Terasen. If throughput is greater than 201,000 bbls/d, then Terasen and the shippers share the associated benefits 50/50.
    2. Phase I & Phase II Expansion of the Express Pipeline system, as discussed above. We have assumed that the pipeline contributes approximately $0.10 per share; however, we note that if the 33,000 bbls/d of expansion capacity not otherwise subject to a shipper commitment can be resold at or near the maximum negotiated rate, Terasen may realize an incremental benefit.
    3. Terasen Gas Vancouver Island – the construction of a $100 million LNG Storage facility with a planned in-service date of the winter of 2006/07 is presently reflected in our financial model. We do not yet have the planned addition of compression on the existing gas transmission line at a cost of $80 million for a 2006/07 in-service date.

  Table 2 highlights the remaining projects under development that are not yet included in our financial model.

Table 2. Projects In Development

Name	Expansion Volume	Cost (Millions)	In-Service Date	Estimated Contribution (Per Share)	Comments
Trans Mountain - Phase I	27,000 bbls/d	C$16	Mid-2004	$0.005	Increase Capacity to 225,000 from 200,000 bbls/d
Trans Mountain - Phase II	17,000 bbls/d	C$20	Early 2005	NA	Dropped December 8/03
Express/Platte - Phase I & II	108,000 bbls/d	US$110	Apr-05	$0.10	Increase Capacity to 280,000 from 172,000 bbls/d - Confirmed December 22
Corridor Pipeline	75,000 bbls/d	C$120	2008/9	NA	Increase Capacity to 230,000 from 155,000 bbls/d; Debottlenecking
Corridor Pipeline	NA	NA	2010	NA	Looping of Pipeline; Third Train Muskeg to 290,000 bbls/d
Bison Pipeline	175,000 bbls/d	C$410	Post 2010	NA	New Pipeline Proposal - Dependent Upon Jackpine Mine Development
Bison Pipeline - Phase I	150,000 bbls/d	C$190	Post 2010	NA	Increase Capacity to 325,000 from 172,000 bbls/d
Bison Pipeline - Phase II	345,000 bbls/d	C$430	Post 2010	NA	Increase Capacity to 670,000 from 325,000 bbls/d
Trans Mountain - Loop I	75,000 bbls/d	C$6-700	Late 2008	NA	Increase Capacity to 300,000 from 225,000 bbls/d
Trans Mountain - Loop II	100,000 bbls/d	C$6-700	Late 2009	NA	Increase Capacity to 400,000 from 300,000 bbls/d
Trans Mountain - Loop III	350,000 bbls/d	C$8-900	2011	NA	Increase Capacity to 750,000 from 400,000 bbls/d
Northern Leg - Trans Mountain	550,000 bbls/d	NA	2011	NA	Increase Capacity by 550,000 above TX1 Capacity of 300,000 bbls/d
Eastern Leg - Trans Mountain	100,000 bbls/d	C$200	2007	NA	New Capacity from Edmonton to Hardisty on Trans Mountain
Terasen Gas Vancouver Island	NA	C$80	2007/08	$0.04	Compression on existing gas transmission line
Terasen Gas Vancouver Island	NA	C$100	2007/08	$0.06	LNG Storage Facility
Inland Pacific Connector	NA	C$495	NA	NA	Natural Gas; Terminum of Southern Crossing Pipeline to market hub at Sumas

Source: Company Reports, BMO Nesbitt Burns

- Our 2006 estimates implicitly assume that the contribution from the Trans Mountain Pipeline does not materially change pursuant to the renegotiation of the incentive tolling arrangement described above that expires on December 31, 2005. We believe that the renegotiation of the agreement is likely to incorporate the proposed TMX project; however, we believe that there is a material chance that the 2006 earnings profile is maintained at current and estimated levels, but the amount of capital at risk to generate that return increases.
- Our estimates are exclusive of mark-to-market gains and losses. Year to date, mark-to-market gains have totalled some $4.3 million after-tax or approximately $0.04 per share.

Valuation

Our target price reflects a weighted average valuation approach: 15x estimated 2006 diluted EPS of $1.52 (12.5%), 1.75x estimated 2006 book value per share of $14.28 (12.5%), and a target yield of 3.5% (75%), assuming 2006 dividends per share of $0.91.

Recommendation

We believe that the shares are reasonably valued and we rate them Market Perform.

Table 3. Consolidated Summary Sheet

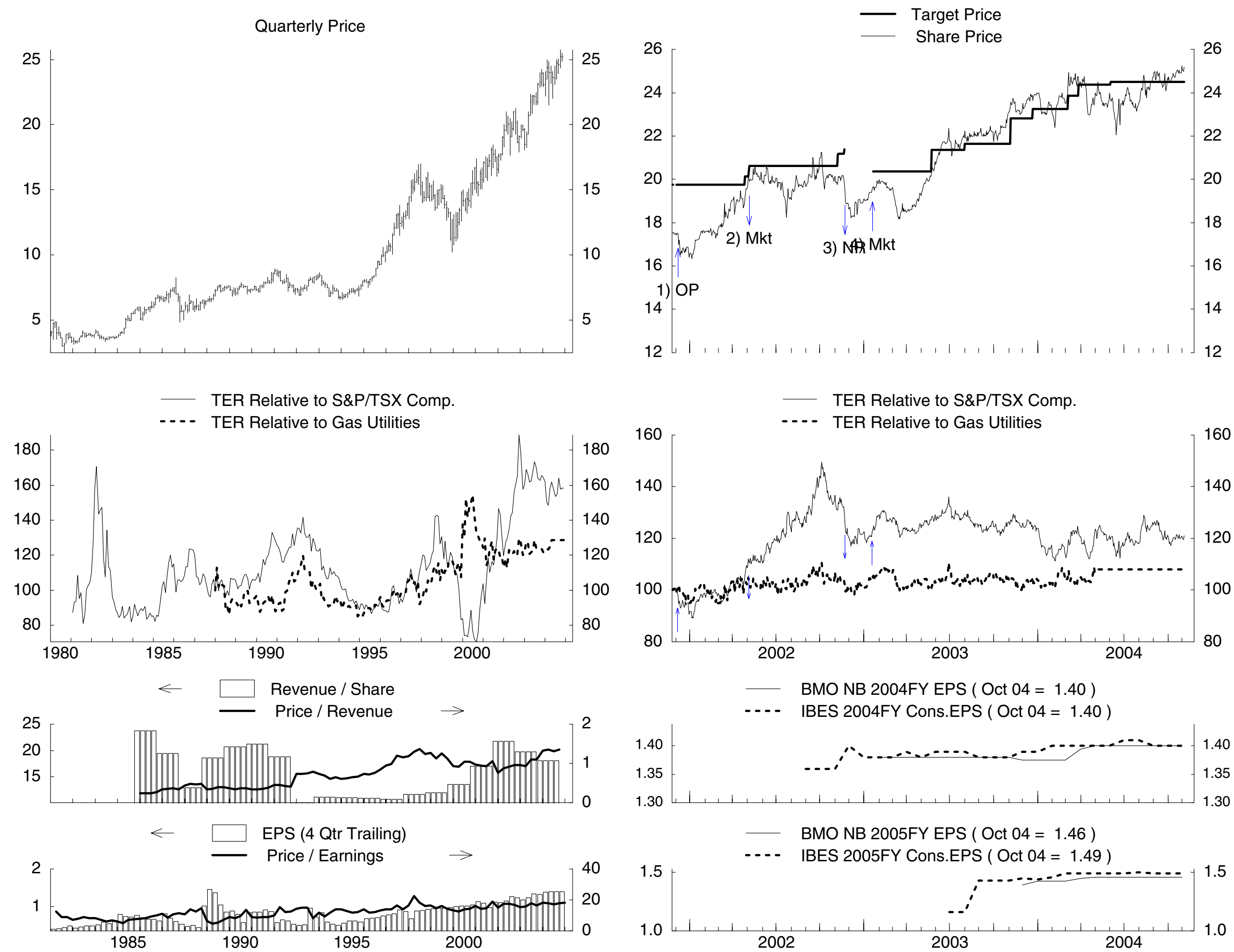
04/11/2004 Karen J. Taylor
BMO Nesbitt Burns Inc.

Current Price:	$25.50
12-Month Target Price:	$25.50
Rate of Return:	3.24%

Recommendation: Market Perform

	1999	2000	2001	2002	2003	2004E	2005E	2006E
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.40	$1.48	$1.52
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.41	$1.49	$1.54
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.93	$0.94	$0.94
Trans Mountain Pipe Line	$0.26	$0.25	$0.27	$0.34	$0.54	$0.63	$0.69	$0.71
Water/Other Businesses	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	($0.15)	($0.14)	($0.11)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.87	$0.91
Payout Ratio	60.1%	61.3%	63.7%	54.5%	59.3%	58.5%	58.4%	59.1%
Average Shares (mm)	76.6	76.6	76.6	86.4	103.8	104.7	104.7	104.7
Net Book Value	$8.31	$9.02	$9.39	$12.10	$12.44	$13.03	$13.66	$14.28
Market Valuation								
Price: High	$15.50	$16.73	$18.20	$21.25	$24.00	-	-	-
Price: Low	$10.50	$10.75	$14.88	$16.32	$18.18	-	-	-
Price: Current	-	-	-	-	-	$25.50	-	-
P/E Ratio: High	16.0	16.24	17.84	16.73	18.60	-	-	-
P/E Ratio: Low	10.8	10.44	14.58	12.85	14.09	-	-	-
P/E Ratio: Current	-	-	-	-	-	18.1	17.1	16.6
Price/Book Value: High	1.92	1.85	1.94	1.76	1.93	-	-	-
Price/Book Value: Low	1.30	1.19	1.58	1.35	1.46	-	-	-
Price/Book Value: Current	-	-	-	-	-	1.96	1.87	1.79
Yield: High Price	3.76%	3.66%	3.57%	3.26%	3.19%	-	-	-
Yield: Low Price	5.55%	5.70%	4.37%	4.24%	4.21%	-	-	-
Yield: Current Price	-	-	-	-	-	3.24%	3.41%	3.57%
Balance Sheet ($mm)								
Debt (S-T)	508.5	314.2	528.4	548.7	610.0	982.7	1,827.6	1,034.8
Debt (L-T)	1,001.8	1,561.9	1,928.0	2,123.4	2,352.9	2,441.1	2,039.3	2,516.5
Deferred Taxes	35.0	47.3	56.8	58.1	67.5	58.1	58.1	58.1
Minority Interest	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	645.1	701.5	718.7	1,244.5	1,302.3	1,364.0	1,429.5	1,494.6
	2,265.4	2,749.9	3,356.9	4,099.7	4,457.7	4,970.9	5,479.6	5,228.9
Balance Sheet (%)								
Debt (S-T)	22.4%	11.4%	15.7%	13.4%	13.7%	19.8%	33.4%	19.8%
Debt (L-T)	44.2%	56.8%	57.4%	51.8%	52.8%	49.1%	37.2%	48.1%
Deferred Taxes	1.5%	1.7%	1.7%	1.4%	1.5%	1.2%	1.1%	1.1%
Minority Interest	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	4.5%	3.7%	3.0%	2.8%	2.5%	2.3%	2.4%
Shareholders' Equity	28.5%	25.5%	21.4%	30.4%	29.2%	27.4%	26.1%	28.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	148.1	156.6	160.3
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	148.1	156.6	160.3
Cash Flow from Operations ($mm)	117.0	173.3	53.6	311.4	267.7	250.6	260.9	266.3

Terasen Inc. (TER)



FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
Current*	1.39	18	0.84	3.3	60	13.50	1.9	10
Average:		12		5.1	59		1.5	13.9
Growth(%):								
5 Year:	7.9		7.3			11.9		
10 Year:	10.4		6.4			7.6		
20 Year:	4.8		5.7			6.8		

* Current EPS is the 4 Quarter Trailing to Q2/2004.

TER - Rating as of 23-Nov-01 = OP

	Date	Rating Change	Share Price
1	5-Dec-01	NR to OP	$17.50
2	3-May-02	OP to Mkt	$20.25
3	21-Nov-02	Mkt to NR	$19.76
4	17-Jan-03	NR to Mkt	$19.39

Last Daily Data Point: November 3, 2004

BMO Nesbitt Burns

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 9: HNC or an affiliate received compensation for products or services other than investment banking services from this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services & Non Securities Related Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	43%	44%	48%
Hold	Market Perform	45%	45%	44%
Sell	Underperform	12%	11%	8%

*   Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.
** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

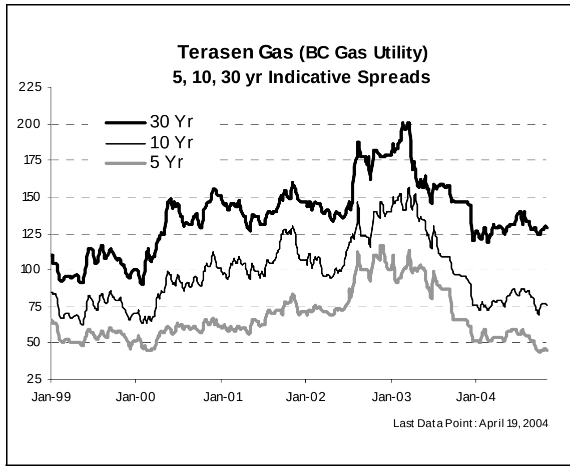
BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

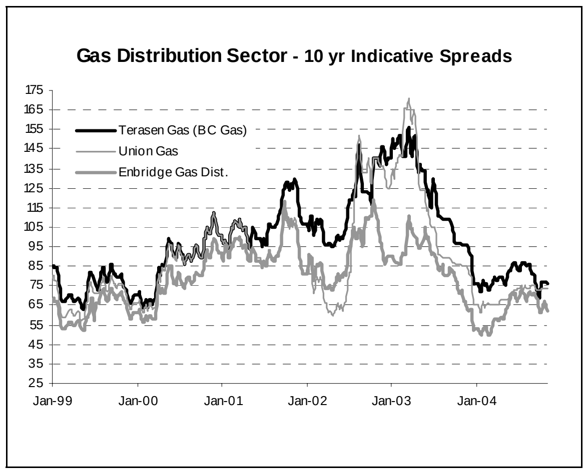
Terasen Inc.

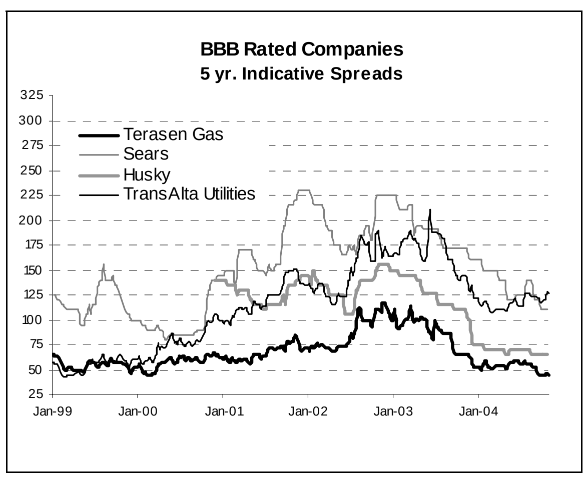
November 5, 2004
Research Comment
Corporate Debt – Pipelines & Utilities

Q3/04 Results – Slightly Higher than Expected

Sue McNamara, CFA
(416)-359-4584
sue.mcnamara@bmonb.com







Event

Terasen reported Q3/04 EPS of a loss of $0.01 share versus a loss in Q3/03 of $0.07 per share. We expected a loss of $0.06 per share. After normalizing for the positive effect of a $2 million ($0.02 per share) mark-to-market gain recorded during the quarter, Q3/04 performance was a loss of $0.03 per share, slightly higher than expected. For additional views, please refer to the equity research comment on Terasen Inc. by BMO Nesbitt Burns' equity analyst Karen Taylor.

Impact

Neutral.

Key Points

Terasen reported Q3/04 free cash flow of -$167.4 million versus -$100.5 million in Q3/03. The variance was mainly attributable to the $40.8 million acquisition of a 50% interest in Fairbanks Sewer and Water that closed on July 31, 2004 and $17.1 million of acquisitions relating to businesses that provide meter reading, meter fleet management and installation services. The free cash flow shortfall was funded with the issuance of $132.0 million and $125.8 million of short term and long term, respectively. In September 2004, Terasen Inc. issued $125 million of 5.56% medium term notes due September 15, 2014. The proceeds from the MTN issuance were used partially to fund the acquisitions and partially to increase the company's available cash to $97.7 million at quarter-end.

Recommendation

We believe Terasen's credit spreads will likely widen over the 12-month forecast period. We expect Terasen to aggressively pursue acquisition opportunities in its core areas of operations. We believe any acquisition will likely be a credit event, as the company is relatively thinly capitalized.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
A (Low)	BBB-	A3
Stable	Stable	Stable

Please refer to pages 5 to 6 for Disclosure Statements, including the Analyst's Certification.

Table 1. Cash Flow Statement ($mm)

	Q3/03	Q3/04
Operating Activities:		
Net Earnings	(5.9)	0.2
Depreciation and Amortization	34.8	36.7
Equity Earnings	(2.3)	(2.7)
Future Income Taxes	3.4	3.1
Long-term Rate Stabilization Accounts	(25.4)	(9.7)
Other	2.2	3.4
	6.8	31.0
Change in Working Capital	(36.2)	(69.9)
Net Cash Provided by Operating Activities	**(29.4)**	**(38.9)**
Investing Activities		
Capital Expenditures	(53.6)	(44.1)
Acquisitions	-	(57.9)
Dispositions	-	-
Other	4.5	(3.0)
Cash Flow Provided by Investing Activities	**(49.1)**	**(105.0)**
Dividends:		
Capital Securities Distributions	(1.7)	(1.6)
Common Dividends	(20.3)	(21.9)
	(22.0)	**(23.5)**
Free Cash Flow	**(100.5)**	**(167.4)**
Financing Activities		
Short-term Debt	35.5	132.0
Long-term Debt	97.4	113.9
Terasen Gas Preference Shares	-	-
Capital Securities	-	-
Common Shares	0.7	1.9
Other	-	-
Change in Cash	(33.1)	(80.4)
Cash Flow Provided by Financing Activities	**100.5**	**167.4**
Cash (ST Debt), Beginning of Period	1.5	17.3
Change in Cash	33.1	80.4
Cash (ST Debt), End of Period	**34.6**	**97.7**

Source: Company Reports

Table 2. Capitalization

($mm)	2003	Q3/04
Bank Indebtedness	-	-
Short-term Debt	553.9	383.0
Long-term Debt	2,301.1	2,196.3
Current Maturities	51.8	446.1
Future Income Taxes/Deferred Credits	170.3	186.8
Capital Securities	125.0	125.0
Equity	1,304.6	1,384.0
Total Capitalization	**4,506.7**	**4,721.2**
(%)		
Bank Indebtedness	0.0%	0.0%
Short-term Debt	12.3%	8.1%
Long-term Debt	51.1%	46.5%
Current Maturities	1.1%	9.4%
Future Income Taxes	3.8%	4.0%
Capital Securities	2.8%	2.6%
Equity	28.9%	29.3%
Total Capitalization	**100.0%**	**100.0%**

Source: Company Reports

Terasen Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount ($mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding ($mm)
Terasen Pipelines Inc.	10.750%	22-Nov-04	$30	Senior Unsecured	22-Nov-89	NA	Make Whole + 50 bps	NA	$30
Terasen Gas Inc.	9.800%	9-Feb-05	$40	MTNs	9-Feb-95	NA	Non-callable	05534ZAA4	$40
Terasen Gas Inc.	8.250%	29-Jun-05	$5	MTNs	29-Jun-95	NA	Non-callable	05534ZAB2	$5
Terasen Gas Inc.	6.500%	20-Jul-05	$200	MTNs	20-Jul-00	57.0 bps	Non-callable	05534ZAG1	$200
Terasen Gas Inc.	Floating[1]	26-Sep-05	$150	Floating Rate Notes	26-Sep-03	NA	Non-callable	88079ZAAZ	$150
Terasen Gas Inc.	4.850%	8-May-06	$100	MTNs	8-May-03	NA	Non-callable	88079ZAA1	$100
Terasen Gas Inc.	6.150%	31-Jul-06	$100	MTNs	30-Jul-01	73.0 bps	Make Whole + 18 bps	88079ZAL0	$100
Terasen Gas Inc.	9.750%	17-Dec-06	$20	Retractable Debentures	17-Dec-86	NA	Non-callable	NA	$20
Terasen Gas Inc.	6.500%	16-Oct-07	$100	MTNs	16-Oct-00	75.0 bps	Make Whole + 18 bps	05534ZAH9	$100
Terasen Gas Inc.	6.200%	2-Jun-08	$188	MTNs	21-Oct-97	80.0 bps	Non-callable	05534ZAC0	$188
Terasen Gas Inc.	6.300%	1-Dec-08	$200	MTNs	30-Nov-01	NA	Make Whole + 27 bps	11058ZAA8	$200
Terasen Gas Inc.	10.750%	8-Jun-09	$60	Debentures	8-Jun-89	NA	Make Whole + 40 bps	457452AH3	$60
Terasen Pipelines Inc.	11.500%	1-Jun-10	$35	Senior Unsecured	20-Jun-90	NA	Make Whole + 50 bps	NA	$35
Express Pipeline	6.470%	31-Dec-13	US$150	Senior Secured Notes	6-Feb-98	NA	Make Whole + 25 bps	30217VAA5	US$112.8
Terasen Inc.	5.560%	15-Sep-14	$125	MTNs	10-Sep-04	93.0 bps	Make Whole + 23 bps	88079ZAB9	$125
Terasen Gas Inc.	11.800%	30-Sep-15	$75	Mortgage	3-Dec-90	NA	Non-callable	05534RAA2	$75
Terasen Gas Inc.	10.300%	30-Sep-16	$200	Mortgage	21-Nov-91	104.0 bps	Make Whole + 35 bps	05534RAB0	$200
Express Pipeline	7.390%	31-Dec-19	US$250	Subordinated Secured Notes	6-Feb-98	NA	Make Whole + 50 bps	30217VAD9	US$239.2
Terasen Gas Inc.	6.950%	21-Sep-29	$150	MTNs	21-Sep-99	112.0 bps	Make Whole + 28 bps	05534ZAF3	$150
Terasen Gas Inc.	6.500%	1-May-34	$150	MTNs	29-Apr-04	127.0 bps	Make Whole + 31 bps	88078ZAB0	$150
Terasen Inc.	8.000%	19-Apr-40	$125	Subordinated Debentures	19-Apr-00	235.0 bps	Make Whole + 55 bps	05534KAA7	$125

[1]35 basis points to 3 month Bankers Acceptances

Ownership Structure

Widely held.

Credit Facilities

Company	Facility Size	Amount Drawn Q2/04	Amount Drawn FY 2003	Letters of Credit Q2/04	Letters of Credit FY 2003	Maturity	Type
Terasen Inc.	$300	$200.0	$200.0			NA	Lines of Credit
Terasen Gas Inc.	$500	$70.0	$353.0			NA	Lines of Credit
Terasen Gas Vancouver	$213	$160.0	$160.0			NA	Lines of Credit
Corridor Pipelines	$525	$525.0	$525.0			NA	Lines of Credit

Shelf Prospectus

Company	Type	Amount	Remaining	Date	Expiry	Instruments
Terasen Gas Inc.	Shelf	$700	$550	10-Dec-03	10-Jan-05	MTNs
Terasen Inc.	Shelf	$800	$800	10-Dec-03	10-Jan-05	Unsecured Debentures

Pension Summary

	Pension Benefit Plans FY 2003 ($mm)	Pension Benefit Plans FY 2002 ($mm)	Other Benefit Plans FY 2003 ($mm)	Other Benefit Plans FY 2002 ($mm)
Accrued Benefit Obligation	275.5	250.8	61.0	49.9
Plan Assets	255.1	221.2	-	-
Funded Status	(20.4)	(29.6)	(61.0)	(49.9)
Accrued Benefit Asset (Liability) Net of Valuation Allowance	4.1	(1.2)	(24.6)	(17.1)
Discount Rate	6.25%	6.56%	6.25%	6.50%
Expected Long-term Rate of of Return on Assets	7.50%	7.50%	NA	NA
Rate of Future Increase in Compensation	3.39%	3.39%	NA	NA

Historical Ratings

DBRS Rating	DBRS Trend	DBRS Date	S&P Rating	S&P Trend	S&P Date	Moody's Rating	Moody's Trend	Moody's Date
A (L)	Stable	4-Apr-00	BBB	Stable	14-Nov-01	A3	Stable	8-Nov-01
			BBB	Credit Watch Negative	19-Nov-02	A3	Under Review - Negative	19-Nov-02
			BBB-	Stable	26-Jun-03	A3	Stable	12-Dec-02

Note: On March 12, 2004, Terasen Inc. disengaged its relationship with S&P. The rating agency will continue to provide ratings on Terasen and its subsidiaries using public information.

Company Risk Disclosure

In addition to the risks involved in investing in corporate debt securities generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Sue McNamara, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee/Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns as of the date of this report and are subject to change without notice. BMO Nesbitt Burns endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns' Equity Research. BMO Nesbitt Burns HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis.

BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provides other remunerated services to, many issuers covered by BMO Nesbitt Burns' Equity Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 9: HNC or an affiliate received compensation for products or services other than investment banking services from this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services & Non Securities Related Services.

Dissemination of Research

BMO Nesbitt Burns Equity Research is available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

"Nesbitt Burns" is a registered trade-mark of BMO Nesbitt Burns Corporation Limited, used under licence.

BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

Stock Rating: Underperform ↓
Industry Rating: Underperform

November 24, 2004
Research Comment
Pipelines

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Andrew Shufelt/Keith Carpenter

BCUC Releases 2005 ROE; Rating Lowered to Underperform

Event

The British Columbia Utilities Commission has released the return on common equity for a low-risk benchmark utility for the year 2005. The allowed return is 9.03% for the facilities of Terasen Gas in 2005 versus 9.15% in 2004. The allowed return for Terasen Gas Vancouver Island is 9.53%, a 50 basis point premium to the low-risk benchmark, versus 9.65% in 2004. We are also lowering our rating on the shares of Terasen to Underperform from Market Perform, due to recent strength in share price.

Impact

Neutral.

Forecasts

Our 2004 EPS estimate is unchanged. Our 2005 and 2006 diluted EPS estimates decline slightly to $1.47 and $1.51 per share, respectively, versus $1.48 and $1.52 per share, previously.

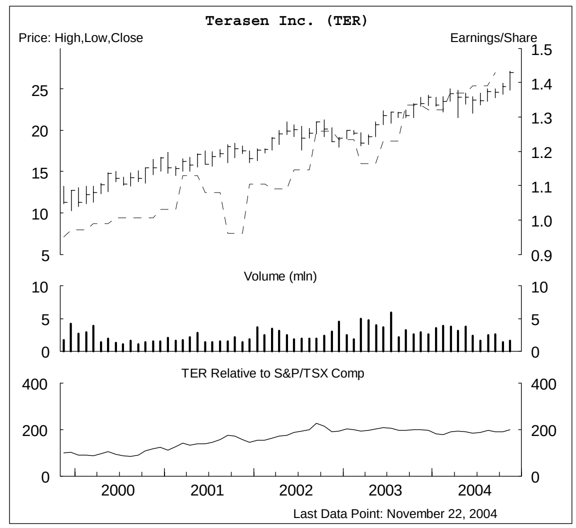
Valuation

Our target price of $25.50 reflects a weighted average valuation approach: 15x estimated 2006 diluted EPS of $1.51 (12.5%), 1.75x estimated 2006 book value per share of $14.25 (12.5%), and a target yield of 3.5% (75%), assuming 2006 dividends per share of $0.91.

Recommendation

We believe that the shares are fully valued at present levels. We are lowering our rating to Underperform.

Price (22-Nov)	$26.95	**52-Week High**	$27.19
Target Price	$25.50	**52-Week Low**	$21.50



(FY-Dec.)	2002A	2003A	2004E	2005E
EPS	$1.26	$1.28	$1.40	$1.47↓
P/E			19.3x	18.3x
CFPS	$3.60	$2.58	$2.34	$2.42
P/CFPS			11.5x	11.1x
Div.	$0.69	$0.77	$0.83	$0.87
EV ($mm)	$4,390	$5,296	$5,927	$5,959
EBITDA ($mm)	$456	$503	$546	$570
EV/EBITDA	9.6x	10.5x	10.8x	10.5x

Quarterly EPS	Q1	Q2	Q3	Q4
2002A	$0.78	$0.01	-$0.17	$0.62
2003A	$0.71	$0.08	-$0.07	$0.60
2004E	$0.76a	$0.10a	-$0.03a	$0.59

Dividend	$0.84	**Yield**	3.1%
Book Value	$13.29	**Price/Book**	2.0x
Shares O/S (mm)	104.7	**Mkt. Cap ($mm)**	$2,822
Float O/S (mm)	104.7	**Float Cap ($mm)**	$2,822
Wkly Vol (000s)	637	**Wkly $ Vol (mm)**	$15.2
Net Debt ($mm)	$3,137.3	**Next Rep. Date**	4-Feb (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2004E: $1.41; 2005E: $1.51

Changes	Annual EPS	Rating
	2005E $1.48 to $1.47	Mkt to Und

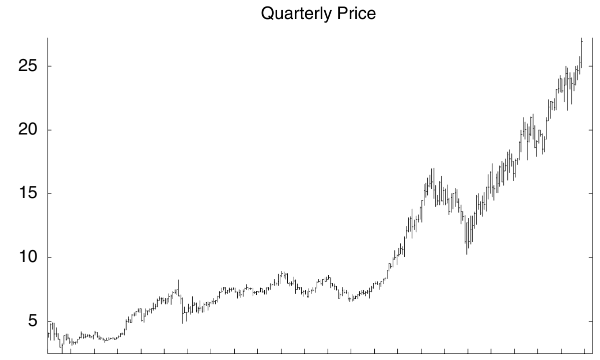
Please refer to pages 3 to 5 for Disclosure Statements, including the Analyst's Certification.

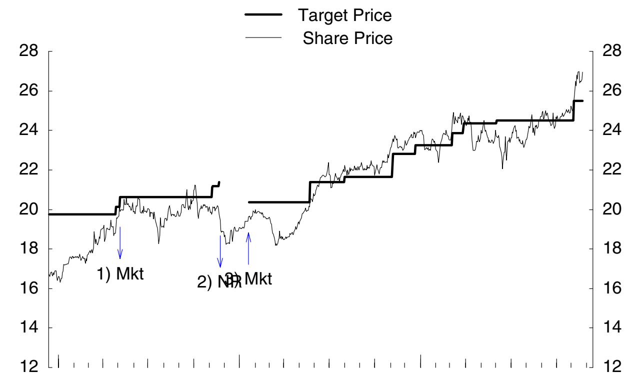
Table 1. Consolidated Summary Sheet

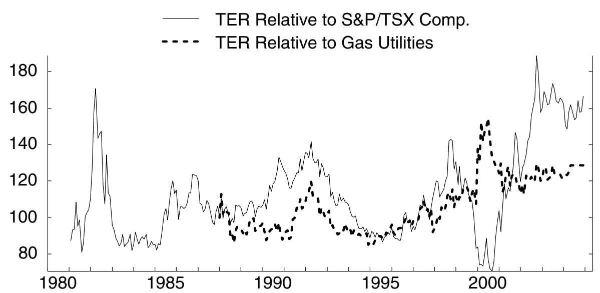
11/23/2004			Karen J. Taylor
Current Price:	$27.31		BMO Nesbitt Burns Inc.
12-Month Target Price:	$25.50		
Rate of Return:	-3.44%	Recommendation:	Underperform

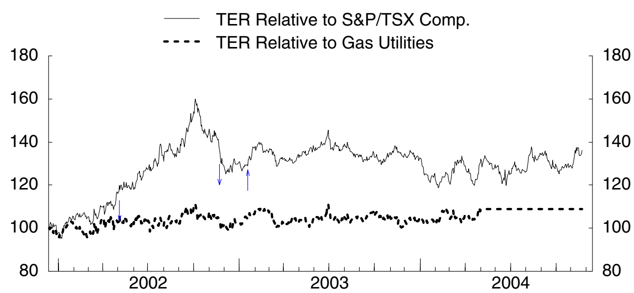
	Year Ending December 31							
	1999	**2000**	**2001**	**2002**	**2003**	**2004E**	**2005E**	**2006E**
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.40	$1.47	$1.51
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.41	$1.48	$1.53
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.94	$0.93	$0.93
Trans Mountain Pipe Line	$0.26	$0.25	$0.27	$0.34	$0.54	$0.66	$0.69	$0.71
Water/Other Businesses	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	($0.19)	($0.14)	($0.11)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.87	$0.91
Payout Ratio	60.1%	61.3%	63.7%	54.5%	59.3%	58.5%	58.8%	59.5%
Average Shares (mm)	76.6	76.6	76.6	86.4	103.8	104.7	104.7	104.7
Net Book Value	$8.31	$9.02	$9.39	$12.10	$12.44	$13.02	$13.64	$14.25
Market Valuation								
Price: High	$15.50	$16.73	$18.20	$21.25	$24.00	-	-	-
Price: Low	$10.50	$10.75	$14.88	$16.32	$18.18	-	-	-
Price: Current	-	-	-	-	-	$27.31	-	-
P/E Ratio: High	16.0	16.24	17.84	16.73	18.60	-	-	-
P/E Ratio: Low	10.8	10.44	14.58	12.85	14.09	-	-	-
P/E Ratio: Current	-	-	-	-	-	19.4	18.5	17.8
Price/Book Value: High	1.92	1.85	1.94	1.76	1.93	-	-	-
Price/Book Value: Low	1.30	1.19	1.58	1.35	1.46	-	-	-
Price/Book Value: Current	-	-	-	-	-	2.10	2.00	1.92
Yield: High Price	3.76%	3.66%	3.57%	3.26%	3.19%	-	-	-
Yield: Low Price	5.55%	5.70%	4.37%	4.24%	4.21%	-	-	-
Yield: Current Price	-	-	-	-	-	3.02%	3.19%	3.33%
Balance Sheet ($mm)								
Debt (S-T)	508.5	314.2	528.4	426.2	610.0	779.3	1,650.7	1,753.1
Debt (L-T)	1,001.8	1,561.9	1,928.0	2,123.4	2,301.1	2,174.9	1,336.0	1,233.7
Deferred Taxes	35.0	47.3	56.8	58.1	67.5	58.1	58.1	58.1
Minority Interest	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	645.1	701.5	718.7	1,244.5	1,302.3	1,363.4	1,427.8	1,491.8
	2,265.4	2,749.9	3,356.9	3,977.2	4,405.9	4,500.7	4,597.7	4,661.6
Balance Sheet (%)								
Debt (S-T)	22.4%	11.4%	15.7%	10.7%	13.8%	17.3%	35.9%	37.6%
Debt (L-T)	44.2%	56.8%	57.4%	53.4%	52.2%	48.3%	29.1%	26.5%
Deferred Taxes	1.5%	1.7%	1.7%	1.5%	1.5%	1.3%	1.3%	1.2%
Minority Interest	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	4.5%	3.7%	3.1%	2.8%	2.8%	2.7%	2.7%
Shareholders' Equity	28.5%	25.5%	21.4%	31.3%	29.6%	30.3%	31.1%	32.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	147.5	155.5	159.2
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	147.5	155.5	159.2
Cash Flow from Operations ($mm)	117.0	173.3	53.6	311.4	267.7	250.0	259.8	265.2

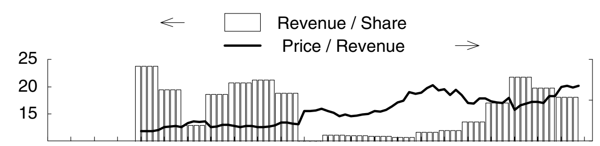
Terasen Inc. (TER)

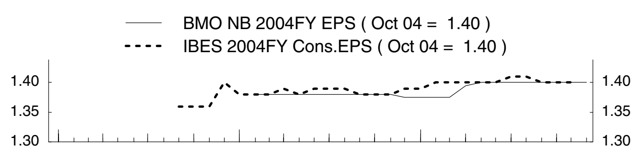


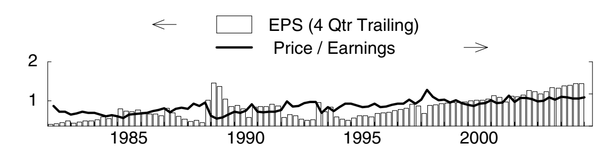


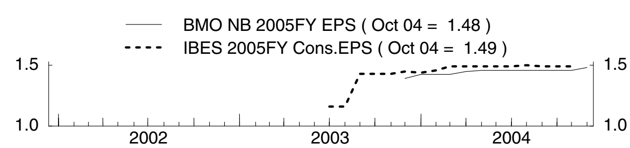












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
Current*	1.43	18	0.84	3.3	59	13.29	1.9	11
Average:		12		5.1	59		1.5	13.9
Growth(%):								
5 Year:	8.5		7.3			11.5		
10 Year:	10.8		6.4			7.4		
20 Year:	5.0		5.7			6.7		

* Current EPS is the 4 Quarter Trailing to Q3/2004.

TER - Rating as of 12-Dec-01 = OP

	Date	Rating Change	Share Price
1	3-May-02	OP to Mkt	$20.25
2	21-Nov-02	Mkt to NR	$19.76
3	17-Jan-03	NR to Mkt	$19.39

Last Daily Data Point: November 22, 2004

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 9: HNC or an affiliate received compensation for products or services other than investment banking services from this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services & Non Securities Related Services.

Distribution of Ratings

Rating Category	**BMO NB Rating**	**BMO NB Universe**	**BMO NB I.B. Clients***	**First Call Universe****
Buy	Outperform	43%	44%	48%
Hold	Market Perform	45%	45%	44%
Sell	Underperform	12%	11%	8%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.
** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

Terasen Inc

(TER-TSX)

December 2, 2004
Brief Research Note
Pipelines

Stock Rating: **Underperform**
Stock Price: **$27.34**
Target Price: **$25.50**

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Keith Carpenter

Expression of Interest Process

Impact

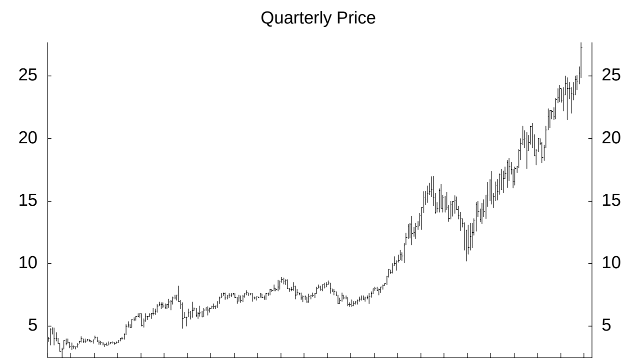
Neutral

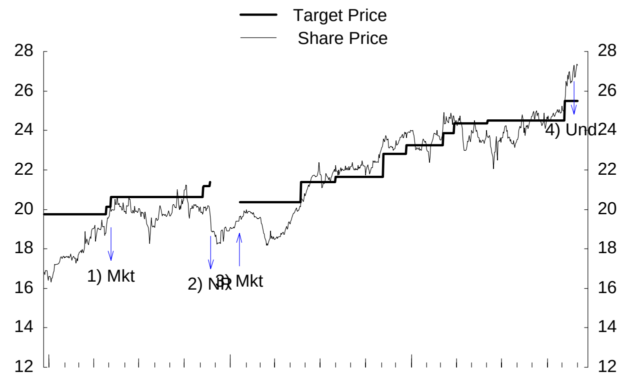
Details & Analysis

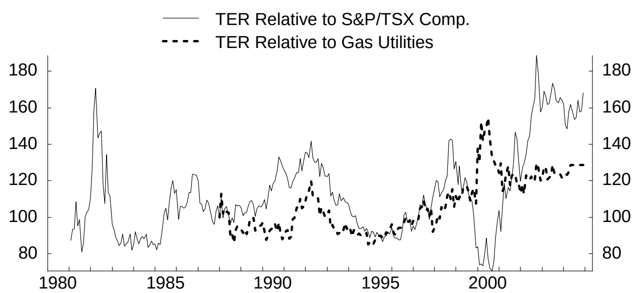
Terasen Pipelines (100% - Terasen Inc.) has announced that it has initiated an Expression of Interest process relating to a planned multi-stage, multi-route, expansion of the Trans Mountain Pipeline System over the next several years. Terasen Pipelines is currently seeking non-binding Expressions of Interest to confirm the level of support from individual companies for the potential phases of Expansion. Responses from potential shippers have been requested by January 26, 2005. Subject to the level of interest from this process, Terasen Pipelines plans to hold an Open Season for binding agreements for firm capacity on the expanded system in Q2/05. The announced Expression of Interest process is in line with expectations and we note that Terasen is hosting a one-half day analyst/investor information session in Toronto on December 2, 2004. No change in view. We rate the shares of Terasen Underperform.

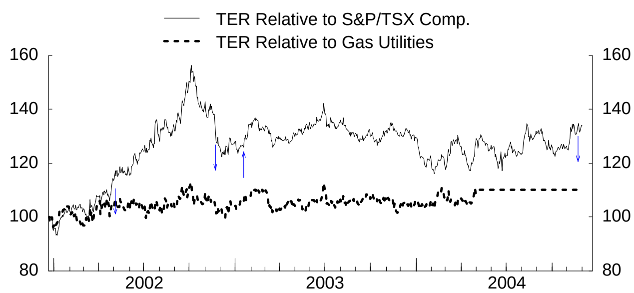
Please refer to pages 2 to 4 for Disclosure Statements, including the Analyst's Certification.

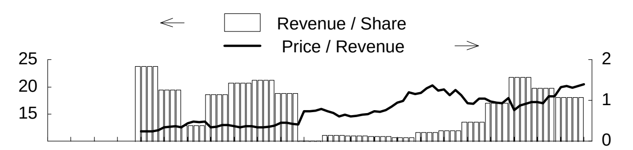
Terasen Inc. (TER)

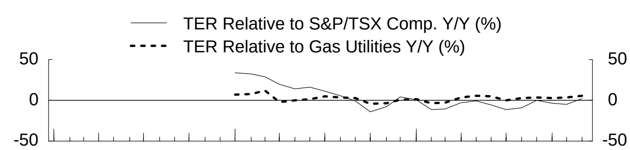


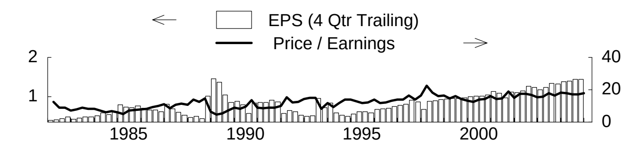












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
Current*	1.43	18	0.84	3.3	59	13.29	1.9	11
Average:		12		5.1	59		1.5	13.9
Growth(%):								
5 Year:	8.5		7.3			11.5		
10 Year:	10.8		6.4			7.4		
20 Year:	5.0		5.7			6.7		

* Current EPS is the 4 Quarter Trailing to Q3/2004.

TER - Rating as of 20-Dec-01 = OP

	Date	Rating Change	Share Price
1	3-May-02	OP to Mkt	$20.25
2	21-Nov-02	Mkt to NR	$19.76
3	17-Jan-03	NR to Mkt	$19.39
4	23-Nov-04	Mkt to Und.	$26.95

Last Daily Data Point: November 30, 2004

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee/Ltd. (“BMO Nesbitt Burns”). Harris Nesbitt Corp. (“HNC”) is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns as of the date of this report and are subject to change without notice. BMO Nesbitt Burns endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns’ Equity Research. BMO Nesbitt Burns HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis.

BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates (“BMO Financial Group”) has lending arrangements with, or provides other remunerated services to, many issuers covered by BMO Nesbitt Burns’ Equity Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 9: HNC or an affiliate received compensation for products or services other than investment banking services from this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services & Non Securities Related Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	43%	44%	48%
Hold	Market Perform	45%	45%	44%
Sell	Underperform	12%	11%	8%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.
** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Equity Research is available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

Terasen Inc.

(TER-TSX)

December 3, 2004
Research Comment
Pipelines

Stock Rating: Underperform
Industry Rating: Market Perform

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Keith Carpenter

Focus, Reliability, Growth - Investor Day 2004; Stock Remains Fully Valued

Event

Terasen Inc. held its first investor day in Toronto on December 2. The company presented its vision and value proposition for investors, and identified its prospects for future EPS growth for each of the company's key strategic business units: (1) natural gas distribution; (2) petroleum transportation; and (3) water and utility services.

Impact

Neutral.

Forecasts

No change.

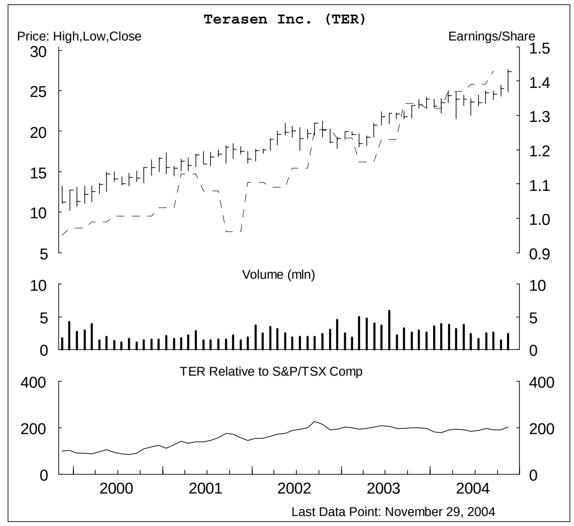
Valuation

Our target price of $25.50 reflects a weighted average valuation approach: 15x estimated 2006 diluted EPS of $1.51 (12.5%), 1.75x estimated 2006 book value per share of $14.25 (12.5%) and a target yield of 3.50% (75%), assuming 2006 dividends per share of $0.91.

Recommendation

We believe the shares are fully valued at present levels and we rate them Underperform.

Price (1-Dec)	$27.34	**52-Week High**	$27.66
Target Price	$25.50	**52-Week Low**	$21.50



(FY-Dec.)	2003A	2004E	2005E	2006E
EPS	$1.28	$1.40	$1.47	$1.51
P/E		19.5x	18.6x	18.1x
CFPS	$2.58	$2.39	$2.48	$2.54
P/CFPS		11.5x	11.0x	10.8x
Div.	$0.77	$0.83	$0.87	$0.91
EV ($mm)	$5,296	$5,959	$5,991	$5,991
EBITDA ($mm)	$503	$546	$567	$581
EV/EBITDA	10.5x	10.9x	10.6x	10.3x

Quarterly EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.08	-$0.07	$0.60
2004E	$0.76a	$0.10a	-$0.03a	$0.59
2005E	$0.80	$0.10	-$0.03	$0.60

Dividend	$0.84	**Yield**	3.1%
Book Value	$13.29	**Price/Book**	2.1x
Shares O/S (mm)	104.7	**Mkt. Cap ($mm)**	$2,862
Float O/S (mm)	104.7	**Float Cap ($mm)**	$2,862
Wkly Vol (000s)	643	**Wkly $ Vol (mm)**	$15.4
Net Debt ($mm)	$3,137.3	**Next Rep. Date**	4-Feb (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2004E: $1.41; 2005E: $1.51; 2006E: $1.56

Please refer to pages 7 to 9 for Disclosure Statements, including the Analyst's Certification.

Details & Analysis

Terasen Inc. held its first investor day in Toronto on December 2. The company presented its vision and value proposition for investors, and identified its prospects for future EPS growth for each of the company's key strategic business units: (1) natural gas distribution; (2) petroleum transportation; and (3) water and utility services.

There were a number of key messages that we believe are relevant from Terasen's investor day:

1. The company's value proposition is clear: (i) focus on its core businesses; (ii) produce reliable and consistent results from low risk businesses; and (iii) grow and steadily outperform by focusing on valuation creation.

2. Targeted EPS growth is a minimum of 6% per annum.

3. The company has a robust list of growth opportunities, as highlighted herein, and the "path forward" is likely to include a mix of organic, greenfield and growth through acquisitions. There does not appear to be a targeted mix of strategic businesses (in terms of net investment) in natural gas distribution, liquids pipelines or water/utility services. However, the company did indicate that the relative contribution from the liquids pipeline segment as a percentage of earnings per share is likely to increase given the extensive list of potential projects.

   Tables 1 and 2 highlight the company's projects under development. Chart 1 highlights the proposed multiple-stage, multiple-route expansion of the Trans Mountain liquids pipeline.

Table 1. Projects Under Development

Name	Expansion Volume	Cost (Millions)	In-Service Date	Estimated Contribution (Per Share)	Comments
Trans Mountain - Phase I	27,000 bbls/d	C$16	Mid-2004	$0.005	Increase Capacity to 225,000 from 200,000 bbls/d
Trans Mountain - Phase II	17,000 bbls/d	C$20	Early 2005	NA	Dropped December 8/03
Express/Platte - Phase I & II	108,000 bbls/d	US$110	Apr-05	$0.10	Increase Capacity to 280,000 from 172,000 bbls/d - Confirmed December 22
Corridor Pipeline	75,000 bbls/d	C$120	2008/9	NA	Increase Capacity to 230,000 from 155,000 bbls/d; Debottlenecking
Corridor Pipeline	NA	NA	2010	NA	Looping of Pipeline; Third Train Muskeg to 290,000 bbls/d
Bison Pipeline	175,000 bbls/d	C$410	Post 2010	NA	New Pipeline Proposal - Dependent Upon Jackpine Mine Development
Bison Pipeline - Phase I	150,000 bbls/d	C$190	Post 2010	NA	Increase Capacity to 325,000 from 172,000 bbls/d
Bison Pipeline - Phase II	345,000 bbls/d	C$430	Post 2010	NA	Increase Capacity to 670,000 from 325,000 bbls/d
Trans Mountain - Loop I	75,000 bbls/d	C$6-700	Late 2008	NA	Increase Capacity to 300,000 from 225,000 bbls/d
Trans Mountain - Loop II	100,000 bbls/d	C$6-700	Late 2009	NA	Increase Capacity to 400,000 from 300,000 bbls/d
Trans Mountain - Loop III	450,000 bbls/d	C$8-900	2010	NA	Increase Capacity to 850,000 from 400,000 bbls/d
Northern Leg - Trans Mountain	550,000 bbls/d	C$2,000	2010	NA	Increase Capacity by 550,000 above TX1 Capacity of 300,000 bbls/d
Eastern Leg - Trans Mountain	100,000 bbls/d	C$200	2007	NA	New Capacity from Edmonton to Hardisty on Trans Mountain
Terasen Gas Vancouver Island	NA	C$80	2007/08	$0.04	Compression on existing gas transmission line
Terasen Gas Vancouver Island	NA	C$100	2007/08	$0.06	LNG Storage Facility
Whistler Gas Pipeline	NA	C$40	NA	NA	Potential to replace existing propane system
Inland Pacific Connector	NA	C$3-500	2007/08	NA	Natural Gas; Terminum of Southern Crossing Pipeline to market hub at Sumas
Heartland Terminal	NA	C$30-$120	2006/10	NA	5-7 million bbls of tank and cavern storage

Source: Company Reports; BMO Nesbitt Burns

Chart 1. TMX Expansion

Source: Company Presentation

Table 2. TMX Expansion

Expansion Phase	Location	Earliest In-Service Year	Incremental Capacity (bpd)	Final Capacity (bpd)	Development Costs (millions)	Incremental Capital Costs (millions)	Cumulative Capital Costs (millions)
TMx1	Hinton, AB to Valemount, BC						
Pump Stations		2006	35,000	260,000		$205	
Anchor Loop		2008	40,000	300,000		$365	
Total			75,000		$12	$570	$570
Southern Option	Edmonton, AB to Burnaby, BC						
TMx2		2009	100,000	400,000	$6	$900	
TMx3		2010	450,000	850,000	$15	$800	
Total			550,000		$21	$1,700	$2,270
Northern Option	Edmonton, AB to Prince Rupert, BC or Kitimat, BC	2010	550,000	850,000	$23	$2,000	$2,570

Source: Company Reports, BMO Nesbitt Burns

The company believes that should any or all of the projects under development proceed, the risk profile of the company would not materially change. Acquisitions are also likely to be considered; however, purchases must be accretive within one or two years.

4. Opportunities are assessed on the basis of: (1) business knowledge and the relationship of the opportunity to the company's core businesses; (2) must have a positive financial impact; (3) compatibility with existing operating competencies; and (4) be manageable with respect to geography versus the existing asset base of the company.

5. No incremental equity issues are likely prior to 2007. The company did, however, indicate that its 45% interest in Clean Energy is a non-core position and that the asset would likely be monetized at an appropriate time.

6. The company indicated that it is not likely to pursue an income trust structure for its regulated distribution businesses and indicated that it had effectively created a "private" income fund structure by partnering with two pension funds.

We believe that the following points are relevant about the company's presentation and the strategy highlighted:

- No significant new information was presented. The session did highlight and reinforce our favourable view of the company's management team.
- The company is currently in a "sweet spot" from an aggregate size perspective. Single pipeline and/or utility infrastructure projects can materially increase earnings per share; sustaining a minimum 6% EPS growth rate is likely to be more challenging as the sheer size of the company increases, although we do not expect this to be a material concern over the current forecast period.
- In order to achieve a 6% EPS growth rate while maintaining a 40% earnings retention rate, projects need to yield a 15% return on equity. We note that the consolidated return on equity realized by the company over the 2004 to 2006 forecast period is expected to average 10.80%, below this benchmark.
- How much growth and how fast? The company does not consider itself to be opportunity or capital constrained; discipline and focus must therefore be the hallmarks of future behavior.
- The company is one of the more thinly capitalized energy utilities in our coverage universe and planned initiatives to increase the deemed equity of core utility operations combined with the equity capital required to support planned projects may result in the need for additional equity earlier than anticipated.
- The customers (exploration and development companies) must and will ultimately decide what liquids pipeline projects will proceed, where the relevant markets for the product are and what the product itself will look like. There appears to be no consensus in this regard and given the capital cost of the multiplicity of projects under development (by Terasen and others) and the landholder issues relating to pipeline proliferation, it may be some time before a clear development profile becomes apparent.
- The status of the incentive tolling agreement on the existing Trans Mountain Pipeline system is not yet resolved. The current agreement expires at the end of 2005 and efforts to extend/renew/renegotiate this agreement are likely to accelerate during 2005. We have not priced a material reduction in the contribution from the Trans Mountain Pipeline into our financial model for 2006—the return is similar to that earned in 2005. We are hopeful that this will be the case; however, it remains a risk point.

Estimates

Our 2004 to 2006 diluted EPS estimates of $1.40, $1.47 and $1.51, respectively, are unchanged.

Valuation

Our target price pf $25.50 reflects a weighted average valuation approach: 15x estimated 2006 diluted EPS of $1.51 (12.5%), 1.75x estimated 2006 book value per share of $14.25 (12.5%) and a target yield of 3.50% (75%), assuming 2006 dividends per share of $0.91.

Recommendation

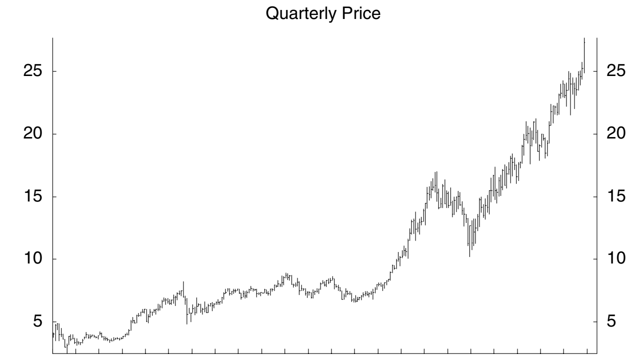
We believe the shares are fully valued and we rate them Underperform.

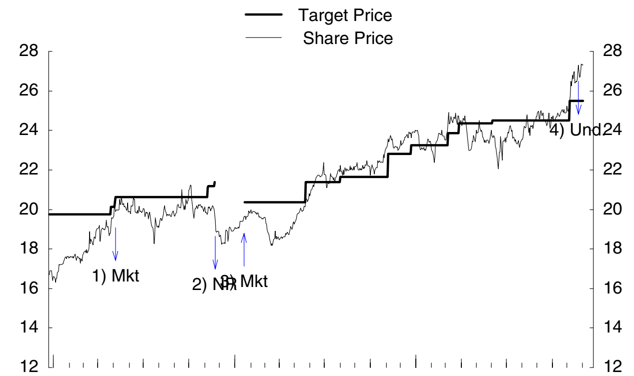
Table 3. Consolidated Summary Sheet

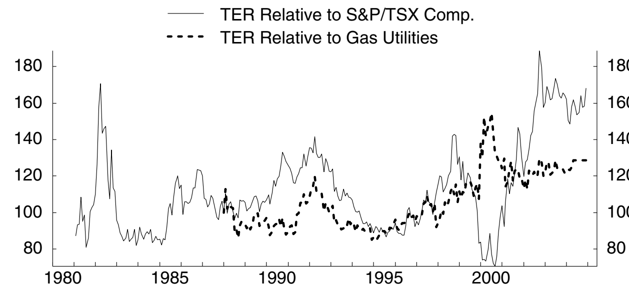
12/2/2004								Karen J. Taylor
Current Price:	$26.94							BMO Nesbitt Burns Inc
12-Month Target Price:	$25.50							
Rate of Return:	-2.12%				Rating:		Underperform	

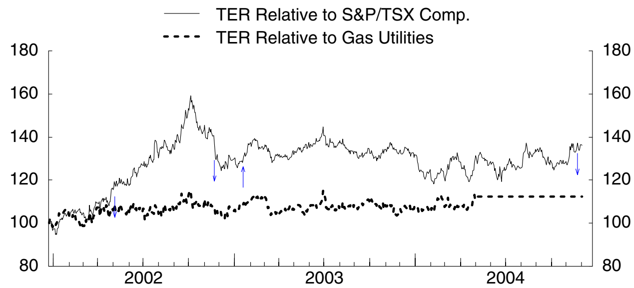
	Year Ending December 31							
	1999	2000	2001	2002	2003	2004E	2005E	2006E
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.40	$1.47	$1.51
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.41	$1.48	$1.53
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.94	$0.93	$0.93
Trans Mountain Pipe Line	$0.26	$0.25	$0.27	$0.34	$0.54	$0.66	$0.69	$0.70
Water/Other Businesses	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	($0.19)	($0.14)	($0.10)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.87	$0.91
Payout Ratio	60.1%	61.3%	63.7%	54.5%	59.3%	58.5%	58.8%	59.5%
Average Shares (mm)	76.6	76.6	76.6	86.4	103.8	104.7	104.7	104.7
Net Book Value	$8.31	$9.02	$9.39	$12.10	$12.44	$13.02	$13.64	$14.25
Market Valuation								
Price: High	$15.50	$16.73	$18.20	$21.25	$24.00	-	-	-
Price: Low	$10.50	$10.75	$14.88	$16.32	$18.18	-	-	-
Price: Current	-	-	-	-	-	$26.94	-	-
P/E Ratio: High	16.0	16.24	17.84	16.73	18.60	-	-	-
P/E Ratio: Low	10.8	10.44	14.58	12.85	14.09	-	-	-
P/E Ratio: Current	-	-	-	-	-	19.1	18.2	17.6
Price/Book Value: High	1.92	1.85	1.94	1.76	1.93	-	-	-
Price/Book Value: Low	1.30	1.19	1.58	1.35	1.46	-	-	-
Price/Book Value: Current	-	-	-	-	-	2.07	1.98	1.89
Yield: High Price	3.76%	3.66%	3.57%	3.26%	3.19%	-	-	-
Yield: Low Price	5.55%	5.70%	4.37%	4.24%	4.21%	-	-	-
Yield: Current Price	-	-	-	-	-	3.06%	3.23%	3.38%
Balance Sheet ($mm)								
Debt (S-T)	508.5	314.2	528.4	426.2	610.0	779.3	1,650.9	1,752.8
Debt (L-T)	1,001.8	1,561.9	1,928.0	2,123.4	2,301.1	2,174.9	1,336.0	1,233.7
Deferred Taxes	35.0	47.3	56.8	58.1	67.5	58.1	58.1	58.1
Minority Interest	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	645.1	701.5	718.7	1,244.5	1,302.3	1,363.4	1,427.6	1,492.1
	2,265.4	2,749.9	3,356.9	3,977.2	4,405.9	4,500.7	4,597.7	4,661.6
Balance Sheet (%)								
Debt (S-T)	22.4%	11.4%	15.7%	10.7%	13.8%	17.3%	35.9%	37.6%
Debt (L-T)	44.2%	56.8%	57.4%	53.4%	52.2%	48.3%	29.1%	26.5%
Deferred Taxes	1.5%	1.7%	1.7%	1.5%	1.5%	1.3%	1.3%	1.2%
Minority Interest	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	4.5%	3.7%	3.1%	2.8%	2.8%	2.7%	2.7%
Shareholders' Equity	28.5%	25.5%	21.4%	31.3%	29.6%	30.3%	31.1%	32.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	147.5	155.3	159.7
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	147.5	155.3	159.7
Cash Flow from Operations ($mm)	117.0	173.3	53.6	311.4	267.7	250.0	259.6	265.7

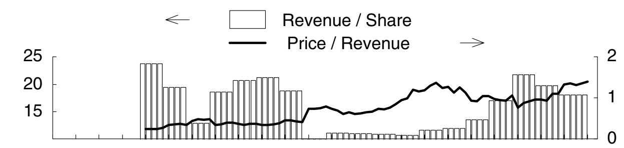
Terasen Inc. (TER)

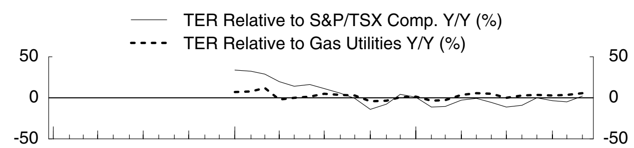


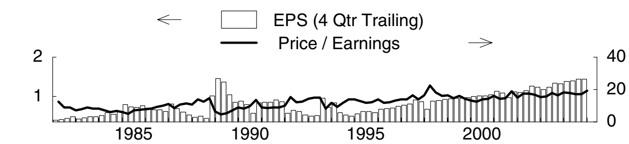












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
Current*	1.43	19	0.84	3.1	59	13.29	2.1	11
Average:		12		5.1	59		1.5	13.9
Growth(%):								
5 Year:	8.5		7.3			11.5		
10 Year:	10.8		6.4			7.4		
20 Year:	5.0		5.7			6.7		

* Current EPS is the 4 Quarter Trailing to Q3/2004.

TER - Rating as of 21-Dec-01 = OP

	Date	Rating Change	Share Price
1	3-May-02	OP to Mkt	$20.25
2	21-Nov-02	Mkt to NR	$19.76
3	17-Jan-03	NR to Mkt	$19.39
4	23-Nov-04	Mkt to Und.	$26.95

Last Daily Data Point: December 1, 2004

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 9: HNC or an affiliate received compensation for products or services other than investment banking services from this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services & Non Securities Related Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	43%	44%	48%
Hold	Market Perform	45%	45%	44%
Sell	Underperform	12%	11%	8%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.
** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

Terasen Inc.

December 3, 2004
Research Comment
Corporate Debt – Pipelines & Utilities

Highlights from Investor Day

Sue McNamara, CFA
(416)-359-4584
sue.mcnamara@bmonb.com

Event

Terasen Inc. held an investor day in Toronto.

Impact

Neutral.

Key Points

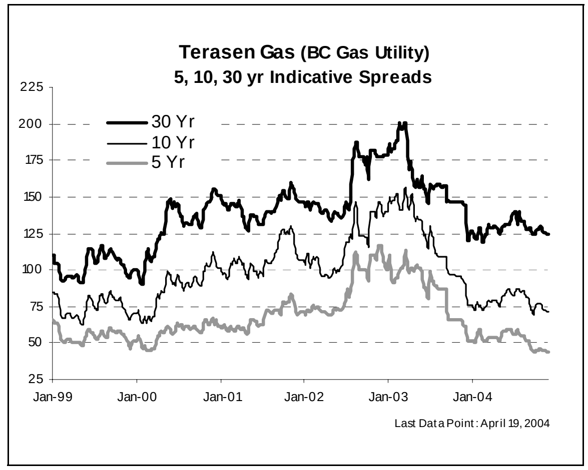
Terasen's target capital structure on a consolidated basis is 67% debt/33% equity, an average of the approved capital structures for its existing regulated businesses. We believe that the target capital structure could increase over time as the company invests in projects or acquisitions that have higher deemed equity levels. The company plans to refinance Terasen Gas Vancouver Island (TGVI) and Terasen Pipelines (Corridor) short-term debt with long-term debt in 2005. At year-end 2003, TGVI had $220.4 million outstanding under a syndicated credit facility and Corridor had $464 million of commercial paper outstanding.

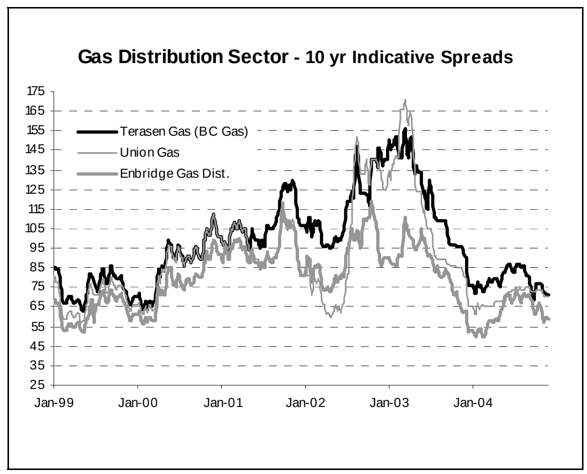
Recommendation

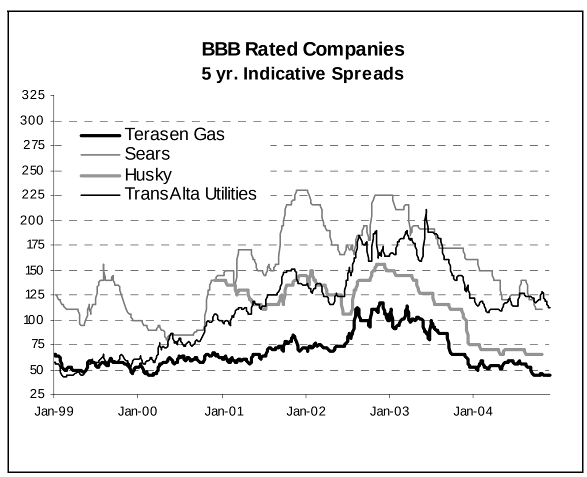
Year to date, Terasen's 5-year, 10-year and 30-year credit spreads have tightened by 8, 6 and 6 basis points, respectively. We believe that the company's spreads will likely widen over the next 12 months. Terasen has a robust list of projects under development over the 2004 to 2010 period that will likely require a combination of debt and equity financing. We also expect Terasen to aggressively pursue acquisition opportunities in its core areas of operations. We believe any acquisition (depending on how it is financed) could be a credit event, as the company is relatively thinly capitalized.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
A (Low)	BBB-	A3
Stable	Stable	Stable







Please refer to pages 5 to 6 for Disclosure Statements, including the Analyst's Certification.

Details & Analysis

Terasen Inc. held an investor day in Toronto. Highlights relevant for the corporate debt market include:

- The company outlined a list of development projects that, if all were completed, would require a total investment of $3.0–3.6 billion over the 2005 to 2010 time frame (for additional details, please see the research comment on Terasen Inc. by BMO Nesbitt Burns' analyst Karen Taylor).
- Management delineated a strategy of delivering 6% earnings per share growth from a combination of organic, greenfield and mergers and acquisitions opportunities while maintaining strong balance sheet and credit ratings.
- The company pursues a disciplined acquisition strategy whereby any acquisition is targeted to be accretive to earnings within a one- to two-year time frame as well as providing additional opportunities for greenfield development. Growth will likely be targeted within the company's core areas of competency (gas and electric distribution, oil and gas pipelines, water and utility services) and located in contiguous geographic regions (Alberta and the U.S. Pacific Northwest).
- The company stated that major new acquisitions in the near term would require new equity. The TMX project (staged twinning of the Trans Mountain pipeline) would also likely require additional equity, but that is not expected to be required until 2007. Terasen would consider conventional and non-conventional sources of equity, including treasury offerings, asset monetizations, hybrid equity and financial partners (i.e. pension funds). Management does not consider an income trust vehicle an appropriate option for its LDC businesses.
- The company will likely exit its international consulting business and monetize its 45% interest in Clean Energy.
- Terasen's target capital structure on a consolidated basis is 67% debt/33% equity, an average of the approved capital structures for its existing regulated businesses. We believe that the target capital structure could increase over time as the company invests in projects or acquisitions that have higher deemed equity levels.
- The company plans to refinance Terasen Gas Vancouver Island (TGVI) and Terasen Pipelines (Corridor) short-term debt with long-term debt in 2005. At year-end 2003, TGVI had $220.4 million outstanding under a syndicated credit facility and Corridor had $464 million of commercial paper outstanding.
- Terasen Inc. and Terasen Pipelines have no debt maturities in 2005 and 2006. Terasen Gas has maturities of $395 million and $220 million in 2005 and 2006, respectively (Table 1). We believe that the Terasen Gas maturities will likely be refinanced. The company has $550 million remaining under its $700 million short form base shelf prospectus for medium term notes (expiry January 2005).

Table 1. Terasen Gas Debt Maturities – 2005 and 2006

Company	Instrument	Amount ($mm)	Coupon	Maturity
Terasen Gas Inc.	MTNs	$40	9.800%	9-Feb-05
Terasen Gas Inc.	MTNs	$5	8.250%	29-Jun-05
Terasen Gas Inc.	MTNs	$200	6.500%	20-Jul-05
Terasen Gas Inc.	Floating Rate Notes	$150	Floating	26-Sep-05
Terasen Gas Inc.	MTNs	$100	4.850%	8-May-06
Terasen Gas Inc.	MTNs	$100	6.150%	31-Jul-06
Terasen Gas Inc.	Retractable Debentures	$20	9.750%	17-Dec-06

Source: Company Reports

Credit Ratings

Terasen Inc.'s senior unsecured debt is rated A(Low), BBB- and A3 by DBRS, Standard and Poor's and Moody's, respectively. The outlook from all three rating agencies is Stable. Terasen Inc. announced on March 15, 2004 the discontinuation of the engagement of S&P to provide credit ratings in respect of the company's MTN programs. S&P stated that it intends to provide ratings coverage of the Terasen companies based on publicly available information. S&P rates Terasen's Medium Term Notes at BBB- (Stable) three notches below the DBRS rating of A(Low) (Stable) and the Moody's rating of A3 (Stable). S&P states that the company's stable cash flow generated from the pipelines and natural gas distribution businesses does not completely offset the risk of high leverage and weak cash protection measures. DBRS states that the medium-term outlook for Terasen remains relatively stable given the increased asset diversification, providing greater stability to earnings and operating cash flows. The key risks to Terasen's credit ratings, as identified by DBRS, are related to the outcome of the large-scale projects, primarily pipeline projects, currently under active development. As the importance of Terasen's pipeline and non-regulated businesses continues to grow, DBRS believes that Terasen will require a higher equity base to maintain the current ratings. Moody's states that the Stable outlook on Terasen reflects the credit rating agency's expectation that Terasen will continue to generate strong cash flows and will take a prudent approach to the scale and financing of investments in the petroleum pipeline segment.

Recommendation

Year to date, Terasen's 5-year, 10-year and 30-year credit spreads have tightened by 8, 6 and 6 basis points, respectively. We believe that the company's spreads will likely widen over the next 12 months. Terasen has a robust list of projects under development over the 2004 to 2010 period that will likely require a combination of debt and equity financing. We also expect Terasen to aggressively pursue acquisition opportunities in its core areas of operations. We believe any acquisition (depending on how it is financed) could be a credit event, as the company is relatively thinly capitalized.

Terasen Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount ($mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding ($mm)
Terasen Pipelines Inc.	10.750%	22-Nov-04	$30	Senior Unsecured	22-Nov-89	NA	Make Whole + 50 bps	NA	$30
Terasen Gas Inc.	9.800%	9-Feb-05	$40	MTNs	9-Feb-95	NA	Non-callable	05534ZAA4	$40
Terasen Gas Inc.	8.250%	29-Jun-05	$5	MTNs	29-Jun-95	NA	Non-callable	05534ZAB2	$5
Terasen Gas Inc.	6.500%	20-Jul-05	$200	MTNs	20-Jul-00	57.0 bps	Non-callable	05534ZAG1	$200
Terasen Gas Inc.	Floating[1]	26-Sep-05	$150	Floating Rate Notes	26-Sep-03	NA	Non-callable	88079ZAAZ	$150
Terasen Gas Inc.	4.850%	8-May-06	$100	MTNs	8-May-03	NA	Non-callable	88079ZAA1	$100
Terasen Gas Inc.	6.150%	31-Jul-06	$100	MTNs	30-Jul-01	73.0 bps	Make Whole + 18 bps	88079ZAL0	$100
Terasen Gas Inc.	9.750%	17-Dec-06	$20	Retractable Debentures	17-Dec-86	NA	Non-callable	NA	$20
Terasen Gas Inc.	6.500%	16-Oct-07	$100	MTNs	16-Oct-00	75.0 bps	Make Whole + 18 bps	05534ZAH9	$100
Terasen Gas Inc.	6.200%	2-Jun-08	$188	MTNs	21-Oct-97	80.0 bps	Non-callable	05534ZAC0	$188
Terasen Gas Inc.	6.300%	1-Dec-08	$200	MTNs	30-Nov-01	NA	Make Whole + 27 bps	11058ZAA8	$200
Terasen Gas Inc.	10.750%	8-Jun-09	$60	Debentures	8-Jun-89	NA	Make Whole + 40 bps	457452AH3	$60
Terasen Pipelines Inc.	11.500%	1-Jun-10	$35	Senior Unsecured	20-Jun-90	NA	Make Whole + 50 bps	NA	$35
Express Pipeline	6.470%	31-Dec-13	US$150	Senior Secured Notes	6-Feb-98	NA	Make Whole + 25 bps	30217VAA5	US$112.8
Terasen Gas Inc.	11.800%	30-Sep-15	$75	Mortgage	3-Dec-90	NA	Non-callable	05534RAA2	$75
Terasen Gas Inc.	10.300%	30-Sep-16	$200	Mortgage	21-Nov-91	104.0 bps	Make Whole + 35 bps	05534RAB0	$200
Express Pipeline	7.390%	31-Dec-19	US$250	Subordinated Secured Notes	6-Feb-98	NA	Make Whole + 50 bps	30217VAD9	US$239.2
Terasen Gas Inc.	6.950%	21-Sep-29	$150	MTNs	21-Sep-99	112.0 bps	Make Whole + 28 bps	05534ZAF3	$150
Terasen Gas Inc.	6.500%	1-May-34	$150	MTNs	29-Apr-04	127.0 bps	Make Whole + 31 bps	88078ZAB0	$150
Terasen Inc.	8.000%	19-Apr-40	$125	Subordinated Debentures	19-Apr-00	235.0 bps	Make Whole + 55 bps	05534KAA7	$125

[1] 35 basis points to 3 month Bankers Acceptances

Ownership Structure

Widely held.

Credit Facilities

Company	Facility Size	Amount Drawn Q2/04	Amount Drawn FY 2003	Letters of Credit Q2/04	Letters of Credit FY 2003	Maturity	Type
Terasen Inc.	$300	$200.0	$200.0			NA	Lines of Credit
Terasen Gas Inc.	$500	$70.0	$353.0			NA	Lines of Credit
Terasen Gas Vancouver	$213	$160.0	$160.0			NA	Lines of Credit
Corridor Pipelines	$525	$525.0	$525.0			NA	Lines of Credit

Shelf Prospectus

Company	Type	Amount	Remaining	Date	Expiry	Instruments
Terasen Gas Inc.	Shelf	$700	$550	10-Dec-03	10-Jan-05	MTNs
Terasen Inc.	Shelf	$800	$800	10-Dec-03	10-Jan-05	Unsecured Debentures

Pension Summary

	Pension Benefit Plans FY 2003 ($mm)	Pension Benefit Plans FY 2002 ($mm)	Other Benefit Plans FY 2003 ($mm)	Other Benefit Plans FY 2002 ($mm)
Accrued Benefit Obligation	275.5	250.8	61.0	49.9
Plan Assets	255.1	221.2	-	-
Funded Status	(20.4)	(29.6)	(61.0)	(49.9)
Accrued Benefit Asset (Liability) Net of Valuation Allowance	4.1	(1.2)	(24.6)	(17.1)
Discount Rate	6.25%	6.56%	6.25%	6.50%
Expected Long-term Rate of of Return on Assets	7.50%	7.50%	NA	NA
Rate of Future Increase in Compensation	3.39%	3.39%	NA	NA

Historical Ratings

DBRS Rating	DBRS Trend	DBRS Date	S&P Rating	S&P Trend	S&P Date	Moody's Rating	Moody's Trend	Moody's Date
A (L)	Stable	4-Apr-00	BBB	Stable	14-Nov-01	A3	Stable	8-Nov-01
			BBB	Credit Watch Negative	19-Nov-02	A3	Under Review - Negative	19-Nov-02
			BBB-	Stable	26-Jun-03	A3	Stable	12-Dec-02

Note: On March 12, 2004, Terasen Inc. disengaged its relationship with S&P. The rating agency will continue to provide ratings on Terasen and its subsidiaries using public information.

Company Risk Disclosure

In addition to the risks involved in investing in corporate debt securities generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Sue McNamara, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee/Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns as of the date of this report and are subject to change without notice. BMO Nesbitt Burns endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns' Equity Research. BMO Nesbitt Burns HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis.

BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provides other remunerated services to, many issuers covered by BMO Nesbitt Burns' Equity Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 9: HNC or an affiliate received compensation for products or services other than investment banking services from this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services & Non Securities Related Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients *	First Call Universe **
Buy	Outperform	43%	44%	48%
Hold	Market Perform	45%	45%	44%
Sell	Underperform	12%	11%	8%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.
** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Corporate Research is available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.Additional Matters

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

Terasen Inc.

(TER-TSX)

Stock Rating: Underperform
Industry Rating: Market Perform

December 20, 2004
Research Comment
Pipelines

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Keith Carpenter

BCUC Approves 2005 Revenue Requirement and Rates; No Change in View

Event

On December 14, the British Columbia Utilities Commission approved Terasen Gas Inc.'s (100% - Terasen) 2005 Revenue Requirement and Delivery Rates, as per the terms of the Negotiated Settlement for 2004 to 2007. Among other things, the decision allows Terasen Gas to include the cost of certain facilities previously financed as a synthetic lease with 100% debt financing. These facilities, known as the Coastal Facilities, total some $50.3 million. The Commission has allowed the utility to include these assets in rate base with a depreciation rate of 1.5%, and 67% debt and 33% equity financing.

Impact

Slightly Positive.

Forecasts

The utility will, effective in 2005, earn an equity return on that portion of the synthetic lease that was previously debt financed. Our diluted 2005 and 2006 EPS estimates therefore increase to $1.49 and $1.53 from $1.47 and $1.51 previously.

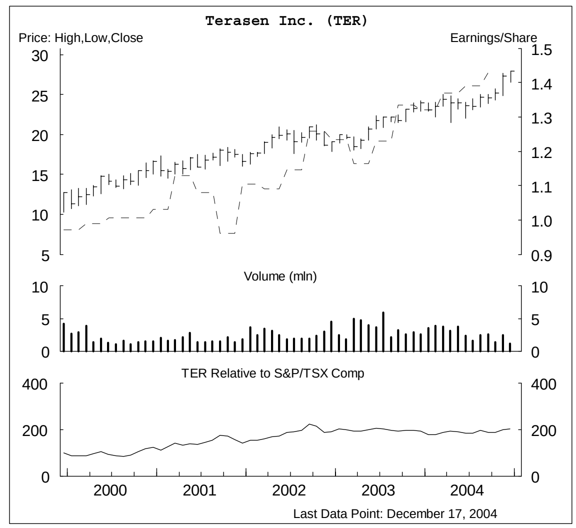
Valuation

Our target price reflects a weighted average valuation approach: 15x estimated 2006 EPS of $1.53 (12.5%), 1.75x estimated 2006 book value per share of $14.28 (12.5%), and a target yield of 3.5% (75%), assuming 2006 dividends per share of $0.91.

Recommendation

We believe that the shares are fully valued and we rate them Underperform.

Price (17-Dec)	$28.00	**52-Week High**	$28.00
Target Price	$25.50	**52-Week Low**	$21.50



(FY-Dec.)	2003A	2004E	2005E	2006E
EPS	$1.28	$1.40	$1.49↑	$1.53↑
P/E		20.0x	18.8x	18.3x
CFPS	$2.58	$2.39	$2.48	$2.54
P/CFPS		11.7x	11.3x	11.0x
Div.	$0.77	$0.83	$0.87	$0.91
EV ($mm)	$5,296	$5,958	$5,990	$5,990
EBITDA ($mm)	$503	$546	$567	$581
EV/EBITDA	10.5x	10.9x	10.6x	10.3x

Quarterly EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.08	-$0.07	$0.60
2004E	$0.76a	$0.10a	-$0.03a	$0.59
2005E	$0.81↑	$0.10	-$0.03	$0.61↑

Dividend	$0.84	**Yield**	3.0%
Book Value	$13.29	**Price/Book**	2.1x
Shares O/S (mm)	104.7	**Mkt. Cap ($mm)**	$2,932
Float O/S (mm)	104.7	**Float Cap ($mm)**	$2,932
Wkly Vol (000s)	627	**Wkly $ Vol (mm)**	$15.2
Net Debt ($mm)	$3,137.3	**Next Rep. Date**	4-Feb (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2004E: $1.41; 2005E: $1.51; 2006E: $1.55

Changes

Annual EPS
2005E $1.47 to $1.49
2006E $1.51 to $1.53

Quarterly EPS
Q1/05E $0.80 to $0.81
Q4/05E $0.60 to $0.61

Please refer to pages 3 to 5 for Disclosure Statements, including the Analyst's Certification.

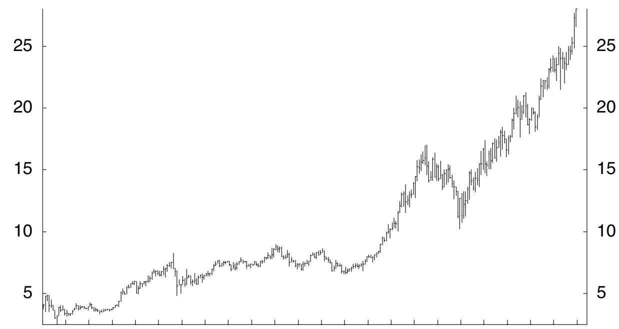
Table 1. Consolidated Summary Sheet

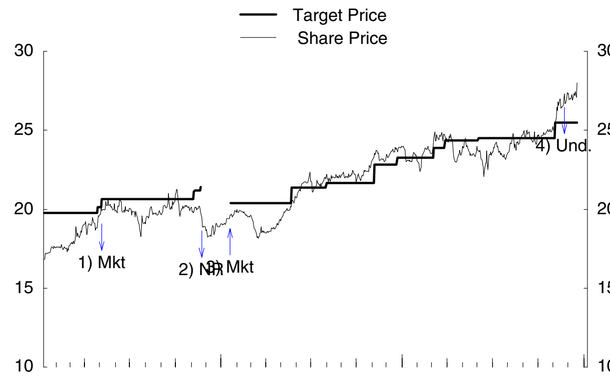
12/19/2004			Karen J. Taylor
Current Price:	$28.00		BMO Nesbitt Burns Inc.
12-Month Target Price:	$25.50		
Rate of Return:	-5.82%	Rating:	Underperform

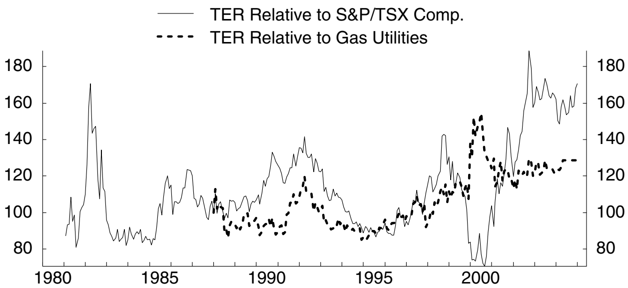
	Year Ending December 31							
	1999	**2000**	**2001**	**2002**	**2003**	**2004E**	**2005E**	**2006E**
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.40	$1.49	$1.53
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.41	$1.50	$1.55
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.94	$0.95	$0.95
Trans Mountain Pipe Line	$0.26	$0.25	$0.27	$0.34	$0.54	$0.66	$0.69	$0.70
Water/Other Businesses	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	($0.19)	($0.14)	($0.10)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.87	$0.91
Payout Ratio	60.1%	61.3%	63.7%	54.5%	59.3%	58.5%	58.0%	58.7%
Average Shares (mm)	76.6	76.6	76.6	86.4	103.8	104.7	104.7	104.7
Net Book Value	$8.31	$9.02	$9.39	$12.10	$12.44	$13.02	$13.65	$14.28
Market Valuation								
Price: High	$15.50	$16.73	$18.20	$21.25	$24.00	-	-	-
Price: Low	$10.50	$10.75	$14.88	$16.32	$18.18	-	-	-
Price: Current	-	-	-	-	-	$28.00	-	-
P/E Ratio: High	16.0	16.24	17.84	16.73	18.60	-	-	-
P/E Ratio: Low	10.8	10.44	14.58	12.85	14.09	-	-	-
P/E Ratio: Current	-	-	-	-	-	19.9	18.7	18.1
Price/Book Value: High	1.92	1.85	1.94	1.76	1.93	-	-	-
Price/Book Value: Low	1.30	1.19	1.58	1.35	1.46	-	-	-
Price/Book Value: Current	-	-	-	-	-	2.15	2.05	1.96
Yield: High Price	3.76%	3.66%	3.57%	3.26%	3.19%	-	-	-
Yield: Low Price	5.55%	5.70%	4.37%	4.24%	4.21%	-	-	-
Yield: Current Price	-	-	-	-	-	2.95%	3.11%	3.25%
Balance Sheet ($mm)								
Debt (S-T)	508.5	314.2	528.4	426.2	610.0	779.3	1,647.3	1,745.8
Debt (L-T)	1,001.8	1,561.9	1,928.0	2,123.4	2,301.1	2,174.9	1,336.0	1,233.7
Deferred Taxes	35.0	47.3	56.8	58.1	67.5	58.1	58.1	58.1
Minority Interest	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	645.1	701.5	718.7	1,244.5	1,302.3	1,363.4	1,429.3	1,495.4
	2,265.4	2,749.9	3,356.9	3,977.2	4,405.9	4,500.7	4,595.8	4,657.9
Balance Sheet (%)								
Debt (S-T)	22.4%	11.4%	15.7%	10.7%	13.8%	17.3%	35.8%	37.5%
Debt (L-T)	44.2%	56.8%	57.4%	53.4%	52.2%	48.3%	29.1%	26.5%
Deferred Taxes	1.5%	1.7%	1.7%	1.5%	1.5%	1.3%	1.3%	1.2%
Minority Interest	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	4.5%	3.7%	3.1%	2.8%	2.8%	2.7%	2.7%
Shareholders' Equity	28.5%	25.5%	21.4%	31.3%	29.6%	30.3%	31.1%	32.1%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	147.5	157.0	161.3
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	147.5	157.0	161.3
Cash Flow from Operations ($mm)	117.0	173.3	53.6	311.4	267.7	250.0	263.2	269.1

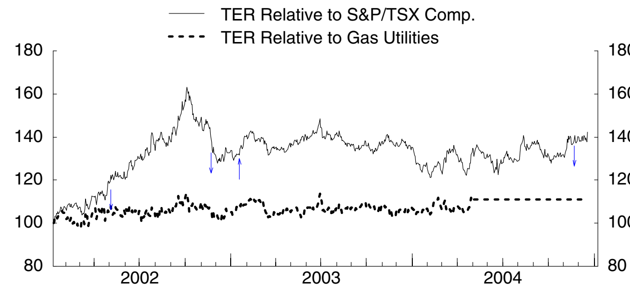
Terasen Inc. (TER)

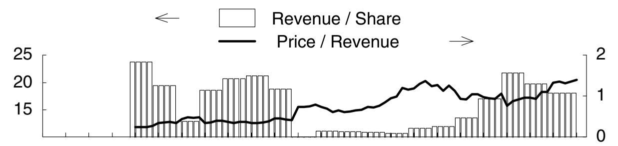
Quarterly Price

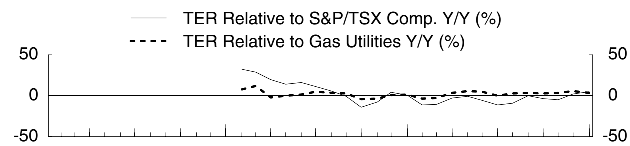


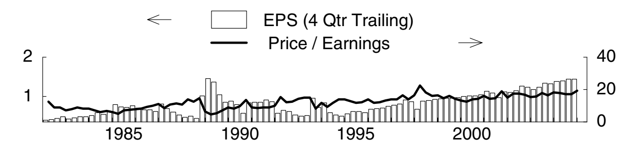












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
Current*	1.43	19	0.84	3.1	59	13.29	2.1	11
Average:		12		5.1	59		1.5	13.9
Growth(%):								
5 Year:	8.5		7.3			11.5		
10 Year:	10.8		6.4			7.4		
20 Year:	5.0		5.7			6.7		

* Current EPS is the 4 Quarter Trailing to Q3/2004.

TER - Rating as of 8-Jan-02 = OP

	Date	Rating Change	Share Price
1	3-May-02	OP to Mkt	$20.25
2	21-Nov-02	Mkt to NR	$19.76
3	17-Jan-03	NR to Mkt	$19.39
4	23-Nov-04	Mkt to Und.	$26.95

Last Daily Data Point: December 17, 2004

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 9: HNC or an affiliate received compensation for products or services other than investment banking services from this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services & Non Securities Related Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	37%	39%	45%
Hold	Market Perform	48%	47%	47%
Sell	Underperform	15%	14%	8%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

Stock Rating: Underperform
Industry Rating: Market Perform

February 1, 2005
Research Comment
Pipelines

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Keith Carpenter

Preliminary Interest in TMX - Phase I; Underperform Rating Unchanged

Event

Terasen Pipelines (100% - Terasen Inc.) has announced that it has received favourable preliminary interest from potential shippers on the planned, phased expansion of the Trans Mountain Pipeline. The first phase of expansion, TMx1, would increase the capacity by 75,000 bbls/d to 300,000 bbls/d at a total cost of $570 million; 35,000 bbls/d of incremental capacity would be added by late 2006 at a planned cost of $205 million and involve the installation of additional pump stations; and a further 40,000 bbls/d would be added by late 2008, at a cost of $365 million and involve the construction of a pipeline loop. Terasen has received sufficient shipper interest to continue with its development effort on the TMx expansion, and we expect a further open-season process to obtain term, unconditional shipping agreements by mid-2005.

Impact

Potentially positive.

Forecasts

No change. We have incorporated the first portion of TMx1 into our financial model, however: (1) definitive transportation agreements and regulatory approvals have not yet been obtained; and (2) terms of the new incentive agreement governing the Trans Mountain pipeline commencing January 1, 2006 are not yet known, and the potential contribution from the expansion is unknown.

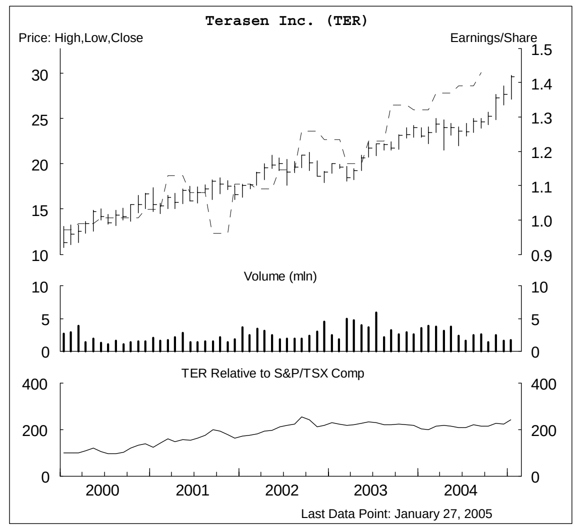
Valuation

Our target price reflects a weighted average valuation approach: 15x diluted 2006 EPS of $1.53 (12.5%), 1.75x 2006E book value of $14.29 (12.5%), and a target yield of 3.25% (75%), assuming 2005 dividends per share of $0.91.

Recommendation

We believe that the shares are fully valued and we rate them Underperform.

Price (28-Jan)	$29.02	**52-Week High**	$29.79
Target Price	$27.00	**52-Week Low**	$21.50



(FY-Dec.)	2003A	2004E	2005E	2006E
EPS	$1.28	$1.40	$1.49	$1.53
P/E		20.7x	19.5x	19.0x
CFPS	$2.58	$2.39	$2.48	$2.54
P/CFPS		12.2x	11.7x	11.4x
Div.	$0.77	$0.83	$0.87	$0.91
EV ($mm)	$5,296	$6,113	$6,143	$6,139
EBITDA ($mm)	$503	$546	$575	$589
EV/EBITDA	10.5x	11.2x	10.7x	10.4x

Quarterly EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.08	-$0.07	$0.60
2004E	$0.76a	$0.10a	-$0.03a	$0.59
2005E	$0.81	$0.10	-$0.03	$0.61

Dividend	$0.84	**Yield**	2.9%
Book Value	$13.29	**Price/Book**	2.2x
Shares O/S (mm)	104.7	**Mkt. Cap ($mm)**	$3,038
Float O/S (mm)	104.7	**Float Cap ($mm)**	$3,038
Wkly Vol (000s)	597	**Wkly $ Vol (mm)**	$14.7
Net Debt ($mm)	$3,137.3	**Next Rep. Date**	17-Feb (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2004E: $1.41; 2005E: $1.51; 2006E: $1.56

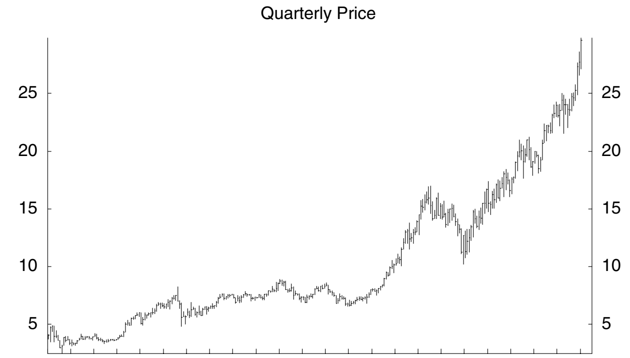
Please refer to pages 3 to 5 for Disclosure Statements, including the Analyst's Certification.

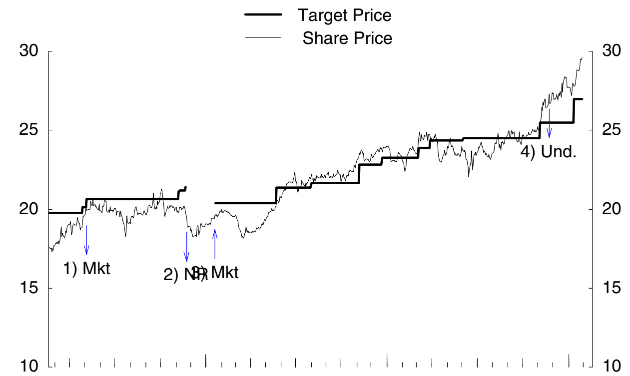
Table 1. Consolidated Summary Sheet

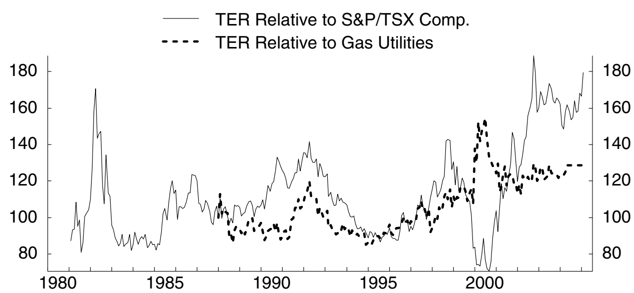
1/31/2005								Karen J. Taylor
Current Price:	$29.35							BMO Nesbitt Burns Inc
12-Month Target Price:	$27.00							
Rate of Return:	-5.04%				Rating:		Underperform	

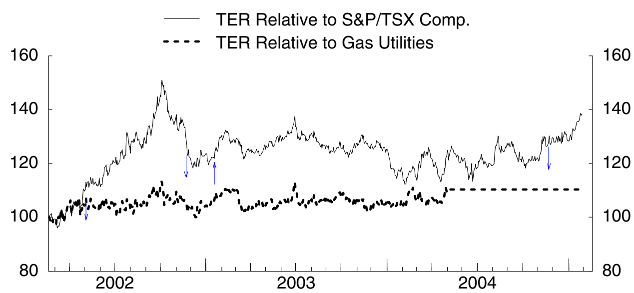
	Year Ending December 31							
	1999	2000	2001	2002	2003	2004E	2005E	2006E
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.40	$1.49	$1.53
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.41	$1.50	$1.55
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.94	$0.95	$0.95
Trans Mountain Pipe Line	$0.26	$0.25	$0.27	$0.34	$0.54	$0.66	$0.69	$0.70
Water/Other Businesses	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	($0.19)	($0.14)	($0.10)
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividends	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.87	$0.91
Payout Ratio	60.1%	61.3%	63.7%	54.5%	59.3%	58.5%	58.0%	58.7%
Average Shares (mm)	76.6	76.6	76.6	86.4	103.8	104.7	104.7	104.7
Net Book Value	$8.31	$9.02	$9.39	$12.10	$12.44	$13.02	$13.65	$14.29
Market Valuation								
Price: High	$15.50	$16.73	$18.20	$21.25	$24.00	$28.40	-	-
Price: Low	$10.50	$10.75	$14.88	$16.32	$18.18	$22.05	-	-
Price: Current	-	-	-	-	-	-	$29.35	-
P/E Ratio: High	16.0	16.24	17.84	16.73	18.60	20.14	-	-
P/E Ratio: Low	10.8	10.44	14.58	12.85	14.09	15.64	-	-
P/E Ratio: Current	-	-	-	-	-	-	19.6	18.9
Price/Book Value: High	1.92	1.85	1.94	1.76	1.93	2.18	-	-
Price/Book Value: Low	1.30	1.19	1.58	1.35	1.46	1.69	-	-
Price/Book Value: Current	-	-	-	-	-	-	2.15	2.05
Yield: High Price	3.76%	3.66%	3.57%	3.26%	3.19%	2.90%	-	-
Yield: Low Price	5.55%	5.70%	4.37%	4.24%	4.21%	3.74%	-	-
Yield: Current Price	-	-	-	-	-	-	2.96%	3.10%
Balance Sheet ($mm)								
Debt (S-T)	508.5	314.2	528.4	426.2	610.0	779.3	1,647.2	1,649.3
Debt (L-T)	1,001.8	1,561.9	1,928.0	2,123.4	2,301.1	2,174.9	1,336.0	1,533.7
Deferred Taxes	35.0	47.3	56.8	58.1	67.5	58.1	58.1	58.1
Minority Interest	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	645.1	701.5	718.7	1,244.5	1,302.3	1,363.4	1,429.4	1,495.6
	2,265.4	2,749.9	3,356.9	3,977.2	4,405.9	4,500.7	4,595.8	4,861.7
Balance Sheet (%)								
Debt (S-T)	22.4%	11.4%	15.7%	10.7%	13.8%	17.3%	35.8%	33.9%
Debt (L-T)	44.2%	56.8%	57.4%	53.4%	52.2%	48.3%	29.1%	31.5%
Deferred Taxes	1.5%	1.7%	1.7%	1.5%	1.5%	1.3%	1.3%	1.2%
Minority Interest	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	4.5%	3.7%	3.1%	2.8%	2.8%	2.7%	2.6%
Shareholders' Equity	28.5%	25.5%	21.4%	31.3%	29.6%	30.3%	31.1%	30.8%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	147.5	157.1	161.4
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	147.5	157.1	161.4
Cash Flow from Operations ($mm)	117.0	173.3	53.6	311.4	267.7	250.0	263.3	270.5

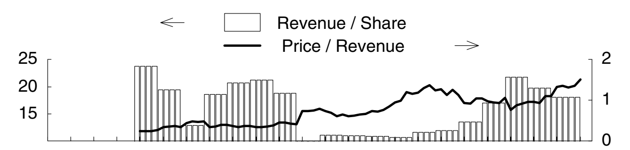
Terasen Inc. (TER)

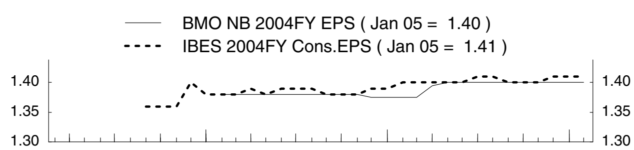


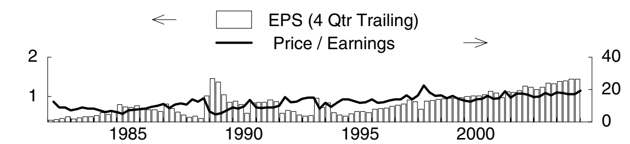


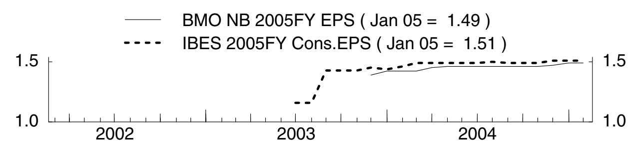












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
Current*	1.43	19	0.84	3.0	59	13.29	2.1	11
Average:		12		5.1	59		1.5	13.9
Growth(%):								
5 Year:	8.1		7.3			10.2		
10 Year:	11.4		6.4			7.2		
20 Year:	4.4		5.7			6.7		

* Current EPS is the 4 Quarter Trailing to Q3/2004.

TER - Rating as of 18-Feb-02 = OP

	Date	Rating Change	Share Price
1	3-May-02	OP to Mkt	$20.25
2	21-Nov-02	Mkt to NR	$19.76
3	17-Jan-03	NR to Mkt	$19.39
4	23-Nov-04	Mkt to Und.	$26.95

Last Daily Data Point: January 27, 2005

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	37%	39%	45%
Hold	Market Perform	48%	47%	47%
Sell	Underperform	15%	14%	8%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.
** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

"Nesbitt Burns" is a registered trade-mark of BMO Nesbitt Burns Corporation Limited, used under licence.

Terasen Inc.

(TER-TSX)

Stock Rating: Underperform
Industry Rating: Market Perform

May 5, 2005
Research Comment
Pipelines

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Keith Carpenter

Q1/05 EPS Moderately Lower Than Expected; Underperform Rating Maintained

Event

Terasen reported Q1/05 EPS of $0.63 (basic) per share. After adjusting for the positive affect of a mark-to-market gain on Clean Energy's (45% - Terasen Inc.) price risk management activities recorded during the quarter, reported basic EPS were $0.60, moderately lower than our expectation of $0.64 per share. The variance between expected and actual performance is largely attributable to a $0.05 per share reduction in the contribution from the Trans Mountain Liquids Pipeline System, due to production outages in Q1/05 at Syncrude and Suncor and refinery turnarounds at facilities connected to the system in British Columbia and Washington State.

Impact

Slightly negative.

Forecasts

Our 2005 and 2006 diluted EPS estimates of $1.47 and $1.55 are unchanged. We note that despite lower Q1/05 performance, management indicated that it remains comfortable with its established EPS growth rate of 6% per annum.

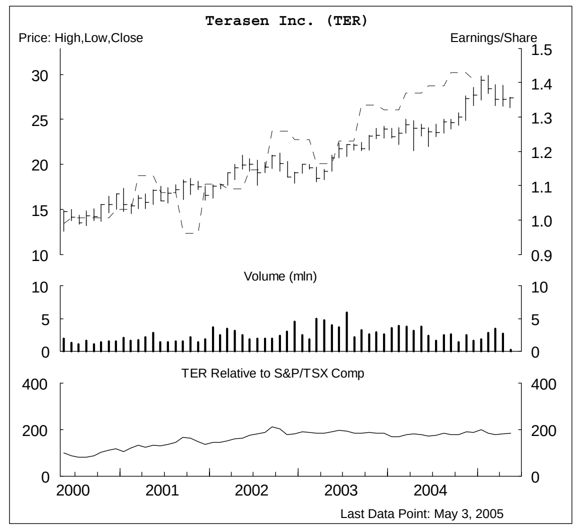
Valuation

Our target price of $27.75 reflects a weighted average valuation approach: 15x diluted 2006E EPS of $1.55 (12.5%), 1.75x 2006E book value of $14.34 (12.5%) and a target yield of 3.25% (75%), assuming 2006E dividends per share of $0.94.

Recommendation

We believe that the shares are fully valued at present levels and we rate them Underperform.

Price (4-May)	$27.45	**52-Week High**	$29.91
Target Price	$27.75	**52-Week Low**	$22.00



(FY-Dec.)	2003A	2004A	2005E	2006E
EPS	$1.28	$1.39	$1.47	$1.55
P/E			18.7x	17.7x
CFPS	$2.58	$3.27	$3.07	$3.25
P/CFPS			8.9x	8.5x
Div.	$0.77	$0.83	$0.90	$0.94
EV ($mm)	$5,296	$5,725	$6,098	$6,243
EBITDA ($mm)	$503	$521	$588	$625
EV/EBITDA	10.5x	11.0x	10.4x	10.0x

Quarterly EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.08	-$0.07	$0.60
2004A	$0.76	$0.10	-$0.03	$0.58
2005E	$0.60a	$0.23↑	$0.09↑	$0.55

Dividend	$0.90	**Yield**	3.3%
Book Value	$13.47	**Price/Book**	2.0x
Shares O/S (mm)	105.3	**Mkt. Cap ($mm)**	$2,890
Float O/S (mm)	105.3	**Float Cap ($mm)**	$2,890
Wkly Vol (000s)	563	**Wkly $ Vol (mm)**	$14.6
Net Debt ($mm)	$3,165.7	**Next Rep. Date**	28-Jul (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2005E: $1.49; 2006E: $1.56

Changes

Quarterly EPS
Q2/05E $0.22 to $0.23
Q3/05E $0.07 to $0.09

Please refer to pages 7 to 9 for Disclosure Statements, including the Analyst's Certification.

Details & Analysis

Terasen reported Q1/05 EPS of $0.63 (basic) per share. After adjusting for the positive affect of a mark-to-market gain on Clean Energy's (45% - Terasen Inc.) price risk management activities recorded during the quarter, reported basic EPS were $0.60, moderately lower than our expectation of $0.64 per share. The variance between expected and actual performance is largely attributable to a $0.05 per share reduction in the contribution from the Trans Mountain Liquids Pipeline System, due to production outages in Q1/05 at Syncrude and Suncor and refinery turnarounds at facilities connected to the system in British Columbia and Washington State.

Q1/05 financial performance is set out in Table 1.

Table 1: Quarterly Performance by Segment

Q1/05	Earnings ($mm)			EPS		
	Q1/05	Q1/04	% Chg.	Q1/05	Q1/04	% Chg.
Natural Gas Distribution						
Terasen Gas	49.0	48.0	2.1%	0.47	0.46	2.2%
Terasen Gas (Vancouver Island)	6.7	6.7	0.0%	0.06	0.06	0.0%
	55.7	54.7	1.8%	0.53	0.52	1.9%
Petroleum Transportation						
Trans Mountain	5.4	10.4	-48.1%	0.05	0.10	-50.0%
Corridor	3.6	3.9	-7.7%	0.03	0.04	-25.0%
Express Pipeline	3.7	4.0	-7.5%	0.04	0.04	0.0%
	12.7	18.3	-30.6%	0.12	0.18	-33.3%
Water	0.8	-	n/a	0.01	-	n/a
Other	(5.5)	(6.8)	-19.1%	(0.06)	(0.06)	0.0%
Total	**63.7**	**66.2**	-3.8%	**0.60**	**0.64**	-6.3%

Source: Company Reports

We believe that the following remarks are relevant about Q1/05 performance:

- Average transportation volumes on the Trans Mountain and Express Pipeline systems were adversely affected by oil sands production issues: throughput on the Express System declined by 2.6% to 166,900 bbls/d and throughput on the Trans Mountain System declined by a more substantive 29.3% to average 170,00 bbls/d during the quarter. The two systems have a certain amount of volume-related income variability, due to the nature of the tolling arrangements in place:

  Trans Mountain – shipping tariffs are determined pursuant to an Incentive Tolling Agreement that expires at the end of 2005. Under this agreement, base tolls are calculated on an agreed throughput level of 189,000 bbls/d for each year of the settlement. Trans Mountain accepts the risk and benefit associated with variations in actual throughput within a defined band of 179,000 bbls/d to 201,000 bbls/d. For volumes greater than 201,000 bbls/d, Trans Mountain and its shippers share the associated benefits 50/50. If average throughput is below 179,000 bbls/d, then shippers bear 100% of the risk. Average volumes shipped on the system in Q1/05 were lower than the minimum threshold and revenues were based on a minimum ship-or-pay level of 179,000 bbls/d in the quarter.

Express – approximately 126,000 bbls/d of the initial 172,000 bbls/d of capacity is subject ship-or-pay transportation service agreements with terms through 2014 and 2015. Approximately 84% of the incremental 108,000 bbls/d of new capacity placed in-service in April 2005 is also subject to long-term ship-or-pay transportation service agreements. Approximately 77% of the 280,000 bbls/d capacity of the pipeline is now subject to ship-or-pay agreements with terms through 2012 to 2015. We note that the tariffs under the transportation service agreements are payable only if the pipeline is available to transport crude to Casper, Wyoming from Hardisty, Alberta.

- Our estimates are exclusive of mark-to-market gains and losses. We note that the company has deconsolidated Clean Energy and is now equity accounting for the entity, as a result of changes due to restructuring and amendments to voting arrangements of Clean Energy's Board of Directors. New financing expected to support the growth of the entity is expected to dilute Terasen's interest in Clean Energy, from the current level of 45% to just less than 30%. We do not assume a material contribution from Clean Energy in our estimates and we normalized for periodic mark-to-market gains and losses associated with Clean Energy's fuel risk management activities.
- Performance in the natural gas distribution segment was largely in line with expectations, as was the contribution from the Corridor Pipeline and Express Pipeline.

Estimates

Our target price of $27.75 reflects a weighted average valuation approach: 15x diluted 2006E EPS of $1.55 (12.5%), 1.75x 2006E book value of $14.34 (12.5%) and a target yield of 3.25% (75%), assuming 2006E dividends per share of $0.94. We note the following:

- The company has a robust "pipeline" of projects, as set out below in Table 2. Our estimates include the following projects: Phase I expansion of the Trans Mountain System (completed in 2004 at a cost of approximately $16 million); Express/Platte System Expansion – Phases I and II (108,000 bbls/d of incremental capacity, completed and in-service April 1 at a cost of US$100 million); Corridor Pipeline debottlenecking (in-service date of Fall 2005 and $6.5 million cost); Part 1 of the TMX1 to add pump stations to increase the capacity of the Trans Mountain System by 35,000 bbls/d by late 2006 at a cost of $205 million; and LNG storage facility at Terasen Gas Vancouver Island at a cost of $100 million by 2007/08. We do not yet assume that the Anchor TMX 1 expansion proceeds (adds 40,000 bbls/d by late 2008 at a cost of $370 million).
- We do not yet assume a contribution from the more ambitious Southern or Northern capacity increases on the Trans Mountain mainline. We expect further open seasons in the future to more definitively establish shipper need and wiliness to enter into long-term

transportation services agreement. An open season is expected in Q3/05 to determine shipper interest in the Anchor TMX 1 looping project, highlighted previously.

Table 2. Projects Under Development

Name	Expansion Volume	Cost (Millions)	In-Service Date	Estimated Contribution (Per Share)	Comments
Trans Mountain - Phase I	27,000 bbls/d	C$16	Mid-2004	$0.005	Increase Capacity to 225,000 from 200,000 bbls/d
Trans Mountain - Phase II	17,000 bbls/d	C$20	Early 2005	NA	Dropped December 8/03
Express/Platte - Phase I & II	108,000 bbls/d	US$100	Apr-05	$0.10	Increase Capacity to 280,000 from 172,000 bbls/d
Corridor Pipeline	35,000 bbls/d	C$6.5	Fall 2005	NA	Increase Capacity to 190,000 from 155,000 bbls/d; Debottlenecking
Corridor Pipeline	110,000 bbls/d	C$5-600	2009	NA	Looping of Pipeline; Third Train Muskeg to 300,000 bbls/d
Bison Pipeline	175,000 bbls/d	C$410	Post 2010	NA	New Pipeline Proposal - Dependent Upon Jackpine Mine Development
Bison Pipeline - Phase I	150,000 bbls/d	C$190	Post 2010	NA	Increase Capacity to 325,000 from 172,000 bbls/d
Bison Pipeline - Phase II	345,000 bbls/d	C$430	Post 2010	NA	Increase Capacity to 670,000 from 325,000 bbls/d
Pump Station & Anchor TMX 1	75,000 bbls/d	C$575	Late 2008	NA	Increase Capacity to 300,000 from 225,000 bbls/d; Part I 35 k bpd late '06
Southern Leg - TMPL - Loop I	100,000 bbls/d	C$1,000	Late 2009	NA	Increase Capacity to 400,000 from 300,000 bbls/d
Southern Leg - TMPL - Loop II	450,000 bbls/d	C$1,200	Late 2010	NA	Increase Capacity to 850,000 from 400,000 bbls/d
Northern Leg - Trans Mountain	550,000 bbls/d	C$2,600	Late 2010	NA	850,000 bpd capacity; 500,000 bpd to North; 350,000 bpd to South
Eastern Leg - Trans Mountain	100,000 bbls/d	C$200	2007	NA	New Capacity from Edmonton to Hardisty on Trans Mountain
Terasen Gas Vancouver Island	NA	C$20+	2007/08	$0.04	Compression on existing gas transmission line
Terasen Gas Vancouver Island	NA	C$100	2007/08	$0.06	LNG Storage Facility
Whistler Gas Pipeline	NA	C$40	NA	NA	Potential to replace existing propane system
Inland Pacific Connector	NA	C$3-500	2007/08	NA	Natural Gas; Terminum of Southern Crossing Pipeline to market hub at Sumas
Heartland Terminal	NA	C$30-$120	2006/10	NA	5-7 million bbls of tank and cavern storage

Source: BMO Nesbitt Burns, Company Reports

- Our working assumption is that Terasen will negotiate on an exclusive basis with Shell as it relates to the planned development of that company's oil sands reserves near Fort McMurray. We note Shell's April 29, 2005 announcement that it plans to develop additional mining areas on the west side of Lease 13 and on Lease 90, adding another bitumen extraction train to the existing plant and a number of debottlenecking projects. These plans would increase the capacity of the existing Muskeg River Mine from 155,000 bbls/d to about 300,000 bbls/d, assuming regulatory approval is in place by mid-2006. Combined with planned volumes from the Jackpine Mine (approved in 2004), Shell could have approvals for up to 500,000 bbls/d of bitumen. Shell's development plan would add blocks of production of approximately 100,000 bbls/d, beginning on Lease 13 in 2006, concurrent with a similar-sized expansion of the Scotfold Upgrader and debottlenecking projects. Synthetic crude production would increase by about 300,000 bbls/d by 2010.

- The final outcome of the negotiation with Terasen regarding the required pipeline facilities is likely to change the project list highlighted above, combining projects and/or eliminating certain projects.

- The tolling arrangements on the Trans Mountain facilities are unclear at present, due to the present status of the Incentive Agreement on the system. As highlighted above, the agreement expires December 31, 2005, and negotiations to implement a new agreement are not well advanced. We do not expect material discussions to begin until Enbridge's Incentive Tolling Agreement for its Mainline System is substantially in-place. We also believe that shippers may also be inclined to reflect the change in the risk profile of the liquids transportation business versus the natural gas pipeline business into new agreements. We believe that there is a material risk that 2006E EPS may be adversely affected by the outcome of this negotiation.

- The company also disclosed that it too is in discussions with Chinese companies about potential investment in a new oils sands pipeline and have letter agreements that could be construed as Memorandums of Understanding.
- We have not priced an equity issue into our financial model over the forecast period. As highlighted in the attached consolidated summary sheet, Terasen is relatively thinly capitalized and a major pipeline project may require the issuance of equity to maintain balance sheet strength.

Valuation

Our target price of $27.75 reflects a weighted average valuation approach: 15x diluted 2006E EPS of $1.55 (12.5%), 1.75x 2006E book value of $14.34 (12.5%) and a target yield of 3.25% (75%), assuming 2006E dividends per share of $0.94.

Recommendation

We believe that the shares are fully valued at present levels and we rate them Underperform.

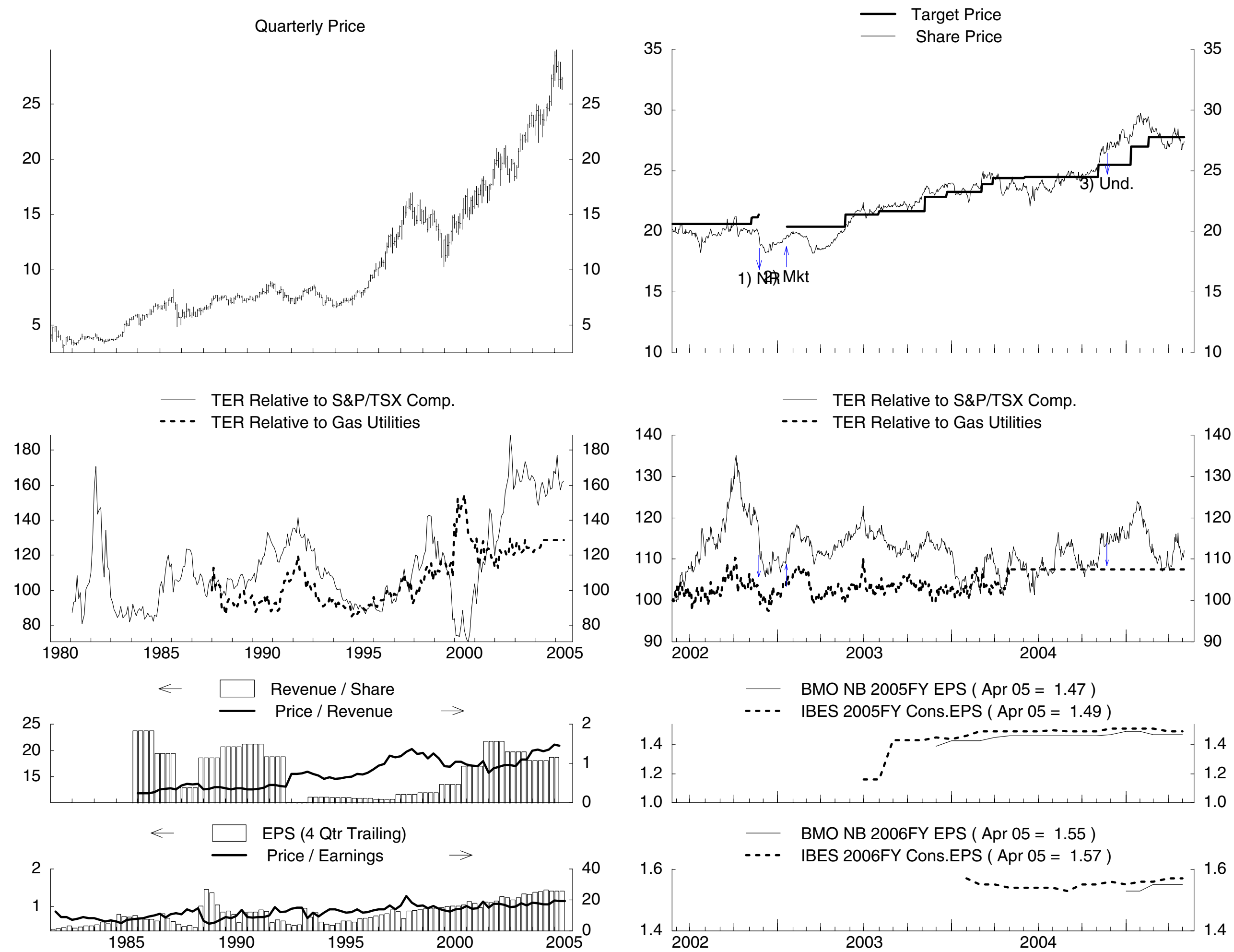
Table 3. Consolidated Summary Sheet

04/05/2005			Karen J. Taylor
Current Price:	$27.45		BMO Nesbitt Burns Inc.
12-Month Target Price:	$27.75		
Rate of Return:	4.37%	Recommendation:	Underperform

	Year Ending December 31							
	1999	2000	2001	2002	2003	2004	2005E	2006E
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.39	$1.47	$1.55
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.40	$1.48	$1.56
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.92	$0.94	$0.97
Trans Mountain Pipe Line	$0.26	$0.25	$0.27	$0.34	$0.54	$0.68	$0.71	$0.73
Other/**Water & Utility Services**	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	$0.06	$0.12	$0.15
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	($0.26)	($0.30)	($0.29)
Dividends	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.90	$0.94
Payout Ratio	60.1%	61.3%	63.7%	54.5%	59.3%	59.0%	60.7%	60.1%
Average Shares (mm)	76.6	76.6	76.6	86.4	103.8	104.7	105.3	105.7
Net Book Value	$8.31	$9.02	$9.39	$12.10	$12.44	$13.04	$13.67	$14.34
Market Valuation								
Price: High	$15.50	$16.73	$18.20	$21.25	$24.00	$28.40	-	-
Price: Low	$10.50	$10.75	$14.88	$16.32	$18.18	$22.05	-	-
Price: Current	-	-	-	-	-	-	$27.45	-
P/E Ratio: High	16.0	16.24	17.84	16.73	18.60	20.30	-	-
P/E Ratio: Low	10.8	10.44	14.58	12.85	14.09	15.76	-	-
P/E Ratio: Current	-	-	-	-	-	-	18.5	17.6
Price/Book Value: High	1.92	1.85	1.94	1.76	1.93	2.18	-	-
Price/Book Value: Low	1.30	1.19	1.58	1.35	1.46	1.69	-	-
Price/Book Value: Current	-	-	-	-	-	-	2.01	1.91
Yield: High Price	3.76%	3.66%	3.57%	3.26%	3.19%	2.90%	-	-
Yield: Low Price	5.55%	5.70%	4.37%	4.24%	4.21%	3.74%	-	-
Yield: Current Price	-	-	-	-	-	-	3.28%	3.42%
Balance Sheet ($mm)								
Debt (S-T)	508.5	314.2	528.4	426.2	610.0	664.7	1,424.7	1,202.8
Debt (L-T)	1,120.9	1,561.9	1,717.1	2,123.4	2,301.1	2,166.6	1,483.7	1,841.4
Deferred Taxes/Other Deferred Items	35.0	47.3	56.8	58.1	67.5	209.4	209.4	209.4
Minority Interest	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	645.1	701.5	718.7	1,244.5	1,302.3	1,371.1	1,442.6	1,518.5
	2,384.5	2,749.9	3,146.0	3,977.2	4,405.9	4,536.8	4,685.4	4,897.2
Balance Sheet (%)								
Debt (S-T)	21.3%	11.4%	16.8%	10.7%	13.8%	14.7%	30.4%	24.6%
Debt (L-T)	47.0%	56.8%	54.6%	53.4%	52.2%	47.8%	31.7%	37.6%
Deferred Taxes/Other Deferred Items	1.5%	1.7%	1.8%	1.5%	1.5%	4.6%	4.5%	4.3%
Minority Interest	3.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	4.5%	4.0%	3.1%	2.8%	2.8%	2.7%	2.6%
Shareholders' Equity	27.1%	25.5%	22.8%	31.3%	29.6%	30.2%	30.8%	31.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	146.5	156.3	165.3
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	146.5	156.3	165.3
Cash Flow from Operations ($mm)	117.0	173.3	53.6	311.4	267.7	342.0	323.0	342.0

Source: BMO Nesbitt Burns

Terasen Inc. (TER)



FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
2004	1.39	20	0.84	3.0	60	13.04	2.1	11
Current*	1.41	19	0.90	3.3	64	13.04	2.1	11
Average:		13		5.0	59		1.5	13.7
Growth(%):								
5 Year:	7.3		8.8			9.8		
10 Year:	10.0		7.2			7.0		
20 Year:	3.0		5.6			6.6		

* Current EPS is the 4 Quarter Trailing to Q4/2004.

TER - Rating as of 23-May-02 = Mkt

	Date	Rating Change	Share Price
1	21-Nov-02	Mkt to NR	$19.76
2	17-Jan-03	NR to Mkt	$19.39
3	23-Nov-04	Mkt to Und.	$26.95

Last Daily Data Point: May 3, 2005

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	37%	43%	45%
Hold	Market Perform	47%	44%	47%
Sell	Underperform	16%	13%	8%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

Terasen Inc.

May 5, 2005
Research Comment
Corporate Debt – Pipelines & Utilities

Q1/05 Results – Increased Leverage Is a Credit Concern

Sue McNamara, CFA
(416)-359-4584
sue.mcnamara@bmonb.com

Event

Terasen reported Q1/05 EPS of $0.63 (basic). After adjusting for the positive effect of a mark-to-market gain on Clean Energy's (45% - Terasen) price risk management activities recorded during the quarter, reported basic EPS were $0.60, moderately lower than our equity expectation of $0.64. For additional views, please refer to the equity research comment on Terasen Inc. by BMO Nesbitt Burns' equity analyst Karen Taylor.

Impact

Slightly negative.

Key Points

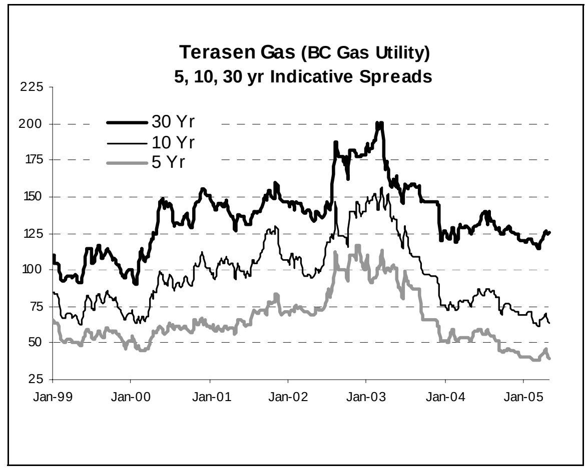
In Q1/05, Terasen Inc.'s total debt to capitalization ratio increased to 67.3% versus 64.4% at December 31, 2004 (including preferred securities as long-term debt). Our 2005 and 2006 debt to capitalization estimates are 64.74% and 64.72%, respectively, considerably higher than the averages for the pipeline and utility universe of 47.85% and 47.77%, respectively (Table 1).

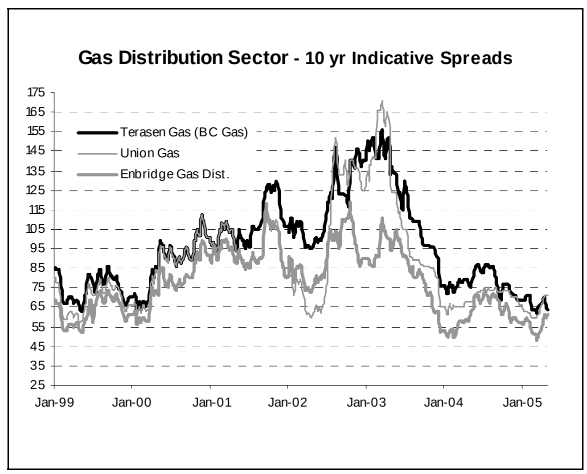
Recommendation

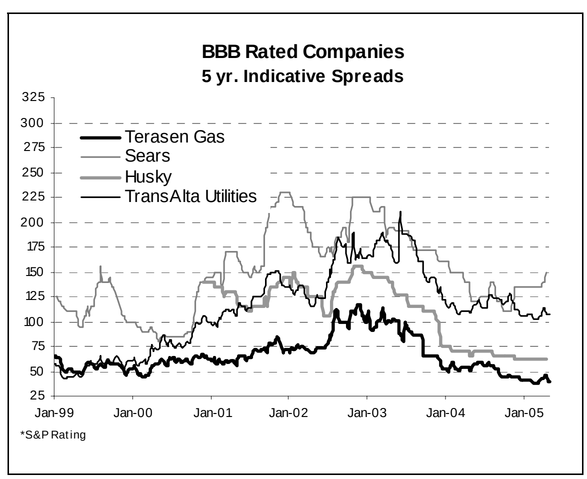
In 2005, Terasen Inc.'s 5-year and 10-year generic credit spreads tightened by 5 and 9 basis points, respectively, and the 30-year spreads have widened by 1 basis point. We believe that the company's spreads will likely widen over the next 12 months. We believe any significant spending by the company either through development projects or acquisitions (depending on how it is financed) could be a credit event, as the company is relatively thinly capitalized. We believe that a further credit risk is the expiry of the Trans Mountain system's negotiated toll settlement at the end of 2005. The company is currently in negotiations with shippers to extend or renew the toll agreement. The company's earnings and cash flow in 2006 could be negatively affected by the outcome of the negotiation.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
A (Low)	BBB-	A3
Stable	Stable	Stable







Please refer to page 6 for Disclosure Statements, including the Analyst's Certification.

Table 1. Comparable Pipeline and Utility Capitalization Ratios

Company	2003A	2004A	2005E	2006E
Utilities - Subsidiaries				
CU Inc.	51.90%	52.32%	52.07%	51.82%
Enbridge Gas Distribution	61.28%	61.06%	55.53%	56.54%
Maritime Electric	66.26%	69.14%	79.36%	80.86%
Newfoundland Power	54.04%	53.42%	52.13%	46.52%
Nova Scotia Power	50.61%	51.32%	50.79%	49.17%
Terasen Gas	66.96%	63.60%	68.90%	69.53%
TransAlta Utilities	22.28%	72.29%	69.53%	67.06%
Union Gas	58.25%	58.34%	57.86%	57.31%
Group Average	**53.95%**	**60.19%**	**60.77%**	**59.85%**
Utilities - Holdcos/Corporates				
AltaGas	47.44%	45.55%	NA	NA
AltaLink LP	52.09%	52.30%	NA	NA
Canadian Utilities	47.66%	48.81%	46.58%	43.95%
Emera	51.93%	50.62%	51.36%	50.53%
Enersource Corporation	55.93%	56.09%	NA	NA
EPCOR Utilities	47.88%	42.26%	39.40%	37.92%
Fortis	59.03%	59.06%	57.17%	56.94%
GazMetro LP	59.86%	57.36%	54.76%	54.67%
Hydro One	48.38%	47.44%	47.39%	47.01%
Pacific Northern Gas	50.23%	49.22%	46.72%	44.42%
Toronto Hydro Corporation	56.78%	54.35%	NA	NA
TransAlta Corporation	44.85%	43.68%	43.47%	44.74%
Group Average	**51.84%**	**50.56%**	**48.36%**	**47.52%**
Pipelines - Subsidiaries				
Enbridge Pipelines	54.45%	45.89%	47.71%	45.31%
NOVA Gas Transmission	60.02%	61.96%	62.50%	63.28%
Terasen Pipelines	50.40%	43.22%	40.71%	51.84%
Group Average	**54.96%**	**50.36%**	**50.31%**	**53.48%**
Pipelines - Holdcos/Corporates				
Alliance Pipeline L.P.	68.29%	67.49%	67.58%	68.34%
Enbridge Inc.	56.23%	59.76%	57.60%	55.29%
TransCanada Corporation	58.11%	57.21%	56.11%	53.24%
Terasen Inc.	66.07%	65.16%	64.74%	64.72%
TQM Pipeline	69.75%	NA	NA	NA
Westcoast Energy	55.13%	53.25%	54.70%	54.29%
Group Average	**62.27%**	**60.57%**	**60.14%**	**59.17%**
Income Funds:				
Enbridge Income Fund	3.44%	6.71%	8.26%	7.49%
Inter Pipeline Income Fund	86.73%	28.30%	33.96%	31.80%
Pembina Pipeline Fund	16.90%	16.82%	16.73%	17.23%
Group Average	**35.69%**	**17.28%**	**19.65%**	**18.84%**

Source: BMO Nesbitt Burns' Equity Research Financial Models

Table 2. Cash Flow Statement (C$mm)

	Q1/04	Q1/05
Operating Activities:		
Net Earnings	82.2	66.3
Depreciation and Amortization	36.0	36.9
Equity Earnings	(3.9)	(3.3)
Future Income Taxes	2.3	(1.4)
Long-term Rate Stabilization Accounts	11.5	28.8
Other	2.9	0.6
	131.0	127.9
Change in Working Capital	37.2	(15.5)
Net Cash Provided by Operating Activities	**168.2**	**112.4**
Investing Activities		
Capital Expenditures	(28.9)	(83.8)
Acquisitions	-	-
Dispositions	7.6	-
Other	(6.1)	(1.6)
Cash Flow Provided by Investing Activities	**(27.4)**	**(85.4)**
Dividends:		
Capital Securities Distributions	(1.6)	-
Common Dividends	(20.3)	(23.7)
	(21.9)	**(23.7)**
Free Cash Flow	**118.9**	**3.3**
Financing Activities		
Short-term Debt	(121.4)	155.5
Long-term Debt	25.9	(40.6)
Terasen Gas Preference Shares	-	-
Capital Securities	-	-
Common Shares	7.7	4.1
Other	-	-
Change in Cash	(31.1)	(122.3)
Cash Flow Provided by Financing Activities	**(118.9)**	**(3.3)**
Cash (ST Debt), Beginning of Period	1.5	20.0
Change in Cash	31.1	122.3
Cash (ST Debt), End of Period	**32.6**	**142.3**

Source: Company Reports

Table 3. Capitalization

$mm	FY 2004	Q1/05
Bank Indebtedness	-	-
Short-term Debt	248.0	403.5
Long-term Debt	2,166.6	2,022.7
Current Maturities	416.7	516.8
Future Income Taxes/Deferred Credits	209.4	73.7
Capital Securities	125.0	125.0
Equity	1,422.1	1,418.5
Total Capitalization	**4,587.8**	**4,560.2**
%		
Bank Indebtedness	0.0%	0.0%
Short-term Debt	5.4%	8.8%
Long-term Debt	47.2%	44.4%
Current Maturities	9.1%	11.3%
Future Income Taxes	4.6%	1.6%
Capital Securities	2.7%	2.7%
Equity	31.0%	31.1%
Total Capitalization	**100.0%**	**100.0%**
Total Debt/Capitalization	**64.4%**	**67.3%**

Source: Company Reports

Terasen Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount ($mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding ($mm)
Terasen Gas Inc.	9.800%	9-Feb-05	$40	MTNs	9-Feb-95	NA	Non-callable	05534ZAA4	$40
Terasen Gas Inc.	8.250%	29-Jun-05	$5	MTNs	29-Jun-95	NA	Non-callable	05534ZAB2	$5
Terasen Gas Inc.	6.500%	20-Jul-05	$200	MTNs	20-Jul-00	57.0 bps	Non-callable	05534ZAG1	$200
Terasen Gas Inc.	Floating[1]	26-Sep-05	$150	Floating Rate Notes	26-Sep-03	NA	Non-callable	88079ZAAZ	$150
Terasen Gas Inc.	4.850%	8-May-06	$100	MTNs	8-May-03	NA	Non-callable	88079ZAA1	$100
Terasen Gas Inc.	6.150%	31-Jul-06	$100	MTNs	30-Jul-01	73.0 bps	Make Whole + 18 bps	88079ZAL0	$100
Terasen Gas Inc.	9.750%	17-Dec-06	$20	Retractable Debentures	17-Dec-86	NA	Non-callable	NA	$20
Terasen Gas Inc.	6.500%	16-Oct-07	$100	MTNs	16-Oct-00	75.0 bps	Make Whole + 18 bps	05534ZAH9	$100
Terasen Gas Inc.	6.200%	2-Jun-08	$188	MTNs	21-Oct-97	80.0 bps	Non-callable	05534ZAC0	$188
Terasen Gas Inc.	6.300%	1-Dec-08	$200	MTNs	30-Nov-01	NA	Make Whole + 27 bps	11058ZAA8	$200
Terasen Gas Inc.	10.750%	8-Jun-09	$60	Debentures	8-Jun-89	NA	Make Whole + 40 bps	457452AH3	$60
Terasen Pipelines (Corridor)	4.240%	2-Feb-10	$150	Senior Unsecured	1-Feb-05	65.5 bps	Make Whole + 14 bps	88079VAA0	$150
Terasen Pipelines Inc.	11.500%	1-Jun-10	$35	Senior Unsecured	20-Jun-90	NA	Make Whole + 50 bps	NA	$35
Express Pipeline	6.470%	31-Dec-13	US$150	Senior Secured Notes	6-Feb-98	NA	Make Whole + 25 bps	30217VAA5	US$112.8
Terasen Inc.	5.560%	15-Sep-14	$125	MTNs	10-Sep-04	93.0 bps	Make Whole + 23 bps	88079ZAB9	$125
Terasen Pipelines (Corridor)	5.033%	2-Feb-15	$150	Senior Unsecured	1-Feb-05	81.1 bps	Make Whole + 19 bps	88079VAB8	$150
Terasen Gas Inc.	11.800%	30-Sep-15	$75	Mortgage	3-Dec-90	NA	Non-callable	05534RAA2	$75
Terasen Gas Inc.	10.300%	30-Sep-16	$200	Mortgage	21-Nov-91	104.0 bps	Make Whole + 35 bps	05534RAB0	$200
Express Pipeline	7.390%	31-Dec-19	US$250	Subordinated Secured Notes	6-Feb-98	NA	Make Whole + 50 bps	30217VAD9	US$239.2
Terasen Gas Inc.	6.950%	21-Sep-29	$150	MTNs	21-Sep-99	112.0 bps	Make Whole + 28 bps	05534ZAF3	$150
Terasen Gas Inc.	6.500%	1-May-34	$150	MTNs	29-Apr-04	127.0 bps	Make Whole + 31 bps	88078ZAB0	$150
Terasen Inc.	8.000%	19-Apr-40	$125	Subordinated Debentures	19-Apr-00	235.0 bps	Make Whole + 55 bps	05534KAA7	$125

[1] 35 basis points to 3 month Bankers Acceptances

Ownership Structure

Widely held.

Credit Facilities

Company	Facility Size	Amount Drawn Q2/04	Amount Drawn FY 2003	Letters of Credit Q2/04	Letters of Credit FY 2003	Maturity	Type
Terasen Inc.	$300	$200.0	$200.0			NA	Lines of Credit
Terasen Gas Inc.	$500	$70.0	$353.0			NA	Lines of Credit
Terasen Gas Vancouver	$213	$160.0	$160.0			NA	Lines of Credit
Corridor Pipelines	$525	$525.0	$525.0			NA	Lines of Credit

Shelf Prospectus

Company	Type	Amount	Remaining	Date	Expiry	Instruments
Terasen Gas Inc.	Shelf	$700	$550	10-Dec-03	10-Jan-05	MTNs
Terasen Inc.	Shelf	$800	$800	10-Dec-03	10-Jan-05	Unsecured Debentures

Pension Summary

	Pension Benefit Plans FY 2004 ($mm)	Pension Benefit Plans FY 2003 ($mm)	Other Benefit Plans FY 2004 ($mm)	Other Benefit Plans FY 2003 ($mm)
Accrued Benefit Obligation	298.0	276.7	67.3	61.0
Plan Assets	274.5	255.3	-	-
Funded Status	(23.5)	(21.4)	(67.3)	(61.0)
Accrued Benefit Asset (Liability) Net of Valuation Allowance	1.5	4.1	(32.3)	(24.6)
Discount Rate	6.00%	6.25%	6.00%	6.25%
Expected Long-term Rate of of Return on Assets	7.50%	7.50%	NA	NA
Rate of Future Increase in Compensation	3.50%	3.39%	NA	NA

Historical Ratings

DBRS Rating	DBRS Trend	DBRS Date	S&P Rating	S&P Trend	S&P Date	Moody's Rating	Moody's Trend	Moody's Date
A (L)	Stable	4-Apr-00	BBB	Stable	14-Nov-01	A3	Stable	8-Nov-01
			BBB	Credit Watch Negative	19-Nov-02	A3	Under Review - Negative	19-Nov-02
			BBB-	Stable	26-Jun-03	A3	Stable	12-Dec-02

Note: On March 12, 2004, Terasen Inc. disengaged its relationship w ith S&P. The rating agency w ill continue to provide ratings on Terasen and its subsidiaries using public information.

Company Risk Disclosure

In addition to the risks involved in investing in corporate debt securities generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Sue McNamara, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee/Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns as of the date of this report and are subject to change without notice. BMO Nesbitt Burns endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns' Equity Research. BMO Nesbitt Burns HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis.

BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provides other remunerated services to, many issuers covered by BMO Nesbitt Burns' Equity Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services.

Dissemination of Research

BMO NBI Corporate Debt Research is available via our web site http://corporate.bmo.com/research/default.asp

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

Terasen Inc.

(TER-TSX)

Stock Rating: Underperform
Industry Rating: Market Perform

May 26, 2005
Research Comment
Pipelines

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Keith Carpenter

Investor Meetings with Management; No Change in View - Underperform

Event

On May 19 and May 20, we hosted a series of investor meetings and luncheon with Terasen Inc.'s senior management, including Randy Jesperson, President, Terasen Gas Inc., Gordon Barefoot, SVP and Chief Financial Officer, Terasen Inc. and David Bryson, Treasurer, Terasen Inc.

Impact

Neutral.

Forecasts

No change.

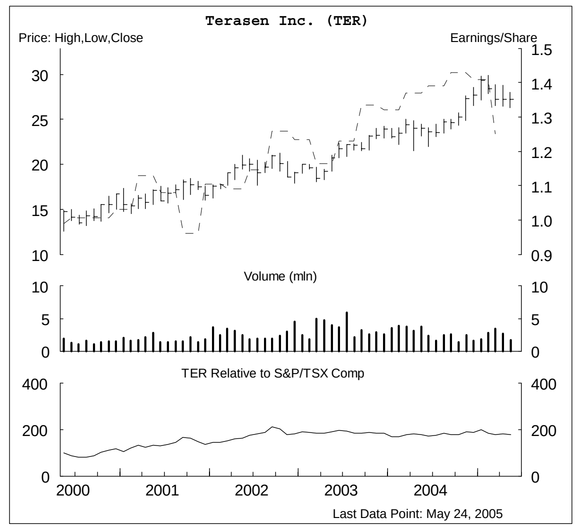
Valuation

Our target price of $27.75 reflects a weighted average valuation approach: 15x diluted 2006E EPS of $1.55 (12.5%), 1.75x 2006E book value per share of $14.34 (12.5%), and a target yield of 3.25% (75%), assuming 2006 dividends per share of $0.94.

Recommendation

We rate the shares of Terasen Underperform.

Price (24-May)	$27.25	**52-Week High**	$29.91
Target Price	$27.75	**52-Week Low**	$22.00



(FY-Dec.)	2003A	2004A	2005E	2006E
EPS	$1.28	$1.39	$1.47	$1.55
P/E			18.5x	17.6x
CFPS	$2.58	$3.27	$3.07	$3.24
P/CFPS			8.9x	8.4x
Div.	$0.77	$0.83	$0.90	$0.94
EV ($mm)	$5,296	$5,725	$6,113	$6,259
EBITDA ($mm)	$503	$521	$588	$625
EV/EBITDA	10.5x	11.0x	10.4x	10.0x

Quarterly EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.08	-$0.07	$0.60
2004A	$0.76	$0.10	-$0.03	$0.58
2005E	$0.60a	$0.23	$0.09	$0.55

Dividend	$0.90	**Yield**	3.3%
Book Value	$13.47	**Price/Book**	2.0x
Shares O/S (mm)	105.3	**Mkt. Cap ($mm)**	$2,869
Float O/S (mm)	105.3	**Float Cap ($mm)**	$2,869
Wkly Vol (000s)	529	**Wkly $ Vol (mm)**	$13.9
Net Debt ($mm)	$3,165.7	**Next Rep. Date**	28-Jul (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC. (C$) 2005E: $1.49; 2006E: $1.57

Please refer to pages 6 to 8 for Disclosure Statements, including the Analyst's Certification.

Details & Analysis

On May 19 and May 20, we hosted a series of investor meetings and luncheon with Terasen Inc.'s senior management, including Randy Jesperson, President, Terasen Gas Inc., Gordon Barefoot, SVP and Chief Financial Officer, Terasen Inc. and David Bryson, Treasurer, Terasen Inc. We believe that the presentation by management had the following key points:

- There has been no material change to the company's value proposition and vision since its investor day in late 2004. The company continues to target being a leading provider of energy transportation and utility infrastructure management services, characterized by operational excellence, consistent financial performance and sustained growth.
- We continue to expect that the company will remain focused on its core natural gas utility and oil pipeline operations, strive to produce reliable and consistent financial results from low risk businesses and continue to grow.
- Targeted EPS growth continues to be approximately 6% per annum, and dividend growth is expected to be sufficient to maintain an average payout ratio of approximately 60% (plus or minus 1%).
- The company continues to pursue the development of a robust list of natural gas and liquids pipeline opportunities, as set out in Table 1.

Table 1. Projects Under Development

Name	Expansion Volume	Cost (Millions)	In-Service Date	Estimated Contribution (Per Share)	Comments
Trans Mountain - Phase I	27,000 bbls/d	C$16	Mid-2004	$0.005	Increase Capacity to 225,000 from 200,000 bbls/d
Trans Mountain - Phase II	17,000 bbls/d	C$20	Early 2005	-	Dropped December 8/03
Express/Platte - Phase I & II	108,000 bbls/d	US$100	Apr-05	$0.10	Increase Capacity to 280,000 from 172,000 bbls/d
Corridor Pipeline	35,000 bbls/d	C$6.5	Fall 2005	NM	Increase Capacity to 190,000 from 155,000 bbls/d; Debottlenecking
Corridor Pipeline	110,000 bbls/d	C$7-800	2009	NA	Looping of Pipeline; Third Train Muskeg to 300,000 bbls/d
Bison Pipeline	175,000 bbls/d	C$410	Post 2010	NA	New Proposal - Combined with Corridor
Bison Pipeline - Phase I	150,000 bbls/d	C$190	Post 2010	NA	Incr Capacity to 325,000 from 172,000 bbls/d - Combined with Corridor
Bison Pipeline - Phase II	345,000 bbls/d	C$430	Post 2010	NA	Incr Capacity to 670,000 from 325,000 bbls/d - Combined with Corridor
Pump Station & Anchor TMX 1	75,000 bbls/d	C$570	Late 2008	NA	Incr Capacity to 300,000 from 225,000 bbls/d; Part I 35,000 bbls/d late '06 at cost of $205 mln; Part II 40,000 bbls/d by '08 at cost of $365 mln
Southern Leg - TMPL - Loop I	100,000 bbls/d	C$1,000	Late 2009	NA	Increase Capacity to 400,000 from 300,000 bbls/d
Southern Leg - TMPL - Loop II	450,000 bbls/d	C$1,200	Late 2010	NA	Increase Capacity to 850,000 from 400,000 bbls/d
Northern Leg - Trans Mountain	550,000 bbls/d	C$2,600	Late 2010	NA	850,000 bpd capacity; 500,000 bpd to North; 350,000 bpd to South
Eastern Leg - Trans Mountain	100,000 bbls/d	C$200	2007	NA	New Capacity from Edmonton to Hardisty on Trans Mountain
Terasen Gas Vancouver Island	NA	C$50	2007/08	$0.02	Compression on existing gas transmission line
Terasen Gas Vancouver Island	NA	C$100	2007/08	$0.06	LNG Storage Facility
Whistler Gas Pipeline	NA	C$50	2006/07	NA	Potential to replace existing propane system
Inland Pacific Connector	NA	C$3-500	2007/08	NA	Natural Gas; Terminum of Southern Crossing Pipeline to market hub at Sumas
Heartland Terminal	NA	C$30-$120	2007/10	NA	5-7 million bbls of tank and cavern storage

Source: Company Reports, BMO Nesbitt Burns

- Management updated the major projects under development, with a particular focus on natural gas distribution opportunities in Terasen Gas and Terasen Gas Vancouver Island, and liquids pipeline opportunities. The company plans to hold an Open Season process beginning in the last week of June or the first week of July to ascertain definitive shipper interest in the Pump Station & Anchor facilities of TMx1. We note that the company intends to seek expressions of interest for the current capacity of the Trans Mountain Pipe Line (approximately 225,000–250,000 bbls/d of capacity) plus the 75,000 bbls/d of capacity from the two-staged expansion (35,000 bbls/d of incremental capacity by 2006 at a cost of $205 million and a further 40,000 bbls/d at a cost of $365 million by late 2008, as highlighted above in Table 1). Open season results are likely near the end of Q3 or early Q4 2005.

- No further updates were available regarding the status of the negotiation to implement a new incentive tolling agreement on the existing Trans Mountain Pipe Line. The current ITA expires on December 31, 2005. Management indicated that discussions have not yet advanced materially, largely due to the ongoing nature of a similar negotiation for Enbridge Pipelines (100% - Enbridge Inc.). The lack of clarity with respect to this agreement is a significant concern; we do not know how the existing facility will be tolled subsequent to year-end 2005 and we are equally uncertain of the commercial arrangements regarding the planned expansion of the Trans Mountain Pipe Line. We believe that there is a material risk that 2006 EPS may be adversely affected by the outcome of this negotiation.
- We do not expect the company to issue common share equity over the forecast period. Our financial model presently reflects an assumption that equity will be required in late 2007 or early 2008, subject to the number and magnitude of projects that proceed and whether the company develops these opportunities alone or with joint venture partners.

Estimates

Our diluted 2005 and 2006 EPS estimates of $1.47 and $1.55 are unchanged. We have reviewed and updated our financial model to reflect incremental information from management's presentation. Our estimates reflect a number of projects:

- $100 million LNG storage terminal on Vancouver Island, with a proposed in-service date of late 2007.
- $50 million of compression on the Terasen Gas Vancouver Island pipeline system, with a proposed in-service date of late 2006. We note that the company does not yet have a certificate of public convenience and necessity for this project.
- Construction of $35 million of natural gas distribution facilities in Whistler, with a proposed in-service date of late 2006, and $15 million for a ground pump heating system, also for Whistler, with a proposed in-service date of mid-2007.
- Construction of the Pump Station & Anchor facilities of TMx1, as highlighted above in Table 1. We have assumed that the facilities are tolled on a conventional cost of service methodology, with a return on equity that is closer to that allowed by the National Energy Board than the return currently earned on the existing Trans Mountain oil pipeline system.
- The contribution from the water business is expected to contribute approximately 2% of the company's targeted 6% EPS growth rate over the forecast period.

- No equity issues are assumed over the forecast period (2005 and 2006).

Valuation

Our target price of $27.75 reflects a weighted average valuation approach: 15x diluted 2006E EPS of $1.55 (12.5%), 1.75x 2006E book value per share of $14.34 (12.5%), and a target yield of 3.25% (75%), assuming 2006 dividends per share of $0.94.

Recommendation

We believe that the shares are fully valued and we rate the shares Underperform.

Table 2. Consolidated Summary Sheet

5/25/2005 — Karen J. Taylor, BMO Nesbitt Burns Inc.

Current Price: $27.20

12-Month Target Price: $27.75

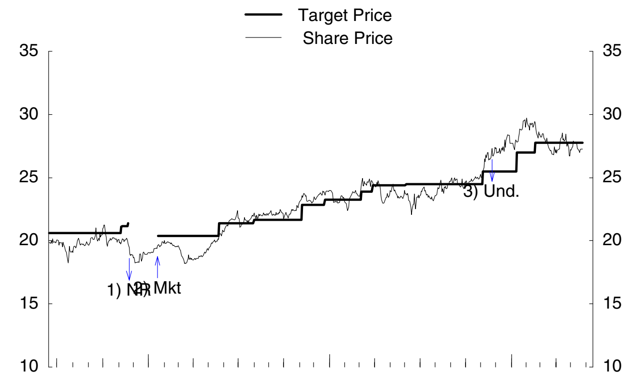
Rate of Return: 5.33%

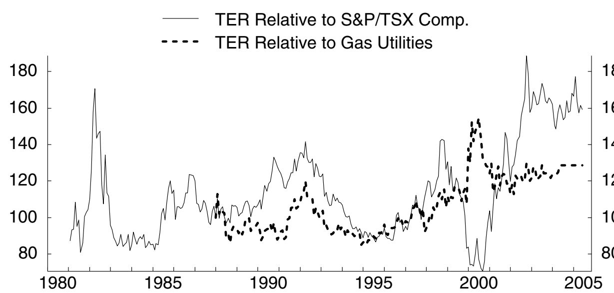
Recommendation: Underperform

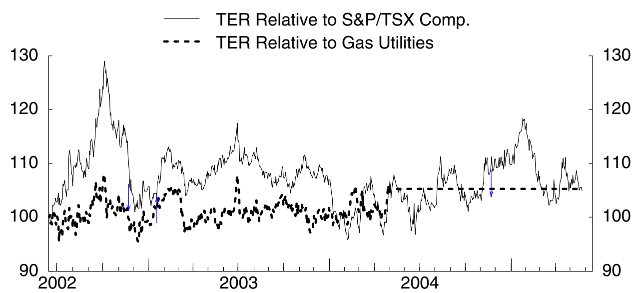
	Year Ending December 31							
	1999	2000	2001	2002	2003	2004	2005E	2006E
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.39	$1.47	$1.55
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.40	$1.48	$1.56
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.92	$0.94	$0.98
Trans Mountain Pipe Line	$0.26	$0.25	$0.27	$0.34	$0.54	$0.68	$0.71	$0.73
Other/**Water & Utility Services**	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	$0.06	$0.12	$0.14
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	($0.26)	($0.30)	($0.29)
Dividends	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.90	$0.94
Payout Ratio	60.1%	61.3%	63.7%	54.5%	59.3%	59.0%	60.7%	60.1%
Average Shares (mm)	76.6	76.6	76.6	86.4	103.8	104.7	105.3	105.7
Net Book Value	$8.31	$9.02	$9.39	$12.10	$12.44	$13.04	$13.67	$14.34
Market Valuation								
Price: High	$15.50	$16.73	$18.20	$21.25	$24.00	$28.40	-	-
Price: Low	$10.50	$10.75	$14.88	$16.32	$18.18	$22.05	-	-
Price: Current	-	-	-	-	-	-	$27.20	-
P/E Ratio: High	16.0	16.24	17.84	16.73	18.60	20.30	-	-
P/E Ratio: Low	10.8	10.44	14.58	12.85	14.09	15.76	-	-
P/E Ratio: Current	-	-	-	-	-	-	18.4	17.4
Price/Book Value: High	1.92	1.85	1.94	1.76	1.93	2.18	-	-
Price/Book Value: Low	1.30	1.19	1.58	1.35	1.46	1.69	-	-
Price/Book Value: Current	-	-	-	-	-	-	1.99	1.90
Yield: High Price	3.76%	3.66%	3.57%	3.26%	3.19%	2.90%	-	-
Yield: Low Price	5.55%	5.70%	4.37%	4.24%	4.21%	3.74%	-	-
Yield: Current Price	-	-	-	-	-	-	3.31%	3.46%
Balance Sheet ($mm)								
Debt (S-T)	508.5	314.2	528.4	426.2	610.0	664.7	1,457.1	1,292.0
Debt (L-T)	1,120.9	1,561.9	1,717.1	2,123.4	2,301.1	2,166.6	1,483.7	1,841.4
Deferred Taxes/Other Deferred Items	35.0	47.3	56.8	58.1	67.5	209.4	209.4	209.4
Minority Interest	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	645.1	701.5	718.7	1,244.5	1,302.3	1,371.1	1,442.4	1,518.3
	2,384.5	2,749.9	3,146.0	3,977.2	4,405.9	4,536.8	4,717.6	4,986.2
Balance Sheet (%)								
Debt (S-T)	21.3%	11.4%	16.8%	10.7%	13.8%	14.7%	30.9%	25.9%
Debt (L-T)	47.0%	56.8%	54.6%	53.4%	52.2%	47.8%	31.5%	36.9%
Deferred Taxes/Other Deferred Items	1.5%	1.7%	1.8%	1.5%	1.5%	4.6%	4.4%	4.2%
Minority Interest	3.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	4.5%	4.0%	3.1%	2.8%	2.8%	2.6%	2.5%
Shareholders' Equity	27.1%	25.5%	22.8%	31.3%	29.6%	30.2%	30.6%	30.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	146.5	156.1	165.3
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	146.5	156.1	165.3
Cash Flow from Operations ($mm)	117.0	173.3	53.6	311.4	267.7	342.0	324.8	345.2

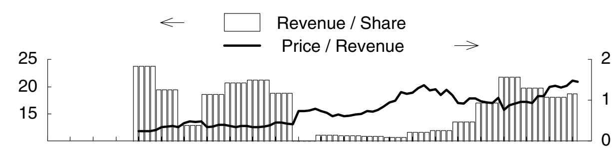
Source: BMO Nesbitt Burns

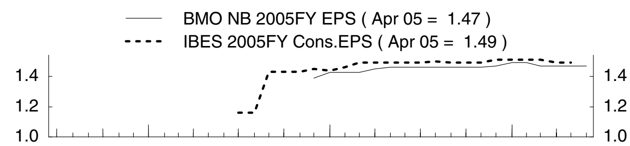
Terasen Inc. (TER)

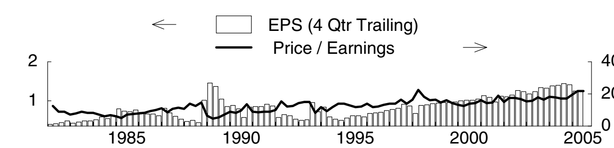


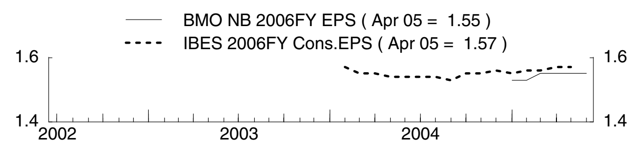












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
2004	1.39	20	0.84	3.0	60	13.04	2.1	11
Current*	1.25	22	0.90	3.3	72	13.47	2.0	9
Average:		13		5.0	59		1.5	13.7
Growth(%):								
5 Year:	4.8		8.8			10.5		
10 Year:	8.7		7.2			7.4		
20 Year:	2.4		5.6			6.8		

* Current EPS is the 4 Quarter Trailing to Q1/2005.

TER - Rating as of 13-Jun-02 = Mkt

	Date	Rating Change	Share Price
1	21-Nov-02	Mkt to NR	$19.76
2	17-Jan-03	NR to Mkt	$19.39
3	23-Nov-04	Mkt to Und.	$26.95

Last Daily Data Point: May 24, 2005

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	37%	43%	45%
Hold	Market Perform	47%	44%	47%
Sell	Underperform	16%	13%	8%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

Stock Rating: Underperform
Industry Rating: Market Perform

June 21, 2005
Research Comment
Pipelines

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Keith Carpenter

BC Hydro Abandons Duke Point Power Project; Underperform Rating Maintained

Event

On June 17, British Columbia Hydro and Power Authority (BC Hydro) announced that it is abandoning the proposed 252 MW Duke Point Power Project, pursuant to a decision on June 14 by the British Columbia Court of Appeal to hear an appeal of the project by a number of intervenors. BC Hydro indicated that the continuing appeal process involving this project (majority owned by Macquarie Essential Assets Partnership, together with Pristine Power Inc., and a group of private investors) increases the risk that the plant will not be built in time to meet peak load requirements on Vancouver Island in the winter of 2007/2008.

Impact

Slightly negative.

Forecasts

We have revised our financial model to reflect the consequence of this decision by BC Hydro on Terasen Gas Vancouver Island's plan to construct a $100 million LNG storage facility and add approximately $50 million of pipeline compression. Our diluted 2005 and 2006 EPS estimates decline slightly to $1.46 and $1.52, respectively, from $1.47 and $1.55 per share previously.

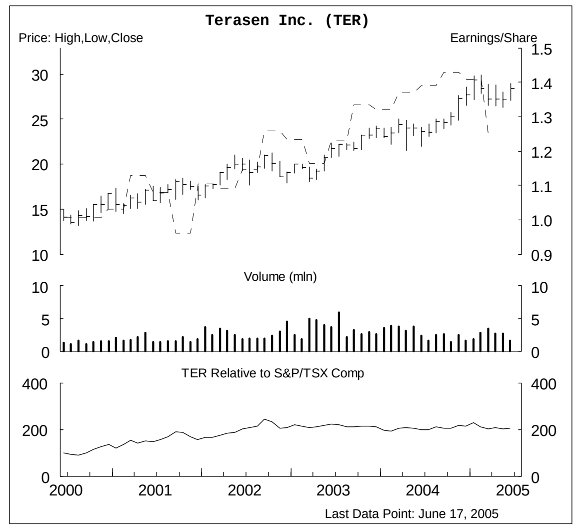
Valuation

Our target price reflects a weighted average valuation approach: 15x diluted 2006E EPS of $1.52 (12.5%), 1.75x 2006E book value of $14.31 (12.5%), and a target yield of 3.25% (75%), assuming 2006 dividends per share of $0.94.

Recommendation

We believe that the shares are fully valued at present levels and we rate them Underperform.

Price (17-Jun)	$28.40	**52-Week High**	$29.91
Target Price	$27.75	**52-Week Low**	$22.02



(FY-Dec.)	2003A	2004A	2005E	2006E
EPS	$1.28	$1.39	$1.46↓	$1.52↓
P/E			19.5x	18.7x
CFPS	$2.58	$3.27	$3.08	$3.27
P/CFPS			9.2x	8.7x
Div.	$0.77	$0.83	$0.90	$0.94
EV ($mm)	$5,296	$5,725	$6,225	$6,427
EBITDA ($mm)	$503	$521	$591	$633
EV/EBITDA	10.5x	11.0x	10.5x	10.2x

Quarterly EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.08	-$0.07	$0.60
2004A	$0.76	$0.10	-$0.03	$0.58
2005E	$0.60a	$0.23	$0.09	$0.55

Dividend	$0.90	**Yield**	3.2%
Book Value	$13.47	**Price/Book**	2.1x
Shares O/S (mm)	105.3	**Mkt. Cap ($mm)**	$2,991
Float O/S (mm)	105.3	**Float Cap ($mm)**	$2,991
Wkly Vol (000s)	546	**Wkly $ Vol (mm)**	$14.5
Net Debt ($mm)	$3,065.8	**Next Rep. Date**	28-Jul (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC (C$) 2005E: $1.49; 2006E: $1.57

Changes

Annual EPS
2005E $1.47 to $1.46
2006E $1.55 to $1.52

Please refer to pages 5 to 7 for Disclosure Statements, including the Analyst's Certification.

Details & Analysis

On June 17, British Columbia Hydro and Power Authority (BC Hydro) announced that it is abandoning the proposed 252 MW Duke Point Power Project, pursuant to a decision on June 14 by the British Columbia Court of Appeal to hear an appeal of the project by a number of intervenors. BC Hydro indicated that the continuing appeal process involving this project (majority owned by Macquarie Essential Assets Partnership, together with Pristine Power Inc., and a group of private investors) increases the risk that the plant will not be built in time to meet peak load requirements on Vancouver Island in the winter of 2007/2008.

The decision to abandon the Duke Point Power Project is expected to result in the following for Terasen:

- The Certificate of Public Convenience and Necessity (CPCN) issued by the British Columbia Utilities Commission (BCUC) on February 15 relating to the $100 million liquefied natural gas storage project at Mount Hayes, Vancouver Island is likely to expire, as the CPCN was conditional on a number of requirements (as set out in our comment dated February 18, 2005) that are not likely to be fulfilled. In order for the facilities to be constructed, Terasen Gas Vancouver Island (TGVI) may have to refile a facilities application with the BCUC, with a revised analysis pertaining to the economic need for the project. We believe that such an application may be filed in the fall of 2005.
- The planned in-service date of the LNG storage facility is now likely deferred at least one year. We have assumed a new in-service date of 2008 for modelling purposes versus 2007 previously.
- The planned construction of approximately $50 million of pipeline compression is now likely deferred and may not be required over the near to medium term. We have assumed for modelling purposes that the facilities are in service in 2008 versus 2007 previously.

Table 1 highlights Terasen's prospective projects under development.

Table 1. Projects Under Development

Name	Expansion Volume	Cost (Millions)	In-Service Date	Estimated Contribution (Per Share)	Comments
Trans Mountain - Phase I	27,000 bbls/d	C$16	Mid-2004	$0.005	Increase Capacity to 225,000 from 200,000 bbls/d
Trans Mountain - Phase II	17,000 bbls/d	C$20	Early 2005	-	Dropped December 8/03
Express/Platte - Phase I & II	108,000 bbls/d	US$100	Apr-05	$0.10	Increase Capacity to 280,000 from 172,000 bbls/d
Corridor Pipeline	35,000 bbls/d	C$6.5	Fall 2005	NM	Increase Capacity to 190,000 from 155,000 bbls/d; Debottlenecking
Corridor Pipeline	110,000 bbls/d	C$7-800	2009	NA	Looping of Pipeline; Third Train Muskeg to 300,000 bbls/d
Bison Pipeline	175,000 bbls/d	C$410	Post 2010	NA	New Proposal - Combined with Corridor
Bison Pipeline - Phase I	150,000 bbls/d	C$190	Post 2010	NA	Incr Capacity to 325,000 from 172,000 bbls/d - Combined with Corridor
Bison Pipeline - Phase II	345,000 bbls/d	C$430	Post 2010	NA	Incr Capacity to 670,000 from 325,000 bbls/d - Combined with Corridor
Pump Station & Anchor TMX 1	75,000 bbls/d	C$570	Late 2008	NA	Incr Capacity to 300,000 from 225,000 bbls/d; Part I 35,000 bbls/d late '06 at cost of $205 mln; Part II 40,000 bbls/d by '08 at cost of $365 mln
Southern Leg - TMPL - Loop I	100,000 bbls/d	C$1,000	Late 2009	NA	Increase Capacity to 400,000 from 300,000 bbls/d
Southern Leg - TMPL - Loop II	450,000 bbls/d	C$1,200	Late 2010	NA	Increase Capacity to 850,000 from 400,000 bbls/d
Northern Leg - Trans Mountain	550,000 bbls/d	C$2,600	Late 2010	NA	850,000 bpd capacity; 500,000 bpd to North; 350,000 bpd to South
Eastern Leg - Trans Mountain	100,000 bbls/d	C$200	2007	NA	New Capacity from Edmonton to Hardisty on Trans Mountain
Terasen Gas Vancouver Island	NA	C$50	Late 2008	$0.02	Compression on existing gas transmission line
Terasen Gas Vancouver Island	NA	C$100	Late 2008	$0.06	LNG Storage Facility
Whistler Gas Pipeline	NA	C$50	2006/07	NA	Potential to replace existing propane system
Inland Pacific Connector	NA	C$3-500	2007/08	NA	Natural Gas; Terminum of Southern Crossing Pipeline to market hub at Sumas
Heartland Terminal	NA	C$30-$120	2007/10	NA	5-7 million bbls of tank and cavern storage

Source: BMO Nesbitt Burns, Company Reports

Estimates

We have revised our financial model to reflect the consequence of this decision by BC Hydro on Terasen Gas Vancouver Island's plan to construct a $100 million LNG storage facility and add approximately $50 million of pipeline compression. Our diluted 2005 and 2006 EPS estimates decline slightly to $1.46 and $1.52, respectively, from $1.47 and $1.55 per share previously.

We assume that:

- Capital expenditures relating to the LNG storage facility are $23 million in 2006 and $38.5 million in each of 2007 and 2008, such that the in-service date of the facility is late 2008.
- Capital expenditures relating to the pipeline compression are $25 million in each of 2007 and 2008, such that the in-service date of the facilities is late 2008.

Valuation

Our target price reflects a weighted average valuation approach: 15x diluted 2006E EPS of $1.52 (12.5%), 1.75x 2006E book value of $14.31 (12.5%), and a target yield of 3.25% (75%), assuming 2006 dividends per share of $0.94.

Recommendation

We believe that the shares are fully valued at present levels and we rate them Underperform.

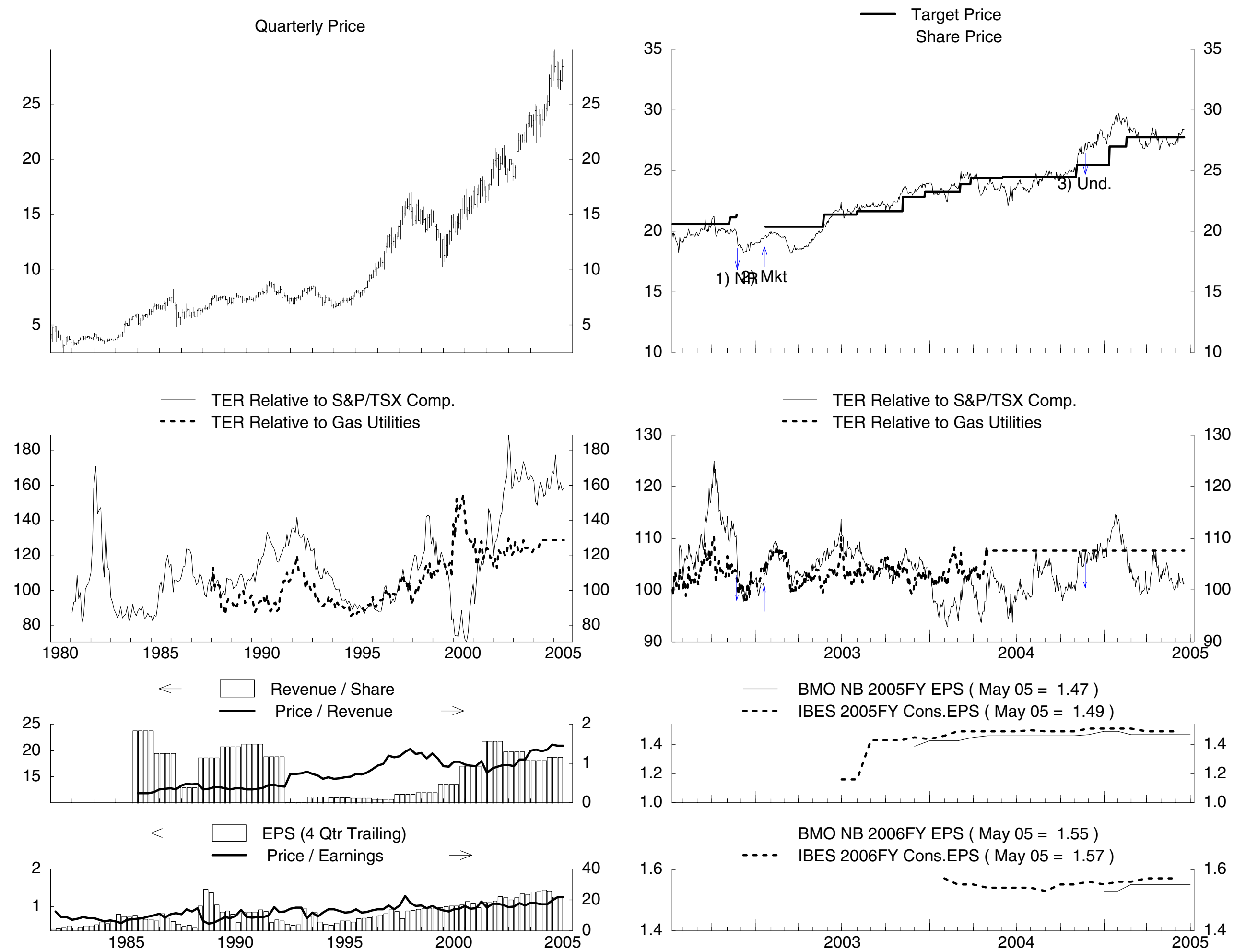
Table 2. Consolidated Summary Sheet

6/20/2005			Karen J. Taylor
Current Price:	$28.75		BMO Nesbitt Burns Inc.
12-Month Target Price:	$27.75		
Rate of Return:	-0.35%	Recommendation:	Underperform

	Year Ending December 31							
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005E**	**2006E**
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.39	$1.46	$1.52
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.40	$1.47	$1.54
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.92	$0.93	$0.96
Trans Mountain Pipe Line	$0.26	$0.25	$0.27	$0.34	$0.54	$0.68	$0.71	$0.73
Other/**Water & Utility Services**	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	$0.06	$0.12	$0.14
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	($0.26)	($0.30)	($0.29)
Dividends	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.90	$0.94
Payout Ratio	60.1%	61.3%	63.7%	54.5%	59.3%	59.0%	61.1%	61.1%
Average Shares (mm)	76.6	76.6	76.6	86.4	103.8	104.7	105.3	105.7
Net Book Value	$8.31	$9.02	$9.39	$12.10	$12.44	$13.04	$13.66	$14.31
Market Valuation								
Price: High	$15.50	$16.73	$18.20	$21.25	$24.00	$28.40	-	-
Price: Low	$10.50	$10.75	$14.88	$16.32	$18.18	$22.05	-	-
Price: Current	-	-	-	-	-	-	$28.75	-
P/E Ratio: High	16.0	16.24	17.84	16.73	18.60	20.30	-	-
P/E Ratio: Low	10.8	10.44	14.58	12.85	14.09	15.76	-	-
P/E Ratio: Current	-	-	-	-	-	-	19.5	18.7
Price/Book Value: High	1.92	1.85	1.94	1.76	1.93	2.18	-	-
Price/Book Value: Low	1.30	1.19	1.58	1.35	1.46	1.69	-	-
Price/Book Value: Current	-	-	-	-	-	-	2.10	2.01
Yield: High Price	3.76%	3.66%	3.57%	3.26%	3.19%	2.90%	-	-
Yield: Low Price	5.55%	5.70%	4.37%	4.24%	4.21%	3.74%	-	-
Yield: Current Price	-	-	-	-	-	-	3.13%	3.27%
Balance Sheet ($mm)								
Debt (S-T)	508.5	314.2	528.4	426.2	610.0	664.7	1,410.0	1,207.0
Debt (L-T)	1,120.9	1,561.9	1,717.1	2,123.4	2,301.1	2,166.6	1,483.7	1,841.4
Deferred Taxes/Other Deferred Items	35.0	47.3	56.8	58.1	67.5	209.4	209.4	209.4
Minority Interest	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	645.1	701.5	718.7	1,244.5	1,302.3	1,371.1	1,441.5	1,514.8
	2,384.5	2,749.9	3,146.0	3,977.2	4,405.9	4,536.8	4,669.6	4,897.7
Balance Sheet (%)								
Debt (S-T)	21.3%	11.4%	16.8%	10.7%	13.8%	14.7%	30.2%	24.6%
Debt (L-T)	47.0%	56.8%	54.6%	53.4%	52.2%	47.8%	31.8%	37.6%
Deferred Taxes/Other Deferred Items	1.5%	1.7%	1.8%	1.5%	1.5%	4.6%	4.5%	4.3%
Minority Interest	3.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	4.5%	4.0%	3.1%	2.8%	2.8%	2.7%	2.6%
Shareholders' Equity	27.1%	25.5%	22.8%	31.3%	29.6%	30.2%	30.9%	30.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	146.5	155.2	162.7
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	146.5	155.2	162.7
Cash Flow from Operations ($mm)	117.0	173.3	53.6	311.4	267.7	342.0	323.9	342.6

Source: BMO Nesbitt Burns

Terasen Inc. (TER)



FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
2004	1.39	20	0.84	3.0	60	13.04	2.1	11
Current*	1.25	22	0.90	3.3	72	13.47	2.0	9
Average:		13		5.0	59		1.5	13.7
Growth(%):								
5 Year:	4.8		7.7			10.5		
10 Year:	8.7		7.2			7.4		
20 Year:	2.4		5.6			6.8		

* Current EPS is the 4 Quarter Trailing to Q1/2005.

TER - Rating as of 9-Jul-02 = Mkt

	Date	Rating Change	Share Price
1	21-Nov-02	Mkt to NR	$19.76
2	17-Jan-03	NR to Mkt	$19.39
3	23-Nov-04	Mkt to Und.	$26.95

Last Daily Data Point: June 17, 2005

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	43%	48%	47%
Hold	Market Perform	45%	39%	46%
Sell	Underperform	12%	13%	7%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.
** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

Terasen Inc

(TER-TSX)

Stock Rating: **Underperform**
Stock Price: **$29.78**
Target Price: **$28.00**

July 12, 2005
Brief Research Note
Pipelines

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Keith Carpenter

Trans Mountain Expansion Filed with NEB

Impact

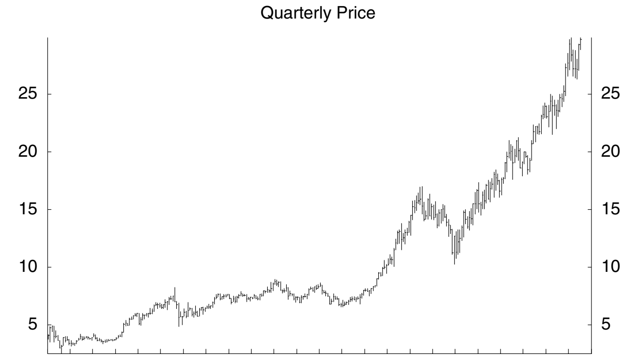
Neutral

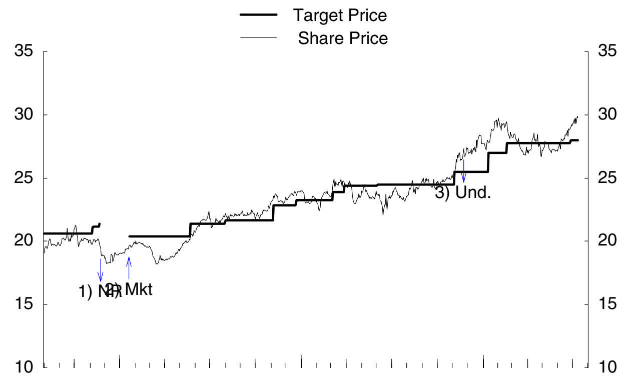
Details & Analysis

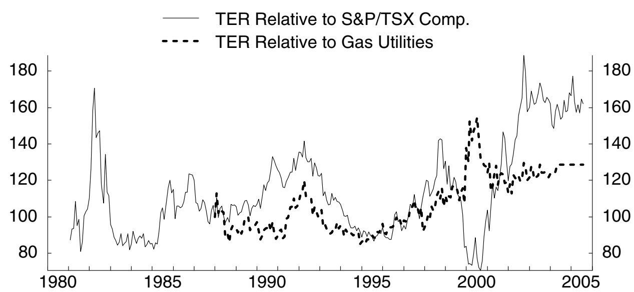
Terasen has announced that it has filed an application with the National Energy Board (NEB) to increase the capacity of the Trans Mountain pipeline system to 260,000 bbls/d from 225,000 bbls/d. The $210 million expansion includes building new and upgrading existing pump stations between Edmonton, Alberta and Burnaby, BC to meet increased demand for petroleum products in West Coast markets. The proposed expansion is projected to be available in the first quarter of 2007, subject to regulatory approval. The Trans Mountain project is fully reflected in our model. The additional facilities will now be integrated with the renegotiation of the Incentive Tolling Arrangement. Our estimates for earnings per share are unchanged. We continue to review the application.

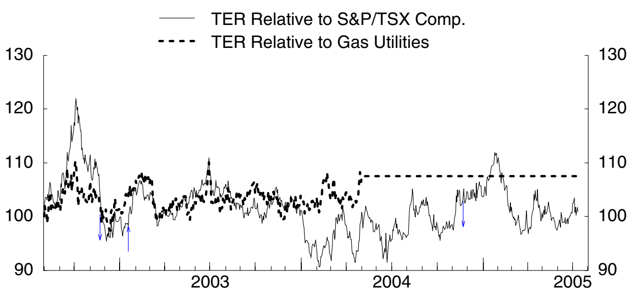
Please refer to pages 2 to 4 for Disclosure Statements, including the Analyst's Certification.

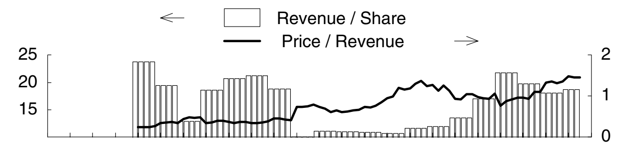
Terasen Inc. (TER)

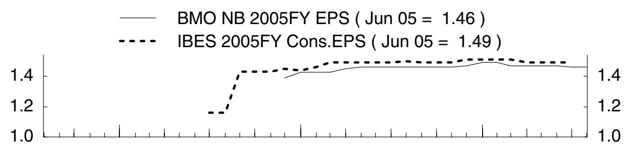


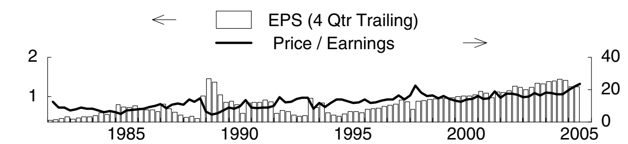


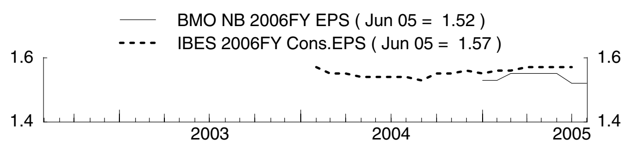












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
2004	1.39	20	0.84	3.0	60	13.04	2.1	11
Current*	1.25	23	0.90	3.1	72	13.47	2.2	9
Average:		13		5.0	59		1.5	13.7
Growth(%):								
5 Year:	4.5		7.7			10.5		
10 Year:	7.4		7.2			7.4		
20 Year:	2.8		5.6			6.5		

* Current EPS is the 4 Quarter Trailing to Q1/2005.

TER - Rating as of 31-Jul-02 = Mkt

	Date	Rating Change	Share Price
1	21-Nov-02	Mkt to NR	$19.76
2	17-Jan-03	NR to Mkt	$19.39
3	23-Nov-04	Mkt to Und.	$26.95

Last Daily Data Point: July 11, 2005

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee/Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns as of the date of this report and are subject to change without notice. BMO Nesbitt Burns endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns' Equity Research. BMO Nesbitt Burns HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis.

BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provides other remunerated services to, many issuers covered by BMO Nesbitt Burns' Equity Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	43%	48%	47%
Hold	Market Perform	45%	39%	46%
Sell	Underperform	12%	13%	7%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Equity Research is available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

Terasen Inc.

(TER-TSX)

Stock Rating: **Underperform**
Industry Rating: **Market Perform**

July 15, 2005
Research Comment
Pipelines

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Keith Carpenter

BCUC Sets Process in Motion to Review Capital Structure and ROE – Underperform Maintained

Event

On July 11, the British Columbia Utilities Commission (BCUC) issued an Order and Notice of Procedural Conference regarding an application by Terasen Gas Inc. (100% - Terasen Inc.) and Terasen Gas (Vancouver Island) Inc. (100% - Terasen Inc.) to determine the appropriate return on equity and capital structure and to review and revise the automatic adjustment mechanism used by the BCUC to establish the allowed return on equity, annually. On July 12, Terasen Pipelines (Trans Mountain) Inc. filed an application with the National Energy Board requesting approval for the construction and operation of facilities that will comprise the Trans Mountain Pump Station Expansion Project – 35,000 bbl/d expansion of the pipeline to 260,000 bbl/d at a cost of $210 million. The planned in-service date of the project is early 2007.

Impact

Neutral.

Forecasts

Our 2005 and 2006 diluted EPS estimates are unchanged and we note: (1) we typically do not price in requested ROE and deemed equity benchmarks, due to the lack of certainty that they will be approved as filed; and (2) the Trans Mountain Pump Station Expansion Project is currently reflected in our financial model.

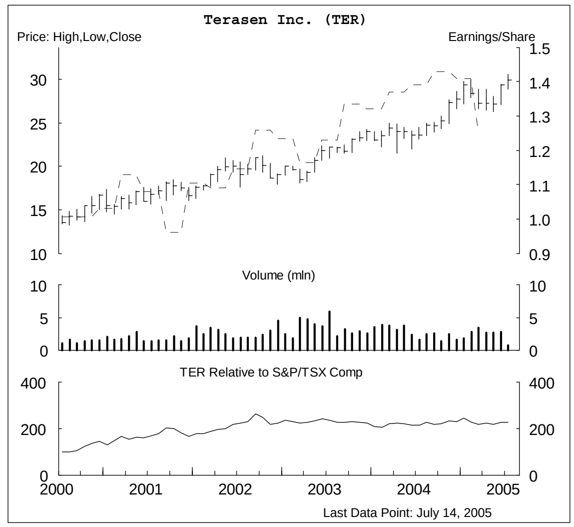
Valuation

Our target price reflects a weighted average: 17x 2006E diluted EPS of $1.52 (12.5%), 1.8x 2006E BV per share of $14.31 (12.5%) and a target yield of 3.25%, assuming 2006 dividends per share of $0.94.

Recommendation

We believe the shares are fully valued and we rate them Underperform.

Price (14-Jul)	$29.90	**52-Week High**	$30.60
Target Price	$28.00	**52-Week Low**	$23.07



(FY-Dec.)	2003A	2004A	2005E	2006E
EPS	$1.28	$1.39	$1.46	$1.52
P/E			20.5x	19.7x
CFPS	$2.58	$3.27	$3.08	$3.27
P/CFPS			9.7x	9.2x
Div.	$0.77	$0.83	$0.90	$0.94
EV ($mm)	$5,296	$5,725	$6,378	$6,543
EBITDA ($mm)	$503	$521	$588	$626
EV/EBITDA	10.5x	11.0x	10.9x	10.5x

Quarterly EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.08	-$0.07	$0.60
2004A	$0.76	$0.10	-$0.03	$0.58
2005E	$0.60a	$0.23	$0.09	$0.55

Dividend	$0.90	**Yield**	3.0%
Book Value	$13.47	**Price/Book**	2.2x
Shares O/S (mm)	105.3	**Mkt. Cap ($mm)**	$3,148
Float O/S (mm)	105.3	**Float Cap ($mm)**	$3,148
Wkly Vol (000s)	551	**Wkly $ Vol (mm)**	$14.8
Net Debt ($mm)	$3,018.7	**Next Rep. Date**	28-Jul (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC (C$) 2005E: $1.49; 2006E: $1.56

Please refer to pages 6 to 8 for Disclosure Statements, including the Analyst's Certification.

Details & Analysis

On July 11, the British Columbia Utilities Commission (BCUC) issued an Order and Notice of Procedural Conference regarding an application by Terasen Gas Inc. (100% - Terasen Inc.) and Terasen Gas (Vancouver Island) Inc. (100% - Terasen Inc.) to determine the appropriate return on equity and capital structure and to review and revise the automatic adjustment mechanism used by the BCUC to establish the allowed return on equity, annually.

Terasen Gas and Terasen Gas Vancouver Island filed an application with the BCUC on June 30 asserting that:

- Pursuant to the existing automatic adjustment mechanism and the prevailing long-term government of Canada bond yields, the 2006 benchmark ROE would be 7.71%. Under this scenario, Terasen is significantly discouraged from, and potentially challenged to be able to continue to invest capital in the province beyond that which is required to meet its basic obligation to serve in existing service areas.
- The need for change is established with the following six themes:
    1. The mechanism produces the lowest allowed return on equity of any regulated gas or electric utility in Canada and is out of step with other utility regulation in Canada.
    2. Good Intentions – Unintended Outcomes: when Government of Canada bond yields are below 6.00%, the sliding scale equal to 80% increases to 100% and reductions in forecast yield reduces the allowed return on equity on a one-for-one basis, fixing the equity risk premium to long-term yields at 350 basis points. This sliding scale results in a return penalty, making the formula the most punitive of those used by Canadian regulators.
    3. The Financial Times and Circumstances Have Changed: since the formula was constructed and first implemented there have been a number of changes, including the implementation of the North American Free Trade Agreement, a change in the yields of long-term Canada bonds versus the yields on long-term U.S. treasuries, and the evolution of the income trust market.
    4. A Single Test Does not Ensure the Best Outcome: regulators have all but abandoned the discounted cash flow and comparable earnings test and are relying almost exclusively on the equity risk premium test. Sole reliance on this latter test has resulted in unfairly low returns on equity for investors and may impair the financial integrity of the utilities and limit their ability to attract incremental capital on reasonable terms and conditions.
    5. Financial Flexibility to Compete: the bond rating agencies that rate the utilities' outstanding debt capital have expressed concern regarding the low allowed ROE and equity components in Canada versus those in the United States and that a credit

favourable regulatory environment is not so favourable as to justify the low returns and thin common equity capital structures typically seen in historically in Canada.

6. Risks of Terasen Gas and Terasen Gas Vancouver Island are Growing: key risks include: (i) erosion of natural gas' operating cost advantage over electricity; (ii) lower customer capture rates, resulting in substantially lower customer additions at similar housing start levels; (iii) greater penetration of multi-family dwellings in new housing starts due to lower new home affordability. Electricity has a dominant market share in the multi-family segment; (iv) a greater number of alternative energy sources are available now to prospective customers; (v) high natural gas prices have resulted in fuel switching and behavioural changes resulting in lower throughput.

7. Terasen Gas Vancouver Island: there are a number of issues specific to this utility: (i) low market penetration rate; (ii) recovery of a deficit of that reached $88 million in 2002; (iii) elimination of the Provincial royalty revenues in 2012, equal to $35 million per annum and covering 20% of the current cost of service; (iv) highly dependent on industrial load totalling more than 65% of throughput, for which approximately 2/3 is contracted on a year-to-year basis; (v) security of supply risk due to dependency on a single undersea high pressure transmission facility; and (vi) $75 million non-interest-bearing senior government debt, currently a credit to rate base.

- Terasen Gas Inc.: has requested an allowed return on equity of 10.5% for rate making purposes and deemed equity for rate purposes of 38%, versus 33% currently.

- Terasen Gas Vancouver Island: has requested an allowed return on equity of 11.25%, a 75 basis point premium to that of Terasen Gas (versus 50 basis points currently) and deemed equity of 40%, versus 35% currently.

We believe the following points are relevant regarding this application:

- The potential effective date of a revised automatic adjustment mechanism and higher deemed equity is January 1, 2006. We note that Terasen Gas' current multi-year incentive agreement expires on December 31, 2007 and the agreement governing Terasen Gas Vancouver Island expires December 31, 2005. Due to the proliferation of deferral accounts in Terasen Gas' incentive arrangements, it is unclear whether the implementation of a new return on equity and deemed equity would require a reopening of this incentive arrangement.

- If approved, the higher deemed equity would increase the utility requirement for equity by approximately $103 million at Terasen Gas and Terasen Gas Vancouver Island by approximately $24 million, for a total of $127 million. If we assume that Terasen Inc. must have, on a weighted basis, sufficient equity to fund the equity investment in its utility operations with equity, i.e., no double leverage, then Terasen Inc.'s net equity requirement is likely to increase by this amount, in addition to the equity requirement already assumed in our financial model of $125 million in 2008 to fund other growth initiatives.

- If approved, and prior to the dilution associated with an equity issue in 2006 and/or the cost of debt that would no longer be recoverable in rate base, we estimate that the contribution from Terasen Gas Inc. would increase by $0.19 per share (approximately $0.06 per share for each 100 basis point change in ROE and approximately $0.02 per share for every 100 basis point change in deemed equity), and the estimated contribution from Terasen Gas Vancouver Island would increase by approximately $0.05 per share (approximately $0.004 per share of every 100 basis point change in deemed equity and approximately $0.02 per share of every change in return on equity).

On July 12, Terasen Pipelines (Trans Mountain) Inc. filed an application with the National Energy Board requesting approval for the construction and operation of facilities that will comprise the Trans Mountain Pump Station Expansion Project – 35,000 bbl/d expansion of the pipeline to 260,000 bbl/d at a cost of $210 million. The planned in-service date of the project is early 2007. This project is fully reflected in our financial model; however,

- there is no tolling information in the application, making the estimated earnings contribution difficult to estimate; and
- the project is now anticipated to be wrapped into the renegotiation of the incentive arrangement governing the Trans Mountain Pipeline broadly. We believe the agreement may be subject to a material rebasing, due to a change in the perception of the risk profile of liquids pipeline systems since late 1999 and the likelihood that quality, reliability and system availability metrics similar to those implemented in the recently announced Enbridge liquids pipeline incentive agreement will also apply to the Trans Mountain Pipeline.

Estimates

Our 2005 and 2006 diluted EPS estimates are unchanged and we note: (1) we typically do not price in requested ROE and deemed equity benchmarks, due to the lack of certainty that they will be approved as filed; and (2) the Trans Mountain Pump Station Expansion Project is currently reflected in our financial model.

Valuation

Our target price reflects a weighted average: 17x 2006E diluted EPS of $1.52 (12.5%), 1.8x 2006E BV per share of $14.31 (12.5%) and a target yield of 3.25%, assuming 2006 dividends per share of $0.94.

Recommendation

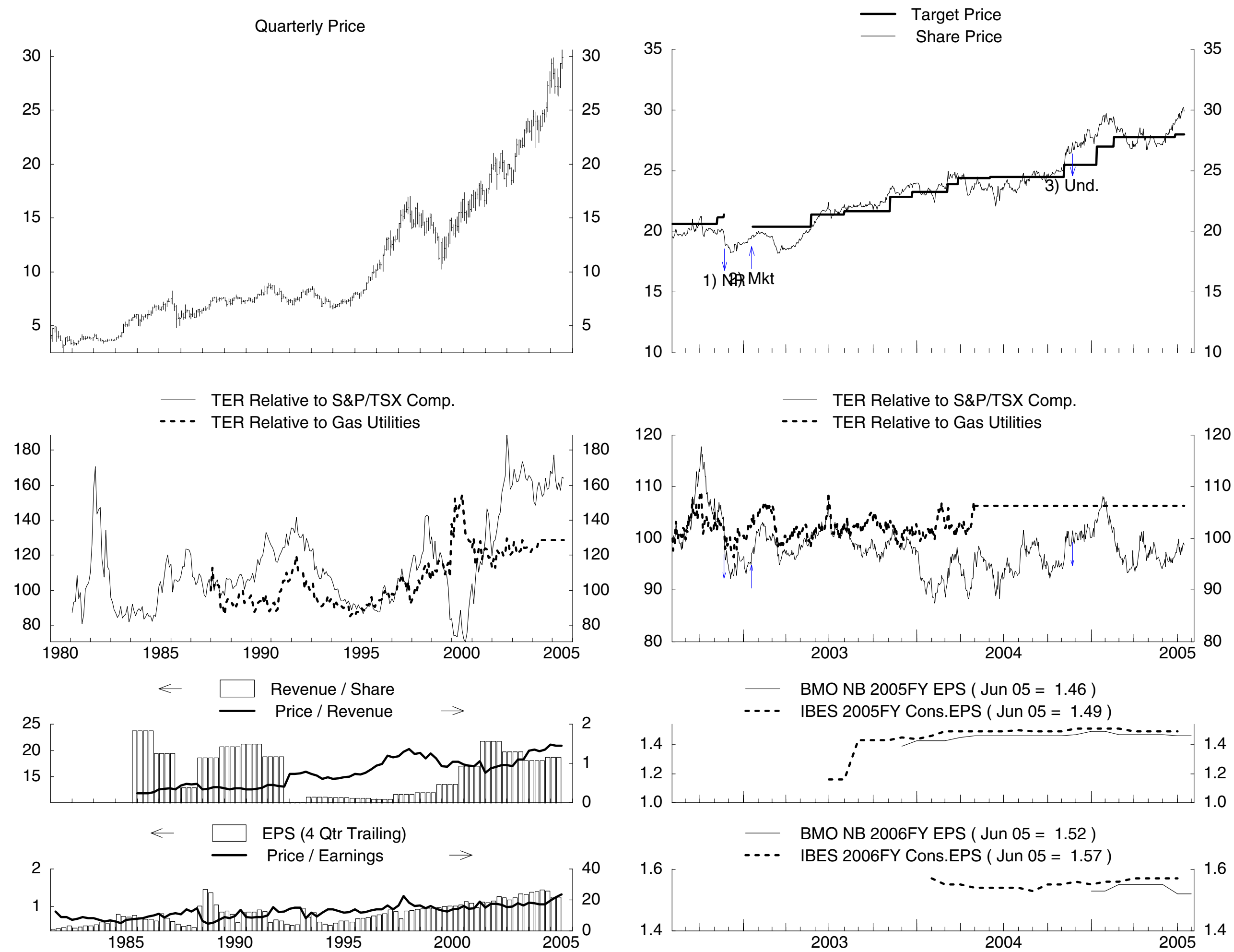
We believe the shares of Terasen Inc. are fully valued at present levels. We rate them Underperform.

Table 1. Consolidated Summary Sheet

18/07/2005								Karen J. Taylor
Current Price:	$30.10							BMO Nesbitt Burns Inc.
12-Month Target Price:	$28.00							
Rate of Return:	-3.99%					Recommendation:	Underperform	
				Year Ending December 31				
	1999	2000	2001	2002	2003	2004	2005E	2006E
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.39	$1.46	$1.52
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.40	$1.47	$1.54
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.92	$0.93	$0.96
Trans Mountain Pipe Line	$0.26	$0.25	$0.27	$0.34	$0.54	$0.68	$0.71	$0.73
Other/**Water & Utility Services**	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	$0.06	$0.12	$0.14
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	($0.26)	($0.30)	($0.29)
Dividends	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.90	$0.94
Payout Ratio	60.1%	61.3%	63.7%	54.5%	59.3%	59.0%	61.1%	61.1%
Average Shares (mm)	76.6	76.6	76.6	86.4	103.8	104.7	105.3	105.7
Net Book Value	$8.31	$9.02	$9.39	$12.10	$12.44	$13.04	$13.66	$14.31
Market Valuation								
Price: High	$15.50	$16.73	$18.20	$21.25	$24.00	$28.40	-	-
Price: Low	$10.50	$10.75	$14.88	$16.32	$18.18	$22.05	-	-
Price: Current	-	-	-	-	-	-	$30.10	-
P/E Ratio: High	16.0	16.24	17.84	16.73	18.60	20.30	-	-
P/E Ratio: Low	10.8	10.44	14.58	12.85	14.09	15.76	-	-
P/E Ratio: Current	-	-	-	-	-	-	20.4	19.6
Price/Book Value: High	1.92	1.85	1.94	1.76	1.93	2.18	-	-
Price/Book Value: Low	1.30	1.19	1.58	1.35	1.46	1.69	-	-
Price/Book Value: Current	-	-	-	-	-	-	2.20	2.10
Yield: High Price	3.76%	3.66%	3.57%	3.26%	3.19%	2.90%	-	-
Yield: Low Price	5.55%	5.70%	4.37%	4.24%	4.21%	3.74%	-	-
Yield: Current Price	-	-	-	-	-	-	2.99%	3.12%
Balance Sheet ($mm)								
Debt (S-T)	508.5	314.2	528.4	426.2	610.0	664.7	1,410.0	1,207.0
Debt (L-T)	1,120.9	1,561.9	1,717.1	2,123.4	2,301.1	2,166.6	1,483.7	1,841.4
Deferred Taxes/Other Deferred Items	35.0	47.3	56.8	58.1	67.5	209.4	209.4	209.4
Minority Interest	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	645.1	701.5	718.7	1,244.5	1,302.3	1,371.1	1,441.5	1,514.8
	2,384.5	2,749.9	3,146.0	3,977.2	4,405.9	4,536.8	4,669.6	4,897.7
Balance Sheet (%)								
Debt (S-T)	21.3%	11.4%	16.8%	10.7%	13.8%	14.7%	30.2%	24.6%
Debt (L-T)	47.0%	56.8%	54.6%	53.4%	52.2%	47.8%	31.8%	37.6%
Deferred Taxes/Other Deferred Items	1.5%	1.7%	1.8%	1.5%	1.5%	4.6%	4.5%	4.3%
Minority Interest	3.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	4.5%	4.0%	3.1%	2.8%	2.8%	2.7%	2.6%
Shareholders' Equity	27.1%	25.5%	22.8%	31.3%	29.6%	30.2%	30.9%	30.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	146.5	155.2	162.7
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	146.5	155.2	162.7
Cash Flow from Operations ($mm)	117.0	173.3	53.6	311.4	267.7	342.0	323.9	342.6

Source: BMO Nesbitt Burns

Terasen Inc. (TER)



FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
2004	1.39	20	0.84	3.0	60	13.04	2.1	11
Current*	1.25	23	0.90	3.1	72	13.47	2.2	9
Average:		13		5.0	59		1.5	13.7
Growth(%):								
5 Year:	4.5		7.7			10.5		
10 Year:	7.4		7.2			7.4		
20 Year:	2.8		5.6			6.5		

* Current EPS is the 4 Quarter Trailing to Q1/2005.

TER - Rating as of 5-Aug-02 = Mkt

	Date	Rating Change	Share Price
1	21-Nov-02	Mkt to NR	$19.76
2	17-Jan-03	NR to Mkt	$19.39
3	23-Nov-04	Mkt to Und.	$26.95

Last Daily Data Point: July 14, 2005

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	43%	48%	47%
Hold	Market Perform	45%	39%	46%
Sell	Underperform	12%	13%	7%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.
** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

"BMO (M-Bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.

"Nesbitt Burns" is a registered trade-mark of BMO Nesbitt Burns Corporation Limited, used under licence.

BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

Stock Rating: Underperform
Industry Rating: Market Perform

July 29, 2005
Research Comment
Pipelines

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Keith Carpenter

Q2/05 EPS in Line with Expectations; Underperform Rating Maintained

Event

Terasen reported Q2/05 EPS of $0.28. After adjusting for: (i) $3.9 million after-tax mark-to-market gain relating to Clean Energy's (40.4% - Terasen Inc.) price risk management activities; and (ii) approximately $1.15 million of tax benefits associated with the Express Pipeline attributable to Q1/05 performance, Q2/05 EPS were $0.23, directly in line with expectations.

Impact

Neutral.

Forecasts

Our 2005 and 2006 diluted EPS estimates of $1.46 and $1.52 are unchanged. We have restated Q1/05 results, increasing the contribution to $0.62 per share from $0.60 previously, reflecting the taxation benefits reported in Q2/05 associated with Q1/05.

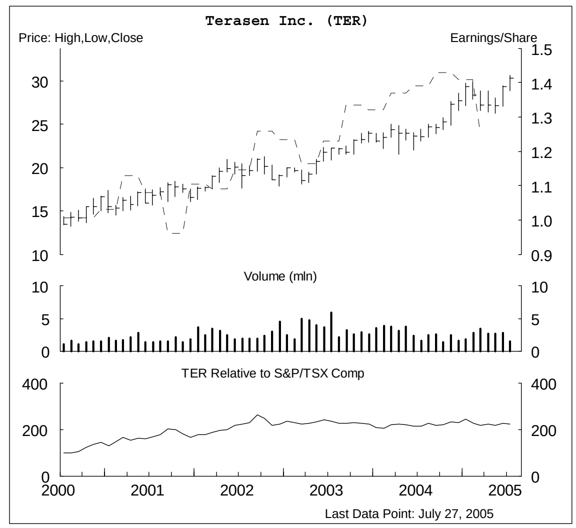
Valuation

Our target price of $28.00 reflects a weighted average valuation approach: 17x 2006E diluted EPS of $1.52 (12.5%), 1.8x 2006E book value per share of $14.31 (12.5%) and a target yield of 3.25% (75%), assuming 2006 dividends per share of $0.94.

Recommendation

We believe the shares are fully valued at present levels and we rate them Underperform.

Price (27-Jul)	$30.35		**52-Week High**	$30.69
Target Price	$28.00		**52-Week Low**	$23.10



(FY-Dec.)	2003A	2004A	2005E	2006E
EPS	$1.28	$1.39	$1.46	$1.52
P/E			20.8x	20.0x
CFPS	$2.58	$3.27	$3.08	$3.27
P/CFPS			9.8x	9.3x
Div.	$0.77	$0.83	$0.90	$0.94
EV ($mm)	$5,296	$5,725	$6,378	$6,543
EBITDA ($mm)	$503	$521	$588	$626
EV/EBITDA	10.5x	11.0x	10.9x	10.5x

Quarterly EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.08	-$0.07	$0.60
2004A	$0.76	$0.10	-$0.03	$0.58
2005E	$0.62a	$0.23a	$0.09	$0.54↓

Dividend	$0.90	**Yield**	3.0%
Book Value	$13.53	**Price/Book**	2.2x
Shares O/S (mm)	105.5	**Mkt. Cap ($mm)**	$3,202
Float O/S (mm)	105.5	**Float Cap ($mm)**	$3,202
Wkly Vol (000s)	554	**Wkly $ Vol (mm)**	$15.0
Net Debt ($mm)	$3,018.7	**Next Rep. Date**	27-Oct (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC (C$) 2005E: $1.49; 2006E: $1.56

Changes

Quarterly EPS
Q4/05E $0.55 to $0.54

Please refer to pages 6 to 8 for Disclosure Statements, including the Analyst's Certification.

Details & Analysis

Terasen reported Q2/05 EPS of $0.28. After adjusting for: (i) $3.9 million after-tax mark-to-market gain relating to Clean Energy's (40.4% - Terasen Inc.) price risk management activities; and (ii) approximately $1.15 million of tax benefits associated with the Express Pipeline attributable to Q1/05 performance, Q2/05 EPS were $0.23, directly in line with expectations. Quarterly performance by segment and estimated segment performance in 2005 and 2006 is set out in Table 1.

Table 1. Quarterly and Annual Performance by Segment

Contribution by Segment ($ millions)	Q1/05	Q2/05	2005E	2006E
Terasen Gas	49.0	1.6	71.8	72.2
Terasen Gas (Vancouver Island)	6.7	6.1	24.7	25.4
Trans Mountain	5.4	9.8	39.8	39.8
Corridor I	3.6	3.5	14.1	14.1
Corridor II	0.0	0.0	0.0	0.0
Express	4.9	6.5	22.9	24.9
Water	0.8	3.8	10.0	12.4
Other	(5.5)	(6.8)	(27.9)	(26.0)
Earnings Before Non-Recurring items	64.9	24.5	155.2	162.8
Average Shares	105.3	105.5	105.7	106.0
Net Earnings to Common (Basic)	$0.62	$0.23	$1.47	$1.53
Net Earnings to Common (Diluted)			$1.46	$1.52

Source: Company Reports, BMO Nesbitt Burns

We believe the following points are relevant about Q2/05 performance:

- The contribution from Terasen Gas Inc. (TGI) and Terasen Gas (Vancouver Island) was largely in line with expectations. We continue to assume that each utility earns in excess of its allowed return on equity over the forecast period. We have not yet priced in the potential reduction in allowed return resulting from the application of the current return on equity methodology and a lower interest rate outlook as per Consensus Economics. Similarly, we have not yet priced in a potential increase in allowed ROE and deemed equity as requested by both utilities in an application filed with the British Columbia Utilities Commission (BCUC) on June 30, due to the lack of certainty that the Commission will approve the application as filed.

- The contribution from the Trans Mountain Pipe Line increased in Q2/05 versus Q1/05, reflecting the resumption of full capacity utilization in Q2/05, following throughput curtailments associated with oil sands production outages and downstream refinery turnarounds. Management indicated on the conference call that there might be some throughput volatility in Q3/05, again related to oil sands production issues.

- The equity contribution from the Express Pipeline were largely in line with expectations; however, the reported tax benefits of approximately $2.3 million in Q2/05, about 50% of which were related to Q1/05, were not expected. We have fine-tuned our estimated 2005 and 2006 contribution from this pipeline to reflect taxation benefits that are expected to be recurring during the forecast period.

- The contribution from the Corridor Pipeline was lower than expected, due to a larger than expected reduction in the allowed return on equity on the pipeline pursuant to the pipeline's tolling agreement. Although our estimates reflect a National Energy Board-style reduction in allowed return, the actual decline appears to be higher than anticipated, reducing the segment contribution. We continue to believe the allowed return on this asset is lower than the company's equity cost of capital.
- The Water segment reported strong segment growth quarter over quarter and sequentially; Q2/05 performance of $3.8 million was slightly better than expected. We note that the company indicated it was actively pursuing acquisition growth opportunities in Alberta and British Columbia that could mature in the latter half of 2005 and that these acquisition opportunities are presently factored into the company's 6% per annum EPS growth target.
- Corporate expenses were generally in line with expectations and may be slightly higher in the second half of 2005. We note that the segment contribution set out in Table 1 above excludes the benefit associated with periodic mark-to-market gains recorded on Clean Power's price risk management activities. These gains are non-cash and our estimates are exclusive of these gains/losses.

Estimates

Our 2005 and 2006 diluted EPS estimates of $1.46 and $1.52 are unchanged. We have restated Q1/05 results, increasing the contribution to $0.62 per share from $0.60 previously, reflecting the taxation benefits reported in Q2/05 associated with Q1/05. As set out in Table 2, Terasen continues to have a significant number of projects under development. As we have noted previously, we have fully reflected the anticipated contribution from the following projects in our financial model (even if they extend beyond our current 2005 and 2006 forecast period):

- Pump station expansion of the Trans Mountain Pipeline that is expected to increase throughput by 35,000 bbls/d by late 2006 at a cost of $205 million.
- Anchor TMX1 expansion of the Trans Mountain Pipeline that is expected to increase throughput by 40,000 bbls/d and be in-service by late 2008 at a cost of $365 million.
- Corridor Pipeline looping and expansion project that is expected to increase capacity by approximately 1 million bbls/d and be in-service by mid-2009 at a cost of $800 million.
- $35 million Whistler Gas Pipeline project that is expected to be in-service in late 2006 and $15 million for the Whistler Ground Source Heat Pump that has a proposed in-service date of late 2007.

Table 2. Projects Under Development

Name	Expansion Volume	Cost (Millions)	In-Service Date	Estimated Contribution (Per Share)	Comments
Trans Mountain - Phase I	27,000 bbls/d	C$16	Mid-2004	$0.005	Increase Capacity to 225,000 from 200,000 bbls/d
Trans Mountain - Phase II	17,000 bbls/d	C$20	Early 2005	-	Dropped December 8/03
Express/Platte - Phase I & II	108,000 bbls/d	US$100	Apr-05	$0.10	Increase Capacity to 280,000 from 172,000 bbls/d
Corridor Pipeline	35,000 bbls/d	C$6.5	Fall 2005	NM	Increase Capacity to 190,000 from 155,000 bbls/d; Debottlenecking
Corridor Pipeline	1 million bbls/d	C$800	Mid-2009	$0.15	Looping of Pipeline; Third Train Muskeg to 300,000 bbls/d
Pump Station & Anchor TMX 1	75,000 bbls/d	C$570	Late 2008	NA	Incr Capacity to 300,000 from 225,000 bbls/d; Part I 35,000 bbls/d late '06 at cost of $205 mln; Part II 40,000 bbls/d by '08 at cost of $365 mln
Southern Leg - TMPL - Loop I	100,000 bbls/d	C$1,000	Late 2009	NA	Increase Capacity to 400,000 from 300,000 bbls/d
Southern Leg - TMPL - Loop II	450,000 bbls/d	C$1,200	Late 2010	NA	Increase Capacity to 850,000 from 400,000 bbls/d
Northern Leg - Trans Mountain	550,000 bbls/d	C$2,600	Late 2010	NA	850,000 bpd capacity; 500,000 bpd to North; 350,000 bpd to South
Eastern Leg - Trans Mountain	100,000 bbls/d	C$200	2007	NA	New Capacity from Edmonton to Hardisty on Trans Mountain
Terasen Gas Vancouver Island	NA	C$50	Late 2008	$0.02	Compression on existing gas transmission line
Terasen Gas Vancouver Island	NA	C$100	Late 2008	$0.06	LNG Storage Facility
Whistler Gas Pipeline	NA	C$50	2006/07	$0.02	Potential to replace existing propane system
Inland Pacific Connector	NA	C$3-500	2007/08	NA	Natural Gas; Terminum of Southern Crossing Pipeline to market hub at Sumas
Heartland Terminal	NA	C$30-$120	2007/10	NA	5-7 million bbls of tank and cavern storage

Source: Company Reports, BMO Nesbitt Burns

- Our estimates also reflect the July 20, 2005 application by TGVI for 2006 and 2007 rates filed with the BCUC.

We have two primary concerns relating to this stock:

- The sustainability of the contribution from the Trans Mountain Pipeline in 2006 versus 2005 given that the Incentive Tolling Agreement governing this asset expires at the end of 2005 (December 31, 2005) and must be renegotiated. While we believe that management is highly capable in this regard, we note that there has been a change in the perceived risk of the oil pipelines by shippers, interest rates have declined and quality, reliability and availability metrics are likely to be introduced to this new ITA, making above-average performance potentially more difficult.

- How much equity and when? As highlighted in the Consolidated Summary Sheet in Table 3, the company is relatively thinly capitalized. A material increase in the allowed deemed equity at TGI and TGVI and the successful execution of the company's organic greenfield and acquisition growth strategies could create the need for additional equity capital. When and how much remain to be determined.

Valuation

Our target price of $28.00 reflects a weighted average valuation approach: 17x 2006E diluted EPS of $1.52 (12.5%), 1.8x 2006E book value per share of $14.31 (12.5%) and a target yield of 3.25% (75%), assuming 2006 dividends per share of $0.94.

Recommendation

We believe the shares are fully valued at present levels and we them Underperform.

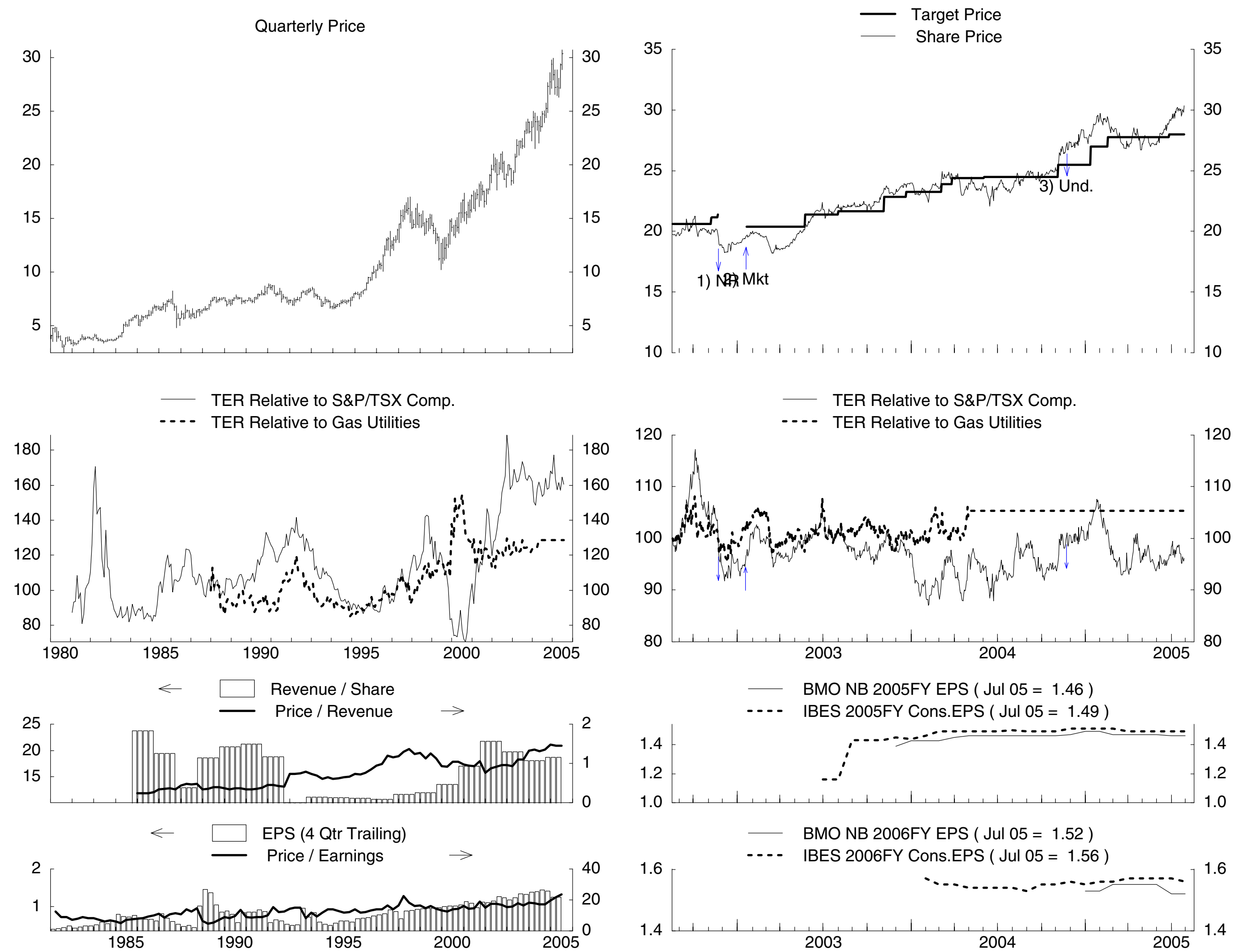
Table 3. Consolidated Summary Sheet

28/07/2005			Karen J. Taylor
Current Price:	$31.64		BMO Nesbitt Burns Inc.
12-Month Target Price:	$28.00		
Rate of Return:	-8.66%	Recommendation:	Underperform

	Year Ending December 31							
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005E**	**2006E**
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.39	$1.46	$1.52
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.40	$1.47	$1.53
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.92	$0.91	$0.92
Trans Mountain Pipe Line	$0.26	$0.25	$0.27	$0.34	$0.54	$0.68	$0.73	$0.74
Other/**Water & Utility Services**	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	$0.06	$0.09	$0.12
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	($0.26)	($0.26)	($0.25)
Dividends	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.90	$0.94
Payout Ratio	60.1%	61.3%	63.7%	54.5%	59.3%	59.0%	61.3%	61.3%
Average Shares (mm)	76.6	76.6	76.6	86.4	103.8	104.7	105.7	106.0
Net Book Value	$8.31	$9.02	$9.39	$12.10	$12.44	$13.04	$13.66	$14.31
Market Valuation								
Price: High	$15.50	$16.73	$18.20	$21.25	$24.00	$28.40	-	-
Price: Low	$10.50	$10.75	$14.88	$16.32	$18.18	$22.05	-	-
Price: Current	-	-	-	-	-	-	$31.64	-
P/E Ratio: High	16.0	16.24	17.84	16.73	18.60	20.30	-	-
P/E Ratio: Low	10.8	10.44	14.58	12.85	14.09	15.76	-	-
P/E Ratio: Current	-	-	-	-	-	-	21.5	20.6
Price/Book Value: High	1.92	1.85	1.94	1.76	1.93	2.18	-	-
Price/Book Value: Low	1.30	1.19	1.58	1.35	1.46	1.69	-	-
Price/Book Value: Current	-	-	-	-	-	-	2.32	2.21
Yield: High Price	3.76%	3.66%	3.57%	3.26%	3.19%	2.90%	-	-
Yield: Low Price	5.55%	5.70%	4.37%	4.24%	4.21%	3.74%	-	-
Yield: Current Price	-	-	-	-	-	-	2.84%	2.97%
Balance Sheet ($mm)								
Debt (S-T)	508.5	314.2	528.4	426.2	610.0	664.7	1,424.6	1,228.3
Debt (L-T)	1,120.9	1,561.9	1,717.1	2,123.4	2,301.1	2,166.6	1,483.7	1,841.4
Deferred Taxes/Other Deferred Items	35.0	47.3	56.8	58.1	67.5	209.4	209.4	209.4
Minority Interest	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	645.1	701.5	718.7	1,244.5	1,302.3	1,371.1	1,442.2	1,516.2
	2,384.5	2,749.9	3,146.0	3,977.2	4,405.9	4,536.8	4,684.9	4,920.3
Balance Sheet (%)								
Debt (S-T)	21.3%	11.4%	16.8%	10.7%	13.8%	14.7%	30.4%	25.0%
Debt (L-T)	47.0%	56.8%	54.6%	53.4%	52.2%	47.8%	31.7%	37.4%
Deferred Taxes/Other Deferred Items	1.5%	1.7%	1.8%	1.5%	1.5%	4.6%	4.5%	4.3%
Minority Interest	3.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	4.5%	4.0%	3.1%	2.8%	2.8%	2.7%	2.5%
Shareholders' Equity	27.1%	25.5%	22.8%	31.3%	29.6%	30.2%	30.8%	30.8%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	146.5	155.2	162.7
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	146.5	155.2	162.7
Cash Flow from Operations ($mm)	117.0	173.3	53.6	311.4	267.7	342.0	323.9	341.3

Source: BMO Nesbitt Burns

Terasen Inc. (TER)



FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
2004	1.39	20	0.84	3.0	60	13.04	2.1	11
Current*	1.25	23	0.90	3.1	72	13.47	2.2	9
Average:		13		5.0	59		1.5	13.7
Growth(%):								
5 Year:	4.5		7.7			10.5		
10 Year:	7.4		7.2			7.4		
20 Year:	2.8		5.6			6.5		

* Current EPS is the 4 Quarter Trailing to Q1/2005.

TER - Rating as of 16-Aug-02 = Mkt

	Date	Rating Change	Share Price
1	21-Nov-02	Mkt to NR	$19.76
2	17-Jan-03	NR to Mkt	$19.39
3	23-Nov-04	Mkt to Und.	$26.95

Last Daily Data Point: July 27, 2005

BMO Nesbitt Burns

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. (“BMO Nesbitt Burns”). Harris Nesbitt Corp. (“HNC”) is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	43%	48%	47%
Hold	Market Perform	45%	39%	46%
Sell	Underperform	12%	13%	7%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.
** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

Terasen Inc.

July 29, 2005
Research Comment
Corporate Debt – Pipelines & Utilities

Q2/05 Results – Leverage Concern Remains

Sue McNamara, CFA
(416)-359-4584
sue.mcnamara@bmonb.com

Event

Terasen reported Q2/05 EPS of $0.23 (after one-time adjustments), in line with our equity expectation.

Impact

Neutral.

Key Points

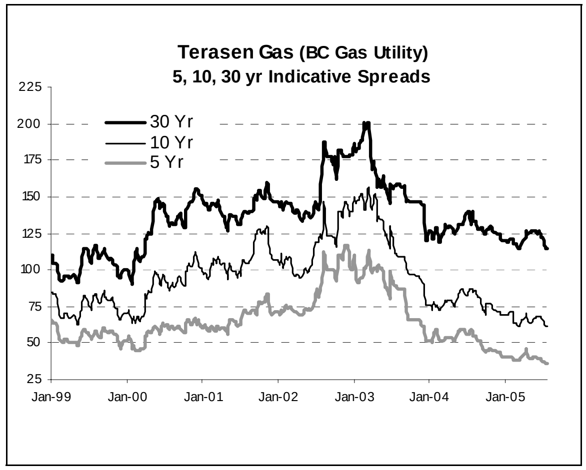
At June 30, 2005, the company's debt to total capital ratio was 64.6% versus 61.7% at year-end. If we assume that the company's available cash will be used to repay a portion of short-term debt, the company's ratio at quarter-end would decrease to 63.9%. We continue to believe that Terasen's leverage is higher than its peer group of comparable utilities. Although somewhat supported by the company's regulatory framework, we believe that the relatively high leverage could be a credit negative as the company pursues its robust list of development projects or undertakes a large scale acquisition.

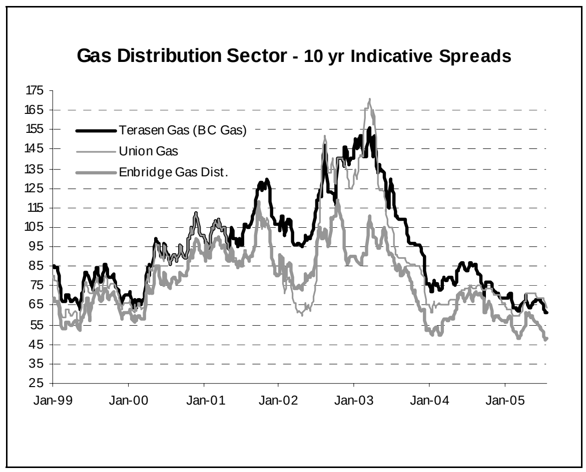
Recommendation

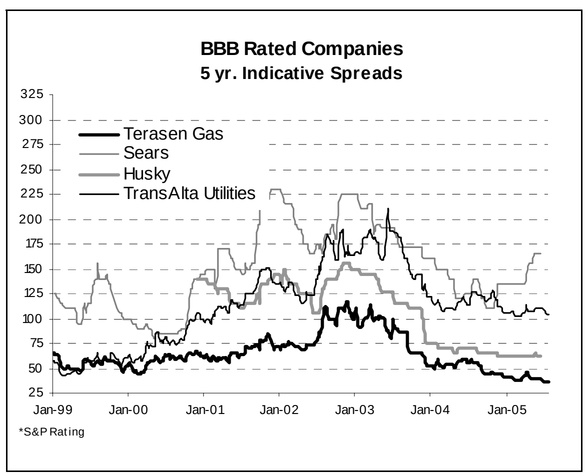
In 2005, Terasen Inc.'s 5-year, 10-year and 30-year generic credit spreads tightened by 8, 12 and 10 basis points, respectively. We believe that the company's spreads will likely widen over the next 12 months. We believe any significant spending by the company either through development projects or acquisitions (depending on how it is financed) could be a credit event, as the company is relatively thinly capitalized. We believe that a further credit risk is the expiry of the Trans Mountain system's negotiated toll settlement at the end of 2005. The company is currently in negotiations with shippers to extend or renew the toll agreement. The company's earnings and cash flow in 2006 could be negatively affected by the outcome of the negotiation. We also believe that regulatory risk at Terasen Gas is likely rising.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
A (Low)	BBB-	A3
Stable	Stable	Stable







Please refer to page 7 for Disclosure Statements, including the Analyst's Certification.

Q2/05 Results

Terasen reported Q2/05 EPS of $0.28. Q2/05 EPS were $0.23, directly in line with our equity expectation, after adjusting for: (i) a $3.9 million after-tax mark-to-market gain relating to Clean Energy's (40.4% - Terasen) price risk management activities; and (ii) approximately $1.15 million of tax benefits associated with the Express Pipeline attributable to Q1/05. For additional views, please refer to the equity research comment on Terasen Inc. by BMO Nesbitt Burns' equity analyst Karen Taylor.

Cash Flow

Terasen reported free cash of -$2.8 million during the quarter versus $25.4 million in Q2/04. The variance is largely attributable to an increase in capital expenditures ($43.1 million in Q2/05 versus $31.8 million in Q2/04) and a change in the working capital requirements contribution to operating cash flow ($9.8 million in Q2/05 versus $32.8 million in Q2/04). The free cash flow deficiency was funded with a draw on available cash.

Capital Resources

During the quarter, the company repaid $43 million and $6.4 million of short-term and long-term debt, respectively, from available cash. At quarter end, Terasen had $91.6 million of available cash remaining. Terasen Inc. has no debt maturities in 2005 and 2006, whereas Terasen Gas (100% - Terasen Inc.) has debt maturities of $350 million in 2005 and $220 million in 2006. We believe that the maturities will likely be refinanced or repaid with short-term debt issuance. At quarter-end, the company and its subsidiaries had $743 million available under its total lines of credit of $1.4 billion. At June 30, 2005, the company's debt to total capital ratio was 64.6% versus 61.7% at year-end. If we assume that the company's available cash will be used to repay a portion of short-term debt, the company's ratio at quarter-end would decrease to 63.9%. We continue to believe that Terasen's leverage is higher than its peer group of comparable utilities. Although somewhat supported by the company's regulatory framework, we believe that the relatively high leverage could be a credit negative as the company pursues its robust list of development projects or undertakes a large scale acquisition.

Table 1. Capitalization

	2004	Q2/05
$mm		
Bank Indebtedness	-	-
Short-term Debt	248.0	360.5
Long-term Debt	2,166.6	2,029.1
Current Maturities	416.7	628.9
Future Income Taxes/Deferred Credits	209.4	102.7
Capital Securities	125.0	125.0
Equity	1,422.1	1,427.5
Total Capitalization	**4,587.8**	**4,673.7**
Capitalization (%)		
Bank Indebtedness	0.0%	0.0%
Short-term Debt	5.4%	7.7%
Long-term Debt	47.2%	43.4%
Current Maturities	9.1%	13.5%
Future Income Taxes	4.6%	2.2%
Capital Securities	2.7%	2.7%
Equity	31.0%	30.5%
Total Capitalization	**100.0%**	**100.0%**
Debt/Total Capital	**61.7%**	**64.6%**

Source: Company Reports

Credit Ratings

Terasen Inc.'s senior unsecured debt is rated A(Low), BBB- and A3 by DBRS, S&P and Moody's, respectively. The outlook from all three rating agencies is Stable. S&P provides ratings coverage of the Terasen companies, based on publicly available information.

In its latest summary report on Terasen Inc., (June 3, 2005) S&P stated that the company's below average financial risk profile reflects the company's existing gas regulatory framework and is somewhat offset by the pipelines' negotiated shipper contracts. S&P expects that any acquisition or major development project will have risk profiles consistent with the regulated, energy infrastructure-type assets and will be financed in line with the company's current capital structure.

DBRS believes that the medium-term outlook for Terasen remains relatively stable given the increased asset diversification providing to earnings and operating cash flows. DBRS notes that the key risks to Terasen's credit ratings are related to the outcome of the large-scale projects currently under development. DBRS states that as the importance of Terasen's pipelines and non-regulated businesses continues to grow, the company will require a higher equity base to maintain its current ratings.

Moody's rates Terasen Inc. one notch below that senior unsecured rating of Terasen Gas, at A2. The one-notch differential reflects the structural subordination of Terasen's debt to operating subsidiary debt at Terasen Gas, Terasen Gas Vancouver Island, Corridor, Trans Mountain and Express as well as the lack of ring fencing or other restrictions that could limit Terasen Gas' ability to make dividend payments to Terasen Inc. Moody's expects that Terasen will take a prudent approach to the scale and financing of investments in the petroleum pipeline segment.

Recommendation

In 2005, Terasen Inc.'s 5-year, 10-year and 30-year generic credit spreads tightened by 8, 12 and 10 basis points, respectively. We note that Terasen Inc.'s credit spreads likely reflect a scarcity premium, as the holding company has only two maturities outstanding totalling $300 million. We believe that the company's spreads will likely widen over the next 12 months. We believe any significant spending by the company either through development projects or acquisitions (depending on how it is financed) could be a credit event, as the company is relatively thinly capitalized. We believe that a further credit risk is the expiry of the Trans Mountain system's negotiated toll settlement at the end of 2005. The company is currently in negotiations with shippers to extend or renew the toll agreement. The company's earnings and cash flow in 2006 could be negatively affected by the outcome of the negotiation. We also believe that regulatory risk at Terasen Gas is likely rising. On July 11, the British Columbia Utilities Commission (BCUC) issued an Order and Notice of Procedural Conference regarding an application by Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. to determine the appropriate return on equity and capital structure, and to review and revise the automatic adjustment mechanism used by the BCUC to establish the allowed return on equity annually (please see Karen Taylor's equity comment on Terasen Inc. dated July 15, 2005 for more details).

Table 3. Cash Flow Statement (C$mm)

	Q2/04	Q2/05
Operating Activities:		
Net Earnings	12.3	29.5
Depreciation and Amortization	37.8	36.3
Equity Earnings	(3.2)	(9.3)
Future Income Taxes	(0.2)	1.7
Long-term Rate Stabilization Accounts	2.2	(5.3)
Other	2.0	2.6
	50.9	55.5
Change in Working Capital	32.8	9.8
Net Cash Provided by Operating Activities	**83.7**	**65.3**
Investing Activities		
Capital Expenditures	(31.8)	(43.1)
Acquisitions	-	-
Dispositions	-	-
Other	(2.7)	(1.3)
Cash Flow Provided by Investing Activities	**(34.5)**	**(44.4)**
Dividends:		
Capital Securities Distributions	(1.7)	-
Common Dividends	(22.1)	(23.7)
	(23.8)	**(23.7)**
Free Cash Flow	**25.4**	**(2.8)**
Financing Activities		
Short-term Debt	(181.5)	(43.0)
Long-term Debt	139.6	(6.4)
Terasen Gas Preference Shares	-	-
Capital Securities	-	-
Common Shares	1.2	1.5
Other	-	-
Change in Cash	15.3	50.7
Cash Flow Provided by Financing Activities	**(25.4)**	**2.8**
Cash (ST Debt), Beginning of Period	32.6	142.3
Change in Cash	(15.3)	(50.7)
Cash (ST Debt), End of Period	**17.3**	**91.6**

Source: Company Reports

Terasen Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount ($mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding ($mm)
Terasen Gas Inc.	9.800%	9-Feb-05	$40	MTNs	9-Feb-95	NA	Non-callable	05534ZAA4	$40
Terasen Gas Inc.	8.250%	29-Jun-05	$5	MTNs	29-Jun-95	NA	Non-callable	05534ZAB2	$5
Terasen Gas Inc.	6.500%	20-Jul-05	$200	MTNs	20-Jul-00	57.0 bps	Non-callable	05534ZAG1	$200
Terasen Gas Inc.	Floating[1]	26-Sep-05	$150	Floating Rate Notes	26-Sep-03	NA	Non-callable	88079ZAAZ	$150
Terasen Gas Inc.	4.850%	8-May-06	$100	MTNs	8-May-03	NA	Non-callable	88079ZAA1	$100
Terasen Gas Inc.	6.150%	31-Jul-06	$100	MTNs	30-Jul-01	73.0 bps	Make Whole + 18 bps	88079ZAL0	$100
Terasen Gas Inc.	9.750%	17-Dec-06	$20	Retractable Debentures	17-Dec-86	NA	Non-callable	NA	$20
Terasen Gas Inc.	6.500%	16-Oct-07	$100	MTNs	16-Oct-00	75.0 bps	Make Whole + 18 bps	05534ZAH9	$100
Terasen Gas Inc.	6.200%	2-Jun-08	$188	MTNs	21-Oct-97	80.0 bps	Non-callable	05534ZAC0	$188
Terasen Gas Inc.	6.300%	1-Dec-08	$200	MTNs	30-Nov-01	NA	Make Whole + 27 bps	11058ZAA8	$200
Terasen Gas Inc.	10.750%	8-Jun-09	$60	Debentures	8-Jun-89	NA	Make Whole + 40 bps	457452AH3	$60
Terasen Pipelines (Corridor)	4.240%	2-Feb-10	$150	Senior Unsecured	1-Feb-05	65.5 bps	Make Whole + 14 bps	88079VAA0	$150
Terasen Pipelines Inc.	11.500%	1-Jun-10	$35	Senior Unsecured	20-Jun-90	NA	Make Whole + 50 bps	NA	$35
Express Pipeline	6.470%	31-Dec-13	US$150	Senior Secured Notes	6-Feb-98	NA	Make Whole + 25 bps	30217VAA5	US$112.8
Terasen Inc.	5.560%	15-Sep-14	$125	MTNs	10-Sep-04	93.0 bps	Make Whole + 23 bps	88079ZAB9	$125
Terasen Pipelines (Corridor)	5.033%	2-Feb-15	$150	Senior Unsecured	1-Feb-05	81.1 bps	Make Whole + 19 bps	88079VAB8	$150
Terasen Gas Inc.	11.800%	30-Sep-15	$75	Mortgage	3-Dec-90	NA	Non-callable	05534RAA2	$75
Terasen Gas Inc.	10.300%	30-Sep-16	$200	Mortgage	21-Nov-91	104.0 bps	Make Whole + 35 bps	05534RAB0	$200
Express Pipeline	7.390%	31-Dec-19	US$250	Subordinated Secured Notes	6-Feb-98	NA	Make Whole + 50 bps	30217VAD9	US$239.2
Terasen Gas Inc.	6.950%	21-Sep-29	$150	MTNs	21-Sep-99	112.0 bps	Make Whole + 28 bps	05534ZAF3	$150
Terasen Gas Inc.	6.500%	1-May-34	$150	MTNs	29-Apr-04	127.0 bps	Make Whole + 31 bps	88078ZAB0	$150
Terasen Inc.	8.000%	19-Apr-40	$125	Subordinated Debentures	19-Apr-00	235.0 bps	Make Whole + 55 bps	05534KAA7	$125

[1] 35 basis points to 3 month Bankers Acceptances

Ownership Structure

Widely held.

Credit Facilities

Company	Facility Size	Amount Drawn Q2/04	Amount Drawn FY 2003	Letters of Credit Q2/04	Letters of Credit FY 2003	Maturity	Type
Terasen Inc.	$300	$200.0	$200.0			NA	Lines of Credit
Terasen Gas Inc.	$500	$70.0	$353.0			NA	Lines of Credit
Terasen Gas Vancouver	$213	$160.0	$160.0			NA	Lines of Credit
Corridor Pipelines	$525	$525.0	$525.0			NA	Lines of Credit

Shelf Prospectus

Company	Type	Amount	Remaining	Date	Expiry	Instruments
Terasen Gas Inc.	Shelf	$700	$550	10-Dec-03	10-Jan-05	MTNs
Terasen Inc.	Shelf	$800	$800	10-Dec-03	10-Jan-05	Unsecured Debentures

Pension Summary

	Pension Benefit Plans FY 2004 ($mm)	Pension Benefit Plans FY 2003 ($mm)	Other Benefit Plans FY 2004 ($mm)	Other Benefit Plans FY 2003 ($mm)
Accrued Benefit Obligation	298.0	276.7	67.3	61.0
Plan Assets	274.5	255.3	-	-
Funded Status	(23.5)	(21.4)	(67.3)	(61.0)
Accrued Benefit Asset (Liability) Net of Valuation Allowance	1.5	4.1	(32.3)	(24.6)
Discount Rate	6.00%	6.25%	6.00%	6.25%
Expected Long-term Rate of of Return on Assets	7.50%	7.50%	NA	NA
Rate of Future Increase in Compensation	3.50%	3.39%	NA	NA

Historical Ratings

DBRS Rating	DBRS Trend	DBRS Date	S&P Rating	S&P Trend	S&P Date	Moody's Rating	Moody's Trend	Moody's Date
A (L)	Stable	4-Apr-00	BBB	Stable	14-Nov-01	A3	Stable	8-Nov-01
			BBB	Credit Watch Negative	19-Nov-02	A3	Under Review - Negative	19-Nov-02
			BBB-	Stable	26-Jun-03	A3	Stable	12-Dec-02

Note: On March 12, 2004, Terasen Inc. disengaged its relationship w ith S&P. The rating agency w ill continue to provide ratings on Terasen and its subsidiaries using public information.

Company Risk Disclosure

In addition to the risks involved in investing in corporate debt securities generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Sue McNamara, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee/Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns as of the date of this report and are subject to change without notice. BMO Nesbitt Burns endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns' Equity Research. BMO Nesbitt Burns HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis.

BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provides other remunerated services to, many issuers covered by BMO Nesbitt Burns' Equity Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services.

Dissemination of Research

BMO NBI Corporate Debt Research is available via our web site http://corporate.bmo.com/research/default.asp

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

August 2, 2005
Research Comment
Pipelines

Stock Rating: **Market Perform ↑**
Industry Rating: **Market Perform**

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Keith Carpenter

Kinder Morgan Agrees to Acquire Company; Rating Raised to Market Perform

Event

Terasen and Kinder Morgan have jointly announced that Kinder Morgan has agreed to acquire all of the outstanding shares of Terasen Inc. for $35.91 per share. The total enterprise value of the transaction is approximately C$6.9 billion. The key details of the transaction are set out herein. We estimate that the transaction is priced at 24.6x estimated diluted 2005 EPS of $1.46, 2.62 x estimated 2005 book value per share of $13.66 and 11x EV/EBITDA. We believe the transaction is priced at the upper end of the relevant range.

Impact

Positive. We have increased our target price to $35.95 from $28.00 to reflect the proposed transaction. The proposed transaction effectively mitigates our concerns relating to this stock: (1) the potential adverse effect on EPS relating to the expiry of the Trans Mountain Incentive Tolling Agreement on December 31, 2005; (2) and the likelihood that the company would require significant equity financing in order to fund its development program and potentially higher deemed equity in its natural gas distribution segment.

Forecasts

Unchanged.

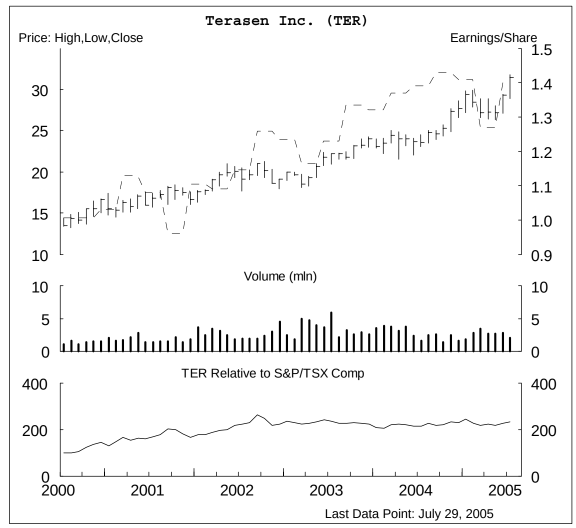
Valuation

Our revised target price of $35.95 is 23.6x 2006E diluted EPS of $1.52 (12.5%), 2.51 x estimated 2006 book value per share of $14.31 (12.5%) and a yield of 2.62% (75%), assuming 2006 dividends per share of $0.94. We believe the offer price is reasonable and we recommend that shareholders endorse it.

Recommendation

We believe the shares are reasonably valued and we rate them Market Perform.

Price (29-Jul)	$31.40	**52-Week High**	$31.78
Target Price	$35.95↑	**52-Week Low**	$23.38



(FY-Dec.)	2003A	2004A	2005E	2006E
EPS	$1.28	$1.39	$1.46	$1.52
P/E			21.5x	20.7x
CFPS	$2.58	$3.27	$3.08	$3.27
P/CFPS			10.2x	9.6x
Div.	$0.77	$0.83	$0.90	$0.94
EV ($mm)	$5,296	$5,725	$6,378	$6,543
EBITDA ($mm)	$503	$521	$588	$626
EV/EBITDA	10.5x	11.0x	10.9x	10.5x

Quarterly EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.08	-$0.07	$0.60
2004A	$0.76	$0.10	-$0.03	$0.58
2005E	$0.62a	$0.23a	$0.09	$0.54

Dividend	$0.90	**Yield**	2.9%
Book Value	$13.53	**Price/Book**	2.3x
Shares O/S (mm)	105.5	**Mkt. Cap ($mm)**	$3,313
Float O/S (mm)	105.5	**Float Cap ($mm)**	$3,313
Wkly Vol (000s)	558	**Wkly $ Vol (mm)**	$15.2
Net Debt ($mm)	$3,018.7	**Next Rep. Date**	27-Oct (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC (C$) 2005E: $1.49; 2006E: $1.56

Changes

Target
$28.00 to $35.95
Rating
Und to Mkt

Please refer to pages 6 to 8 for Disclosure Statements, including the Analyst's Certification.

Details & Analysis

Terasen and Kinder Morgan have jointly announced that Kinder Morgan has agreed to acquire all of the outstanding shares of Terasen Inc. for $35.91 per share. The total enterprise value of the transaction is approximately C$6.9 billion. The key details of the transaction are set out herein. We estimate that the transaction is priced at 24.6x estimated diluted 2005 EPS of $1.46, 2.62 x estimated 2005 book value per share of $13.66 and 11x EV/EBITDA. We believe the transaction is priced at the upper end of the relevant range. Subject to the approvals highlighted below, the transaction is expected to close by December 31, 2005.

Key Transaction Details: the key terms of the proposed transaction include the following:

- Prorated value of the offer is $35.91 per Terasen share is based on Kinder Morgan's share price and the C$/US$ exchange rates on July 29, of US$88.86 and $1.2233, respectively.
- 20% premium to the 20-day average closing price of Terasen common shares for the period ending July 29.
- Terasen holders will be able to elect:

  a. C$35.91 in cash;

  b. 0.3331 shares of Kinder Morgan common stock; or

  c. C$23.25 in cash plus 0.1165 shares of Kinder Morgan common stock.

  All elections will be subject to a proration such that cash elections are 65% of the total and stock elections are 35% of the total consideration paid.
- The requisite approval for the Arrangement Resolution is 75% of the votes cast on the Arrangement Resolution by Terasen Securityholders (other than Trans Mountain Pipe Line, which owns approximately 9.2 million common shares of Terasen Inc.) present in person or by proxy at the Terasen Meeting.
- The Terasen meeting will be held on or before October 31, 2005.
- There is a termination fee of $75 million (it appears as a U.S. dollar amount in Kinder Morgan's Form 8-K filing dated August 1, 2005 and a Canadian dollar amount in the Terasen presentation documents and in the press release disclosing the proposed Plan of Arrangement).
- The initial election date is December 20, 2005. If the effective date of the transaction is not reasonably likely to occur by the tenth business day after the initial election date, then this initial date will be extended.
- The transaction is subject to a number of regulatory approvals, including:
  - British Columbia Utilities Commission;

– Supreme Court of British Columbia (Plan of Arrangement was filed pursuant to Section 288 of the British Columbia Business Corporations Act);

– Hart-Scott-Rodino Antitrust Improvements Act.

It is not clear whether a ruling is required pursuant to the Competition Act (Canada).

Kinder Morgan is hosting a webcast at 8:30 a.m. EDT at www.kindermorgan.com and Terasen is hosting a conference call to discuss the transaction at 10:00 a.m. EDT at 1-877-375-5688.

We believe the following points are relevant about this proposed transaction:

- We believe the proposed transaction alleviates our two primary concerns with this stock: (1) the potential adverse effect on earnings per share associated with the expiry of the incentive tolling agreement relating to the Trans Mountain Pipe Line; and (2) the potential issuance of a significant amount of common equity to fund the company's robust project development profile and to increase the common equity capital at its regulated utility operations subject to a favourable decision in this regard by the British Columbia Utilities Commission by year-end 2005 or early 2006.
- We expected the company to act by acquiring companies in the natural gas distribution/transmission business in the Pacific Northwestern United States or combine with a Canadian-based pipeline company.
- As highlighted in Figure 1, the footprint of the combined company will be large and should have an enhanced competitive position.
- The transaction is priced at the upper end of the range of similar transactions and we do not expect a competing bid.

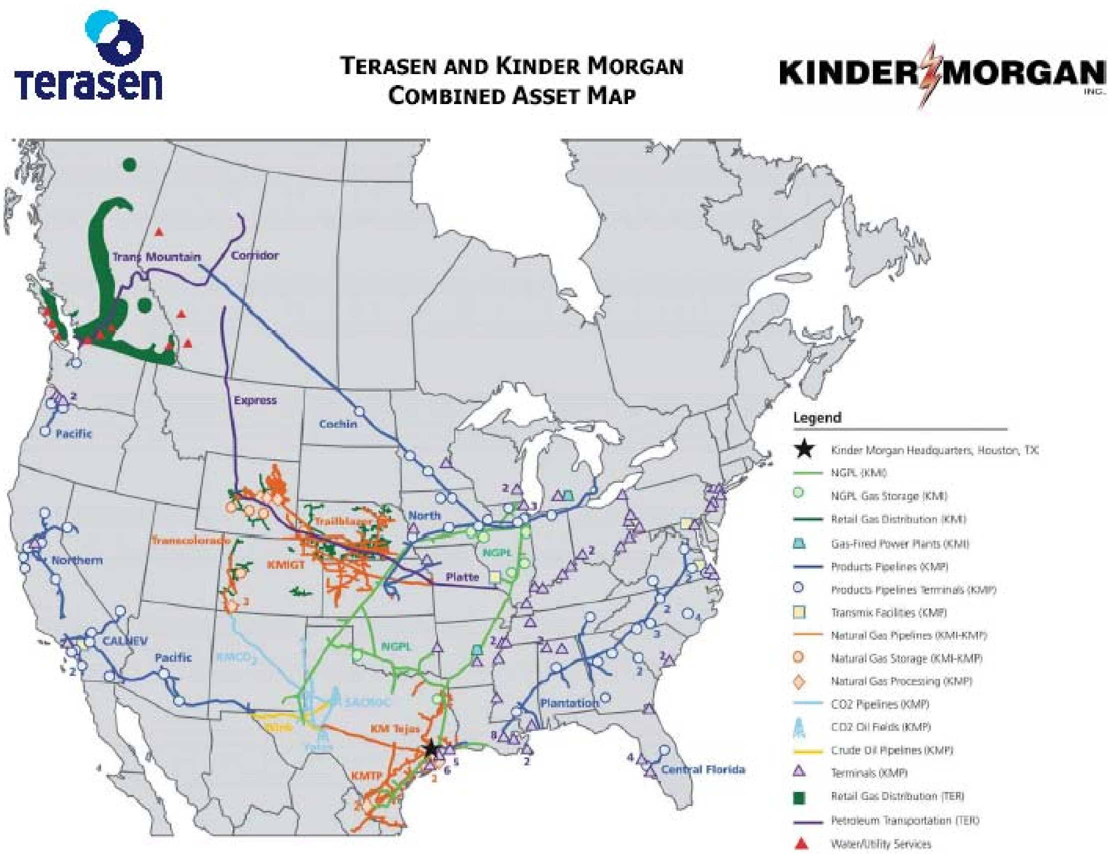
Valuation

Our revised target price of $35.95 is 23.6x 2006E diluted EPS of $1.52 (12.5%), 2.51 x estimated 2006 book value per share of $14.31 (12.5%) and a yield of 2.62% (75%), assuming 2006 dividends per share of $0.94. We believe the offer price is reasonable and we recommend that shareholders endorse it.

Recommendation

We believe the shares are reasonably valued and we rate them Market Perform.

Figure 1. Combined Assets – Terasen Inc. and Kinder Morgan



Source: Kinder Morgan Inc., Terasen Inc.

Table 1. Consolidated Summary Sheet

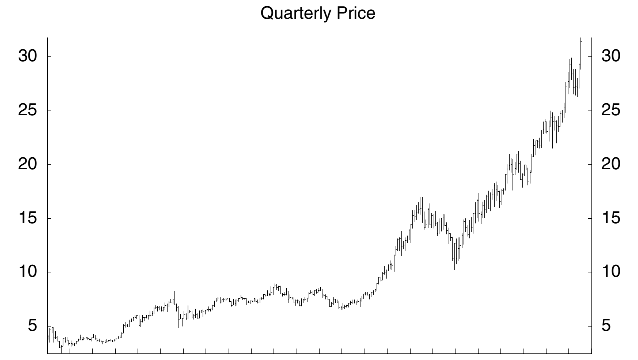
8/1/2005 — Karen J. Taylor
BMO Nesbitt Burns Inc.

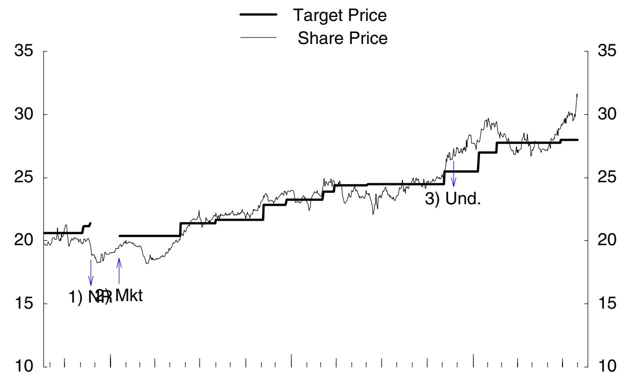
Current Price: $31.40
12-Month Target Price: $35.95
Rate of Return: 17.36%
Recommendation: Market Perform

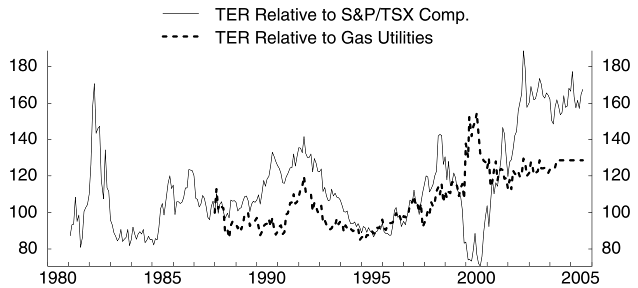
	Year Ending December 31							
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005E**	**2006E**
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.39	$1.46	$1.52
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.40	$1.47	$1.53
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.92	$0.91	$0.92
Trans Mountain Pipe Line	$0.26	$0.25	$0.27	$0.34	$0.54	$0.68	$0.73	$0.74
Other/**Water & Utility Services**	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	$0.06	$0.09	$0.12
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	($0.26)	($0.26)	($0.25)
Dividends	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.90	$0.94
Payout Ratio	60.1%	61.3%	63.7%	54.5%	59.3%	59.0%	61.3%	61.3%
Average Shares (mm)	76.6	76.6	76.6	86.4	103.8	104.7	105.7	106.0
Net Book Value	$8.31	$9.02	$9.39	$12.10	$12.44	$13.04	$13.66	$14.31
Market Valuation								
Price: High	$15.50	$16.73	$18.20	$21.25	$24.00	$28.40	-	-
Price: Low	$10.50	$10.75	$14.88	$16.32	$18.18	$22.05	-	-
Price: Current	-	-	-	-	-	-	$31.40	-
P/E Ratio: High	16.0	16.24	17.84	16.73	18.60	20.30	-	-
P/E Ratio: Low	10.8	10.44	14.58	12.85	14.09	15.76	-	-
P/E Ratio: Current	-	-	-	-	-	-	21.4	20.5
Price/Book Value: High	1.92	1.85	1.94	1.76	1.93	2.18	-	-
Price/Book Value: Low	1.30	1.19	1.58	1.35	1.46	1.69	-	-
Price/Book Value: Current	-	-	-	-	-	-	2.30	2.19
Yield: High Price	3.76%	3.66%	3.57%	3.26%	3.19%	2.90%	-	-
Yield: Low Price	5.55%	5.70%	4.37%	4.24%	4.21%	3.74%	-	-
Yield: Current Price	-	-	-	-	-	-	2.87%	2.99%
Balance Sheet ($mm)								
Debt (S-T)	508.5	314.2	528.4	426.2	610.0	664.7	1,424.6	1,228.3
Debt (L-T)	1,120.9	1,561.9	1,717.1	2,123.4	2,301.1	2,166.6	1,483.7	1,841.4
Deferred Taxes/Other Deferred Items	35.0	47.3	56.8	58.1	67.5	209.4	209.4	209.4
Minority Interest	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	645.1	701.5	718.7	1,244.5	1,302.3	1,371.1	1,442.2	1,516.2
	2,384.5	2,749.9	3,146.0	3,977.2	4,405.9	4,536.8	4,684.9	4,920.3
Balance Sheet (%)								
Debt (S-T)	21.3%	11.4%	16.8%	10.7%	13.8%	14.7%	30.4%	25.0%
Debt (L-T)	47.0%	56.8%	54.6%	53.4%	52.2%	47.8%	31.7%	37.4%
Deferred Taxes/Other Deferred Items	1.5%	1.7%	1.8%	1.5%	1.5%	4.6%	4.5%	4.3%
Minority Interest	3.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	4.5%	4.0%	3.1%	2.8%	2.8%	2.7%	2.5%
Shareholders' Equity	27.1%	25.5%	22.8%	31.3%	29.6%	30.2%	30.8%	30.8%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	146.5	155.2	162.7
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	146.5	155.2	162.7
Cash Flow from Operations ($mm)	117.0	173.3	53.6	311.4	267.7	342.0	323.9	341.3

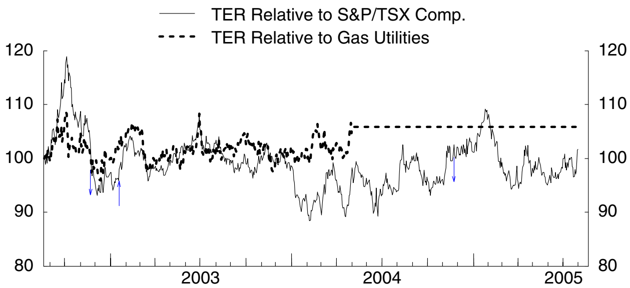
Source: BMO Nesbitt Burns

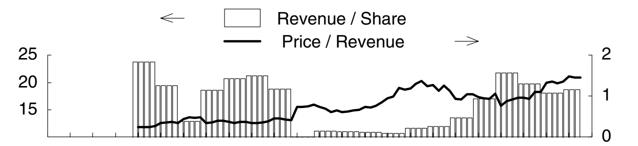
Terasen Inc. (TER)

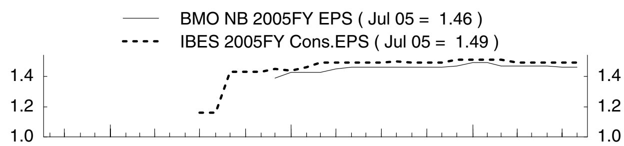


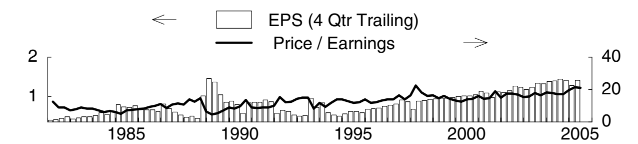


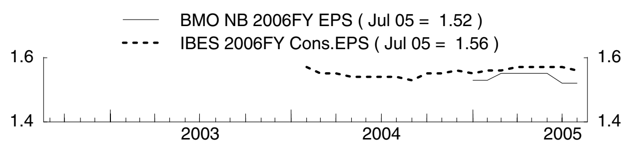












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
2004	1.39	20	0.84	3.0	60	13.04	2.1	11
Current*	1.40	21	0.90	3.1	64	13.53	2.2	10
Average:		13		5.0	59		1.5	13.7
Growth(%):								
5 Year:	6.9		7.7			10.6		
10 Year:	8.6		7.2			7.4		
20 Year:	3.4		5.6			6.5		

* Current EPS is the 4 Quarter Trailing to Q2/2005.

TER - Rating as of 20-Aug-02 = Mkt

	Date	Rating Change	Share Price
1	21-Nov-02	Mkt to NR	$19.76
2	17-Jan-03	NR to Mkt	$19.39
3	23-Nov-04	Mkt to Und.	$26.95

Last Daily Data Point: July 29, 2005

Company Risk Disclosure
In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification
I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure
The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	43%	48%	47%
Hold	Market Perform	45%	39%	46%
Sell	Underperform	12%	13%	7%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.
** Reflects rating distribution of all North American equity research analysts.

BMO Nesbitt Burns

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

BMO Nesbitt Burns Research

Terasen Inc.

(TER-TSX)

Stock Rating: **Market Perform**
Industry Rating: **Market Perform**

August 3, 2005
Research Comment
Pipelines

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Keith Carpenter

Conference Call Highlights; Market Perform Rating Maintained

Event

Terasen Inc. and Kinder Morgan each held a conference call to discuss the merits of the proposed transaction with buy and sell side analysts. The key highlights of each conference call are set out herein.

Impact

Neutral. We believe the proposed acquisition price of $35.91 per share is reasonable and recommend that shareholders endorse the proposed Plan of Arrangement.

Forecasts

Unchanged.

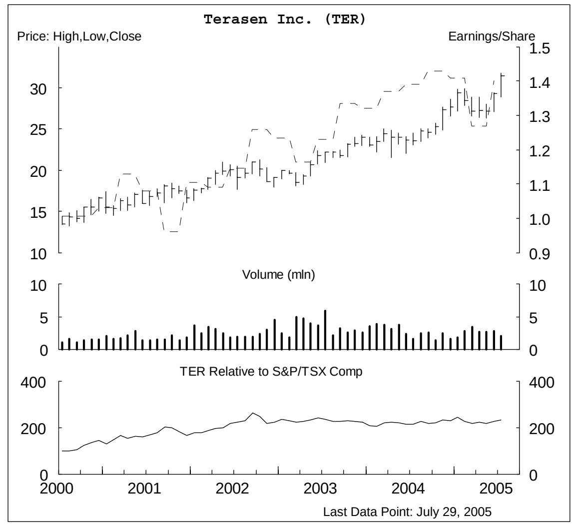
Valuation

Our target price of $35.95 is 23.6x 2006E diluted EPS of $1.52 (12.5%), 2.51x estimated 2006 book value per share of $14.31 (12.5%) and a yield of 2.62% (75%), assuming 2006 dividends per share of $0.94.

Recommendation

We believe the shares are reasonably valued and we rate them Market Perform.

Price (29-Jul)	$31.40	**52-Week High**	$31.78
Target Price	$35.95	**52-Week Low**	$23.38



(FY-Dec.)	2003A	2004A	2005E	2006E
EPS	$1.28	$1.39	$1.46	$1.52
P/E			21.5x	20.7x
CFPS	$2.58	$3.27	$3.08	$3.27
P/CFPS			10.2x	9.6x
Div.	$0.77	$0.83	$0.90	$0.94
EV ($mm)	$5,296	$5,725	$6,378	$6,543
EBITDA ($mm)	$503	$521	$588	$626
EV/EBITDA	10.5x	11.0x	10.9x	10.5x

Quarterly EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.08	-$0.07	$0.60
2004A	$0.76	$0.10	-$0.03	$0.58
2005E	$0.62a	$0.23a	$0.09	$0.54

Dividend	$0.90	**Yield**	2.9%
Book Value	$13.53	**Price/Book**	2.3x
Shares O/S (mm)	105.5	**Mkt. Cap ($mm)**	$3,313
Float O/S (mm)	105.5	**Float Cap ($mm)**	$3,313
Wkly Vol (000s)	558	**Wkly $ Vol (mm)**	$15.2
Net Debt ($mm)	$3,018.7	**Next Rep. Date**	27-Oct (E)

Notes: Quarterlies reflect timing of equity issues
Major Shareholders: Widely held
First Call Mean Estimates: TERASEN INC (C$) 2005E: $1.49; 2006E: $1.56

Please refer to pages 5 to 7 for Disclosure Statements, including the Analyst's Certification.

Details & Analysis

Terasen Inc. and Kinder Morgan each held a conference call to discuss the merits of the proposed transaction with buy and sell side analysts. The key highlights of each conference call are set out herein.

Kinder Morgan Conference Call

Management of Kinder Morgan reviewed and reiterated the financial consequences of the proposed plan of arrangement:

- The transaction would be immediately accretive and permit the company to maintain a targeted EPS and dividend growth rate of 10%.
- The acquisition is consistent with Kinder Morgan's strategy of identifying the next "energy tsunami" and riding it; Kinder Morgan has acquired an infrastructure footprint in the oil sands development area. Kinder Morgan views the potential 1 million barrel per day increase in production to be the "next Permian Basin forming before your eyes" and it is, quite simply, a place that it wanted to be.
- The transaction is expected to be financed by approximately 20% equity and 80% debt; the total enterprise value of the transaction is estimated to be approximately US$5.6 billion. Kinder Morgan only plans to issue approximately US$1.06 billion in stock (approximately 12 million Kinder Morgan shares) and plans to assume debt and debt finance the US$4.54 billion. Assumed debt is approximately US$2.5 billion and debt to be issued by a Canadian-domiciled, wholly owned subsidiary of Kinder Morgan, is approximately US$2 billion. The company expects the transaction will be accretive by using a well-established structuring arrangement with an after-tax cost to Kinder Morgan of approximately 2% to 3%,.
- Kinder Morgan has not assumed that Terasen's oil pipelines are sold into a Canadian income trust in order to justify the transaction multiple.
- The company expects that an above average portion of its free cash flow will be used to reinvest in the project development opportunities in the oil sands production areas.
- Kinder Morgan's management indicated that Terasen's natural gas distribution business is a core asset; however, we believe there may be significant interest in Terasen Gas Vancouver Island and Terasen Gas Inc. by other Canadian utility players and due to the thin capitalization and low return characteristics of these businesses, that Kinder Morgan could potentially sell these assets post-closing. Terasen's water business is also not likely to be viewed as "core" and could be sold once the transaction closes.
- Kinder Morgan does not plan to offer Canadian shareholders of Terasen an exchangeable share.

- There was considerable confusion and uncertainty demonstrated by participants on the conference call about the regulatory process, the return characteristics, and risk profiles of Terasen's core strategic business units. As this information is disseminated in the market, some of the initial price enthusiasm for the transaction may be tempered.

Terasen Conference Call

The Terasen conference call had a number of highlights and we believe the following points are relevant:

- The sale represents reasonable value and we believe shareholders should endorse it.
- The sale mitigates the likely leadership, earnings dilution and EPS risks that we believe were likely to have emerged over the next 18 to 24 months.
- Approvals are required pursuant to the Competition Act Canada and the Investment Canada Act.
- No regulatory or political impediments are expected and the transaction is targeted to close by year-end 2005.
- Synergies from the transaction are expected to be limited—this is a transaction that is about "growth"—enhancing Terasen's ability to execute with lower cost capital, improved liquidity through Kinder Morgan and a more formidable footprint.
- The merger between Kinder Morgan and Terasen likely increases the intensity of the competition for intra-Alberta pipelines and take-away capacity out of Alberta. A number of scenarios are possible: (i) returns could decline further due to an increase in the intensity of competition between Enbridge, Terasen/Kinder Morgan, TransCanada Corporation, Pembina Pipeline Income Fund, and Inter Pipe Line Fund and Terasen/Kinder Morgan's lower cost of capital; and (ii) realized returns increase along with the risks that oil sands producers expect the pipeline transportation companies to bear. It is not clear that shippers/producers actually want the pipeline providers to take more risk, particularly if it means that the pipeline must be paid a higher return. We believe Kinder Morgan may have a higher tolerance for risk than Terasen on a stand-alone basis.

Valuation

Our target price of $35.95 is 23.6x 2006E diluted EPS of $1.52 (12.5%), 2.51x estimated 2006 book value per share of $14.31 (12.5%) and a yield of 2.62% (75%), assuming 2006 dividends per share of $0.94.

Recommendation

We believe the shares are reasonably valued and we rate them Market Perform.

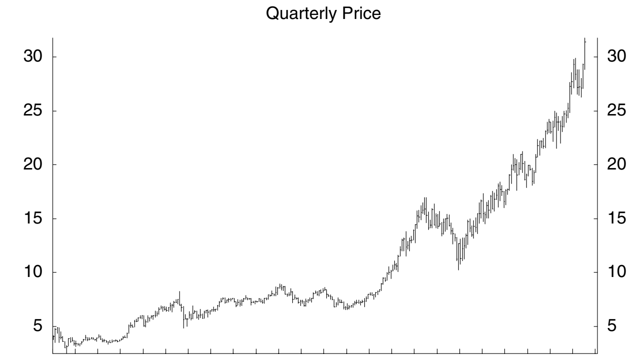
Table 1. Consolidated Summary Sheet

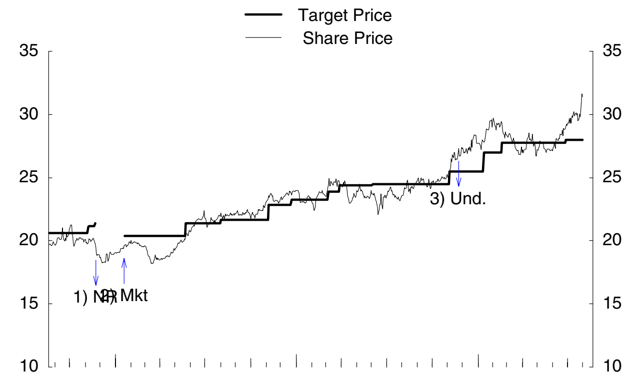
02/08/2005			Karen J. Taylor
Current Price:	$36.00		BMO Nesbitt Burns Inc.
12-Month Target Price:	$35.95		
Rate of Return:	2.36%	Recommendation:	Market Perform

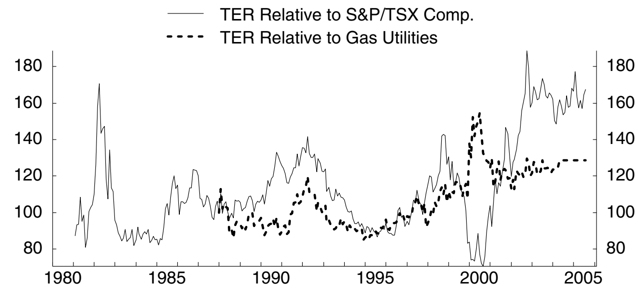
	Year Ending December 31							
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005E**	**2006E**
Diluted EPS (Prior to One-Time Items)	$0.96	$0.99	$1.01	$1.26	$1.28	$1.39	$1.46	$1.52
Total EPS (Prior to One-Time Items)	$0.97	$1.00	$1.02	$1.27	$1.29	$1.40	$1.47	$1.53
Segmented EPS: Terasen Gas Utility	$0.68	$0.77	$0.89	$1.07	$0.93	$0.92	$0.91	$0.92
Trans Mountain Pipe Line	$0.26	$0.25	$0.27	$0.34	$0.54	$0.68	$0.73	$0.74
Other/**Water & Utility Services**	$0.04	($0.02)	($0.14)	($0.14)	($0.18)	$0.06	$0.09	$0.12
Corporate Activities	$0.00	$0.00	$0.00	$0.00	$0.00	($0.26)	($0.26)	($0.25)
Dividends	$0.58	$0.61	$0.65	$0.69	$0.77	$0.83	$0.90	$0.94
Payout Ratio	60.1%	61.3%	63.7%	54.5%	59.3%	59.0%	61.3%	61.3%
Average Shares (mm)	76.6	76.6	76.6	86.4	103.8	104.7	105.7	106.0
Net Book Value	$8.31	$9.02	$9.39	$12.10	$12.44	$13.04	$13.66	$14.31
Market Valuation								
Price: High	$15.50	$16.73	$18.20	$21.25	$24.00	$28.40	-	-
Price: Low	$10.50	$10.75	$14.88	$16.32	$18.18	$22.05	-	-
Price: Current	-	-	-	-	-	-	$36.00	-
P/E Ratio: High	16.0	16.24	17.84	16.73	18.60	20.30	-	-
P/E Ratio: Low	10.8	10.44	14.58	12.85	14.09	15.76	-	-
P/E Ratio: Current	-	-	-	-	-	-	24.5	23.5
Price/Book Value: High	1.92	1.85	1.94	1.76	1.93	2.18	-	-
Price/Book Value: Low	1.30	1.19	1.58	1.35	1.46	1.69	-	-
Price/Book Value: Current	-	-	-	-	-	-	2.63	2.52
Yield: High Price	3.76%	3.66%	3.57%	3.26%	3.19%	2.90%	-	-
Yield: Low Price	5.55%	5.70%	4.37%	4.24%	4.21%	3.74%	-	-
Yield: Current Price	-	-	-	-	-	-	2.50%	2.61%
Balance Sheet ($mm)								
Debt (S-T)	508.5	314.2	528.4	426.2	610.0	664.7	1,424.6	1,228.3
Debt (L-T)	1,120.9	1,561.9	1,717.1	2,123.4	2,301.1	2,166.6	1,483.7	1,841.4
Deferred Taxes/Other Deferred Items	35.0	47.3	56.8	58.1	67.5	209.4	209.4	209.4
Minority Interest	75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Securities	0.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Shareholders' Equity	645.1	701.5	718.7	1,244.5	1,302.3	1,371.1	1,442.2	1,516.2
	2,384.5	2,749.9	3,146.0	3,977.2	4,405.9	4,536.8	4,684.9	4,920.3
Balance Sheet (%)								
Debt (S-T)	21.3%	11.4%	16.8%	10.7%	13.8%	14.7%	30.4%	25.0%
Debt (L-T)	47.0%	56.8%	54.6%	53.4%	52.2%	47.8%	31.7%	37.4%
Deferred Taxes/Other Deferred Items	1.5%	1.7%	1.8%	1.5%	1.5%	4.6%	4.5%	4.3%
Minority Interest	3.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Securities	0.0%	4.5%	4.0%	3.1%	2.8%	2.8%	2.7%	2.5%
Shareholders' Equity	27.1%	25.5%	22.8%	31.3%	29.6%	30.2%	30.8%	30.8%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement ($mm)								
Net Profit After-Tax	82.8	80.7	77.9	109.5	133.9	146.5	155.2	162.7
Preferred Share Dividends	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to Common Shareholders	74.1	76.7	77.9	109.5	133.9	146.5	155.2	162.7
Cash Flow from Operations ($mm)	117.0	173.3	53.6	311.4	267.7	342.0	323.9	341.3

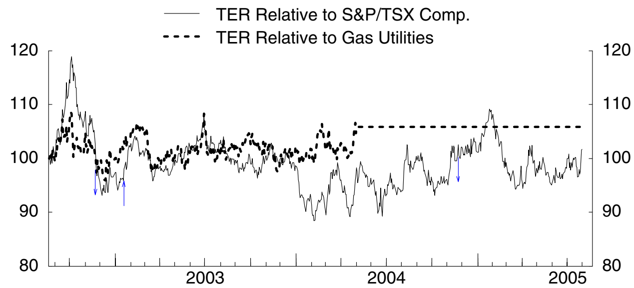
Source: BMO Nesbitt Burns

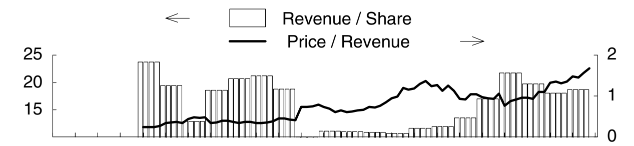
Terasen Inc. (TER)

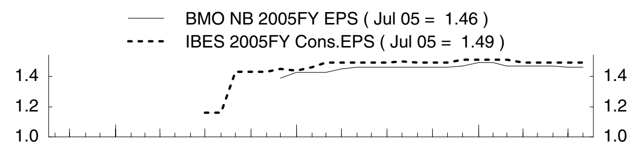


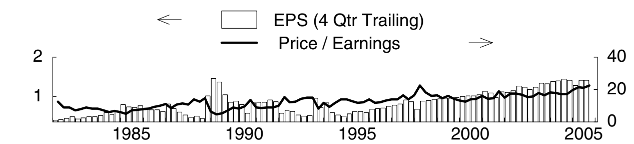


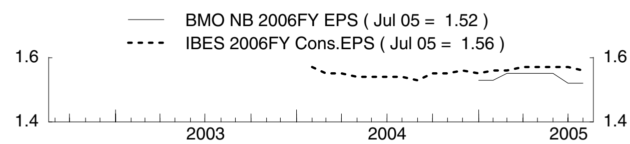












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
2004	1.39	20	0.84	3.0	60	13.04	2.1	11
Current*	1.40	22	0.90	2.9	64	13.53	2.3	10
Average:		13		5.0	59		1.5	13.7
Growth(%):								
5 Year:	6.9		7.7			10.6		
10 Year:	8.6		7.2			7.4		
20 Year:	3.4		5.6			6.5		

* Current EPS is the 4 Quarter Trailing to Q2/2005.

TER - Rating as of 20-Aug-02 = Mkt

	Date	Rating Change	Share Price
1	21-Nov-02	Mkt to NR	$19.76
2	17-Jan-03	NR to Mkt	$19.39
3	23-Nov-04	Mkt to Und.	$26.95

Last Daily Data Point: July 29, 2005

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker. Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Research, the research department of BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee./Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns Research as of the date of this report and are subject to change without notice. BMO Nesbitt Burns Research endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns Research.

BMO Nesbitt Burns, HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Nesbitt Burns Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	43%	48%	47%
Hold	Market Perform	45%	39%	46%
Sell	Underperform	12%	13%	7%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.
** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

^ Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Research publications are available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

Terasen Inc.

August 3, 2005
Research Comment
Corporate Debt – Pipelines & Utilities

Kinder Morgan Acquisition Appears Credit Negative for Bondholders

Sue McNamara, CFA
(416)-359-4584
sue.mcnamara@bmonb.com

Event

On August 1, 2005, Kinder Morgan Inc. announced a definitive agreement to acquire all of the outstanding shares of Terasen Inc.

Impact

Negative.

Key Points

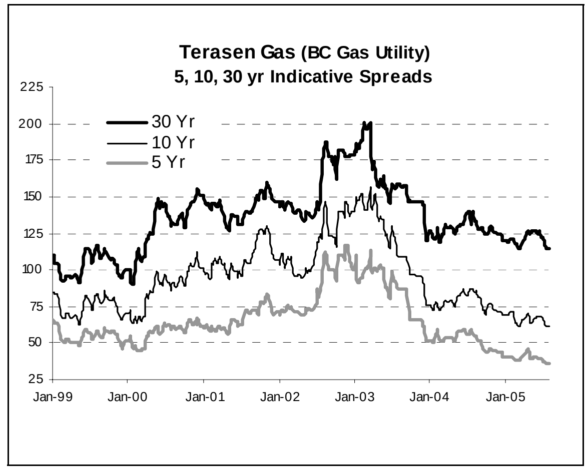
Kinder Morgan Inc. has stated that it intends to finance the acquisition with a combination of cash and equity up to a maximum proration of 65% cash and 35% equity. The company also stated on its conference call that it plans to fund the cash portion of the acquisition with debt financing provided by a Canadian subsidiary of Kinder Morgan Inc. After the closing of the transaction, Kinder Morgan expects that its debt to total capital ratio will likely increase to 56% versus 36.8% at June 30, 2005.

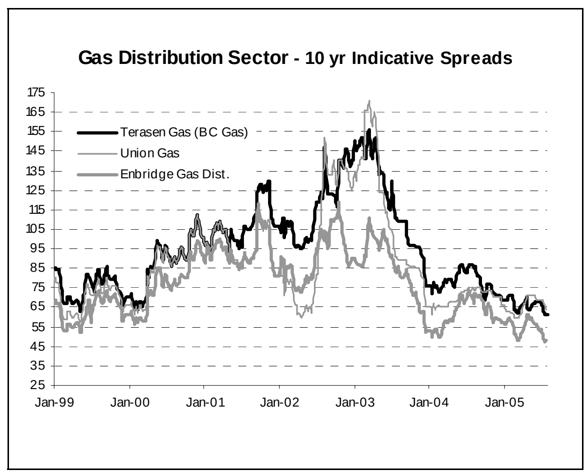
Recommendation

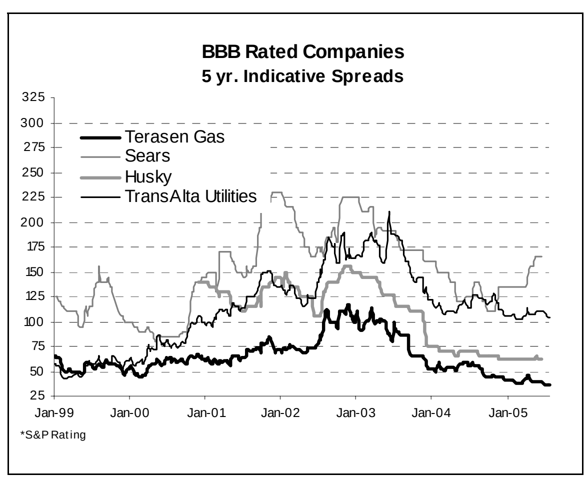
In 2005, Terasen Inc.'s 5-year, 10-year and 30-year generic credit spreads tightened by 8, 12 and 10 basis points, respectively. We note that Terasen Inc.'s credit spreads likely reflect a scarcity premium, as the holding company only has two maturities outstanding totalling $300 million. We believe that the acquisition is a credit negative and that the company's spreads will likely widen over the next 12 months. We believe that there is a risk that the credit ratings of the company could be negatively affected by the acquisition. As highlighted in detail within, Moody's, DBRS and S&P have placed Terasen Inc.'s credit Under Review with Negative Implications. S&P and DBRS have also placed KMI's credit ratings Under Review with Negative Implications. We note that the acquisition does address some of our previous credit concerns on Terasen Inc., namely the risk that any significant spending by Terasen Inc. either through development projects or acquisitions (depending on how it is financed) would be a credit event, as the company is relatively thinly capitalized.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
A (Low)	BBB-	A3
UR - Negative	CW - Negative	UR - Negative







Please refer to pages 6 to 7 for Disclosure Statements, including the Analyst's Certification.

Acquisition

On August 1, 2005, Kinder Morgan Inc. announced a definitive agreement to acquire all of the outstanding shares of Terasen Inc. As part of the acquisition, Kinder Morgan will assume all of Terasen Inc's debt. The company had long- and short-term debt outstanding totalling $2.6 billion and $360.5 million, respectively, at June 30, 2005, of which $300 million was issued at the Terasen Inc. holding company level. Terasen Inc. has no debt maturities in the remainder of 2005, whereas Terasen Gas (100% - Terasen Inc.) has debt maturities of $350 million in 2005. We believe that the maturities will likely be refinanced or repaid with short-term debt issuance. The debt will likely mature prior to the expected close of the transaction (year-end 2005).

Kinder Morgan Inc. has stated that it intends to finance the acquisition with a combination of cash and equity up to a maximum proration of 65% cash and 35% equity. The company also stated on its conference call that it plans to fund the cash portion of the acquisition with debt financing provided by a Canadian subsidiary of Kinder Morgan Inc. After the closing of the transaction, Kinder Morgan expects that its debt to total capital ratio will likely increase to 56% versus 36.8% at June 30, 2005. For additional views on the acquisition, please refer to the equity research comment on Terasen Inc. by BMO Nesbitt Burns' equity analyst Karen Taylor, dated August 2, 2005.

Credit Ratings

Terasen Inc. Ratings

Terasen Inc.'s senior unsecured debt is rated A(Low), BBB- and A3 by DBRS, S&P and Moody's, respectively. The outlook is CreditWatch Negative by S&P and Under Review – Negative by DBRS and Moody's.

S&P has placed the credit ratings of Terasen Inc. and Terasen Gas on CreditWatch with Negative Implications. The outlook change reflects S&P's preliminary assessment that upon the closing of the transaction, the companies' credit quality will be assessed on a consolidated basis and will likely be equalized with the ratings on KMI, reflecting the same level of default risk. S&P states that the addition of significant amounts of debt will weaken KMI's balance sheet and debt protection measures. S&P must determine whether the effects of increased leverage eclipse the benefits of the addition of Terasen's asset base. Terasen's current credit quality reflects the average business profiles of the company's natural gas distribution business and liquids pipeline systems, offset by a weak financial profile. S&P further states that the company's below average deemed equity levels and allowed ROEs currently constrain the ratings on Terasen. We note that S&P provides ratings coverage of the Terasen companies, based on publicly available information.

DBRS has placed the ratings of Terasen Inc. Under Review with Negative Implications. DBRS states that the proposed transaction creates uncertainties with respect to the potential financing policies of Terasen, which could potentially have negative implications for its future financial profile. DBRS believes that ownership by a lower rated entity, KMI, could expose Terasen to increased dividend payments to support KMI's higher debt load. In its review, DBRS will also focus on the impact on the business and financial risk profile of the combined entity as well as tax, legal and regulatory issues of the cross-border transaction. We note that DBRS has maintained its Stable outlook on the A rated credit of Terasen Gas.

Moody's has placed the ratings of Terasen Inc. and Terasen Gas under review for possible downgrade. The change in outlook reflects the lower credit rating of KMI (Baa3) and its weak standalone financial profile relative to its peers. Moody's intends to assess what financial strategies KMI might employ for Terasen and what their implications might be for both Terasen and Terasen Gas. Moody's also states that Terasen Gas' ratings are being reviewed due to the lack of ringfencing or other restrictions that could limit its ability to make dividend payments to Terasen Inc. Moody's rates Terasen Inc. one notch below that senior unsecured rating of Terasen Gas at A2. The one-notch differential reflects the structural subordination of Terasen's debt to operating subsidiary debt at Terasen Gas, Terasen Gas Vancouver Island, Corridor, Trans Mountain and Express.

Kinder Morgan Inc. Ratings

DBRS rates Kinder Morgan Inc.'s senior unsecured debt BBB. The outlook is Under Review with Negative Implications. Based on its preliminary review, DBRS states that it expects the proposed transaction to have a positive effect on KMI's business risk as a result of the increased scope and scale of the company's regulated pipeline and gas distribution operations and growth potential. Conversely, DBRS states that the acquisition will likely increase KMI's balance sheet leverage to pre-2001 levels, which is relatively high and is expected to remain so for a few years.

S&P's credit rating on KMI is BBB. The outlook was changed to CreditWatch with Negative Implications from Stable following the announcement of the Terasen acquisition. The change in outlook reflects KMI's plan to increase financial leverage to fund the acquisition. S&P states that KMI's credit quality could be preserved if the potential improvement in KMI's business profile is capable of fully offsetting the higher financial risk. S&P stated in its latest summary on KMI (dated July 1, 2005) that the company's ratings are anchored by the company's regulated interstate natural gas pipeline and retail distribution assets, as well as the historically steady distributions that KMI receives from KMP.

Moody's rates the KMI's debt securities Baa2 with a Stable outlook. The company's credit rating and Stable outlook were affirmed following the acquisition announcement. Moody's believes that KMI will likely have sufficient free cash flow to cover the incremental interest expense and dividends from the acquisition financing. Moody's states that maintaining KMI's rating and outlook will entail achievement of the incremental earnings and cost savings that the company forecasts from Terasen as well as discipline in its dividend payouts. Moody's states that significant deviation from these expectations will cause the ratings agency to reassess KMI's ratings and outlook.

Recommendation

In 2005, Terasen Inc.'s 5-year, 10-year and 30-year generic credit spreads tightened by 8, 12 and 10 basis points, respectively. We note that Terasen Inc.'s credit spreads likely reflect a scarcity premium as the holding company has only two maturities outstanding, totalling $300 million. We believe that the acquisition is a credit negative and that the company's spreads will likely widen over the next 12 months. We believe that there is a risk that the credit ratings of the company could be negatively affected by the acquisition. As highlighted in detail above, Moody's, DBRS and S&P have placed Terasen Inc.'s credit Under Review with Negative Implications. S&P and DBRS have also placed KMI's credit ratings Under Review with Negative Implications. We note, however, that the acquisition does address some of our previous credit concerns on Terasen Inc., namely the risk that any significant spending by Terasen Inc., either through development projects or acquisitions (depending on how it is financed), would be a credit event, as the company is relatively thinly capitalized. We also believe that the following credit risks still remain:

1. The expiry of the Trans Mountain system's negotiated toll settlement at the end of 2005: the company is currently in negotiations with shippers to extend or renew the toll agreement. The company's earnings and cash flow in 2006 could be negatively affected by the outcome of the negotiation.
2. Regulatory risk at Terasen Gas: On July 11, the British Columbia Utilities Commission (BCUC) issued an Order and Notice of Procedural Conference regarding an application by Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. to determine the appropriate return on equity and capital structure and to review and revise the automatic adjustment mechanism used by the BCUC to establish the allowed return on equity, annually (please see Karen Taylor's equity comment on Terasen Inc. dated July 15, 2005 for more details).

Terasen Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount ($mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding ($mm)
Terasen Gas Inc.	9.800%	9-Feb-05	$40	MTNs	9-Feb-95	NA	Non-callable	05534ZAA4	$40
Terasen Gas Inc.	8.250%	29-Jun-05	$5	MTNs	29-Jun-95	NA	Non-callable	05534ZAB2	$5
Terasen Gas Inc.	6.500%	20-Jul-05	$200	MTNs	20-Jul-00	57.0 bps	Non-callable	05534ZAG1	$200
Terasen Gas Inc.	Floating[1]	26-Sep-05	$150	Floating Rate Notes	26-Sep-03	NA	Non-callable	88079ZAAZ	$150
Terasen Gas Inc.	4.850%	8-May-06	$100	MTNs	8-May-03	NA	Non-callable	88079ZAA1	$100
Terasen Gas Inc.	6.150%	31-Jul-06	$100	MTNs	30-Jul-01	73.0 bps	Make Whole + 18 bps	88079ZAL0	$100
Terasen Gas Inc.	9.750%	17-Dec-06	$20	Retractable Debentures	17-Dec-86	NA	Non-callable	NA	$20
Terasen Gas Inc.	6.500%	16-Oct-07	$100	MTNs	16-Oct-00	75.0 bps	Make Whole + 18 bps	05534ZAH9	$100
Terasen Gas Inc.	6.200%	2-Jun-08	$188	MTNs	21-Oct-97	80.0 bps	Non-callable	05534ZAC0	$188
Terasen Gas Inc.	6.300%	1-Dec-08	$200	MTNs	30-Nov-01	NA	Make Whole + 27 bps	11058ZAA8	$200
Terasen Gas Inc.	10.750%	8-Jun-09	$60	Debentures	8-Jun-89	NA	Make Whole + 40 bps	457452AH3	$60
Terasen Pipelines (Corridor)	4.240%	2-Feb-10	$150	Senior Unsecured	1-Feb-05	65.5 bps	Make Whole + 14 bps	88079VAA0	$150
Terasen Pipelines Inc.	11.500%	1-Jun-10	$35	Senior Unsecured	20-Jun-90	NA	Make Whole + 50 bps	NA	$35
Express Pipeline	6.470%	31-Dec-13	US$150	Senior Secured Notes	6-Feb-98	NA	Make Whole + 25 bps	30217VAA5	US$112.8
Terasen Inc.	5.560%	15-Sep-14	$125	MTNs	10-Sep-04	93.0 bps	Make Whole + 23 bps	88079ZAB9	$125
Terasen Pipelines (Corridor)	5.033%	2-Feb-15	$150	Senior Unsecured	1-Feb-05	81.1 bps	Make Whole + 19 bps	88079VAB8	$150
Terasen Gas Inc.	11.800%	30-Sep-15	$75	Mortgage	3-Dec-90	NA	Non-callable	05534RAA2	$75
Terasen Gas Inc.	10.300%	30-Sep-16	$200	Mortgage	21-Nov-91	104.0 bps	Make Whole + 35 bps	05534RAB0	$200
Express Pipeline	7.390%	31-Dec-19	US$250	Subordinated Secured Notes	6-Feb-98	NA	Make Whole + 50 bps	30217VAD9	US$239.2
Terasen Gas Inc.	6.950%	21-Sep-29	$150	MTNs	21-Sep-99	112.0 bps	Make Whole + 28 bps	05534ZAF3	$150
Terasen Gas Inc.	6.500%	1-May-34	$150	MTNs	29-Apr-04	127.0 bps	Make Whole + 31 bps	88078ZAB0	$150
Terasen Inc.	8.000%	19-Apr-40	$125	Subordinated Debentures	19-Apr-00	235.0 bps	Make Whole + 55 bps	05534KAA7	$125

[1] 35 basis points to 3 month Bankers Acceptances

Ownership Structure

Widely held.

Credit Facilities

Company	Facility Size	Amount Drawn Q2/04	Amount Drawn FY 2003	Letters of Credit Q2/04	Letters of Credit FY 2003	Maturity	Type
Terasen Inc.	$300	$200.0	$200.0			NA	Lines of Credit
Terasen Gas Inc.	$500	$70.0	$353.0			NA	Lines of Credit
Terasen Gas Vancouver	$213	$160.0	$160.0			NA	Lines of Credit
Corridor Pipelines	$525	$525.0	$525.0			NA	Lines of Credit

Shelf Prospectus

Company	Type	Amount	Remaining	Date	Expiry	Instruments
Terasen Gas Inc.	Shelf	$700	$550	10-Dec-03	10-Jan-05	MTNs
Terasen Inc.	Shelf	$800	$800	10-Dec-03	10-Jan-05	Unsecured Debentures

Pension Summary

	Pension Benefit Plans FY 2004 ($mm)	Pension Benefit Plans FY 2003 ($mm)	Other Benefit Plans FY 2004 ($mm)	Other Benefit Plans FY 2003 ($mm)
Accrued Benefit Obligation	298.0	276.7	67.3	61.0
Plan Assets	274.5	255.3	-	-
Funded Status	(23.5)	(21.4)	(67.3)	(61.0)
Accrued Benefit Asset (Liability) Net of Valuation Allowance	1.5	4.1	(32.3)	(24.6)
Discount Rate	6.00%	6.25%	6.00%	6.25%
Expected Long-term Rate of of Return on Assets	7.50%	7.50%	NA	NA
Rate of Future Increase in Compensation	3.50%	3.39%	NA	NA

Historical Ratings

DBRS Rating	DBRS Trend	DBRS Date	S&P Rating	S&P Trend	S&P Date	Moody's Rating	Moody's Trend	Moody's Date
A (L)	Stable	4-Apr-00	BBB	Stable	14-Nov-01	A3	Stable	8-Nov-01
			BBB	Credit Watch Negative	19-Nov-02	A3	Under Review - Negative	19-Nov-02
			BBB-	Stable	26-Jun-03	A3	Stable	12-Dec-02

Note: On March 12, 2004, Terasen Inc. disengaged its relationship with S&P. The rating agency will continue to provide ratings on Terasen and its subsidiaries using public information.

BMO Nesbitt Burns

Company Risk Disclosure

In addition to the risks involved in investing in corporate debt securities generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Sue McNamara, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee/Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns as of the date of this report and are subject to change without notice. BMO Nesbitt Burns endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns' Equity Research. BMO Nesbitt Burns HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis.

BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provides other remunerated services to, many issuers covered by BMO Nesbitt Burns' Equity Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services.

Dissemination of Research

BMO NBI Corporate Debt Research is available via our web site http://corporate.bmo.com/research/default.asp

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

Terasen Inc

(TER-TSX)

August 8, 2005
Brief Research Note
Pipelines

Stock Rating:	**Market Perform**
Stock Price:	**$35.90**
Target Price:	**$35.95**

Karen Taylor, CFA
(416) 359-4304
Karen.Taylor@bmonb.com
Assoc: Keith Carpenter

Tax Status of Kinder Morgan Plan of Arrangement

Impact

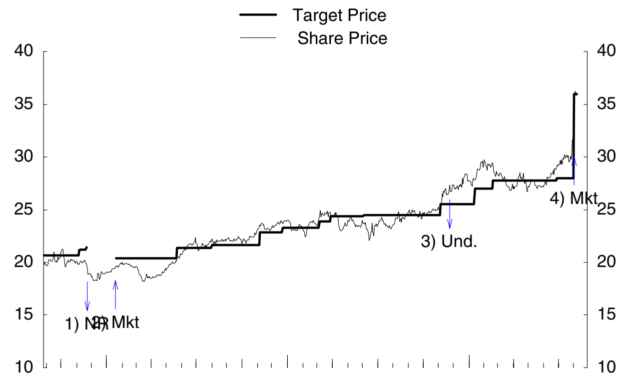
Neutral

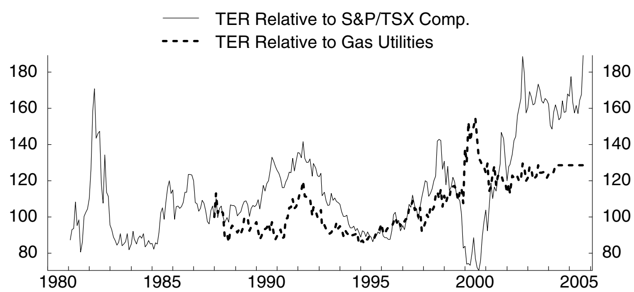
Details & Analysis

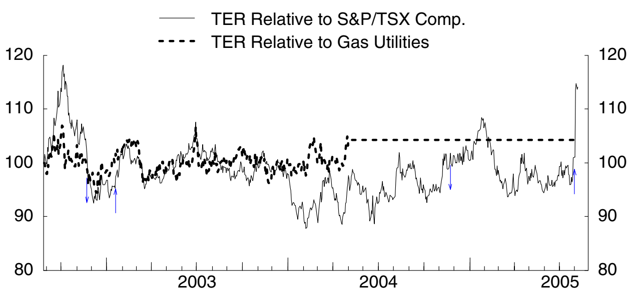
We have had a number of questions relating to the tax status of the planned acquisition of Terasen Inc. by Kinder Morgan Inc (KMI-NYSE). We have confirmed our understanding with Terasen that regardless of whether an investor elects cash, Kinder Morgan shares or a combination thereof, the transaction will be a fully taxable event for shareholders. We believe that the shares of Terasen are reasonably valued and we rate them Market Perform.

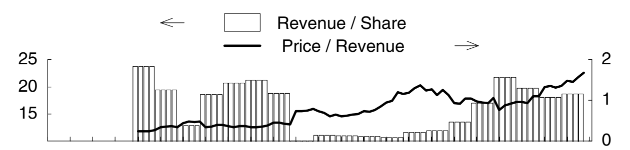
Please refer to pages 2 to 4 for Disclosure Statements, including the Analyst's Certification.

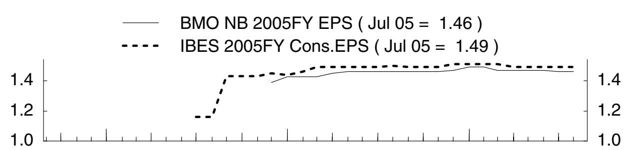
Terasen Inc. (TER)

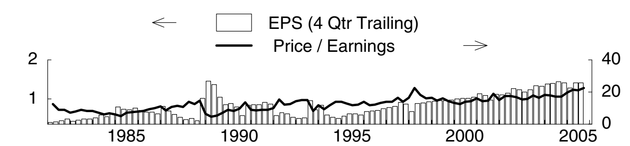


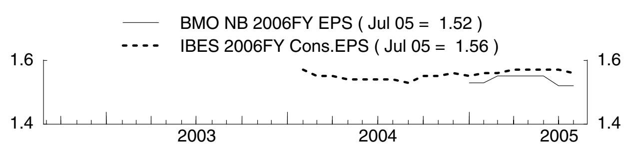












FYE (Dec.)	EPS $	P/E	DPS $	Yield %	Payout %	BV $	P/B	ROE %
1982	0.48	7	0.28	8.1	58	3.01	1.1	16
1983	0.48	8	0.28	7.0	58	3.47	1.1	15
1984	0.61	6	0.28	7.5	45	3.63	1.0	17
1985	0.76	8	0.30	5.0	39	3.84	1.6	20
1986	0.61	11	0.36	5.4	59	4.01	1.7	15
1987	0.53	11	0.34	6.0	65	4.07	1.4	13
1988	1.01	6	0.34	5.3	34	4.66	1.4	23
1989	0.85	9	0.37	4.9	44	5.05	1.5	18
1990	0.83	9	0.41	5.6	49	5.44	1.4	16
1991	0.87	10	0.45	5.3	52	6.46	1.3	15
1992	0.52	14	0.45	6.1	87	6.23	1.2	8
1993	0.72	12	0.45	5.4	63	6.50	1.3	11
1994	0.49	14	0.45	6.7	93	6.62	1.0	7
1995	0.58	14	0.45	5.6	78	6.85	1.2	9
1996	0.74	14	0.45	4.4	61	7.64	1.3	10
1997	0.86	16	0.50	3.6	58	7.77	1.8	11
1998	0.93	16	0.56	3.7	61	7.71	2.0	12
1999	0.97	13	0.59	4.6	61	8.18	1.6	12
2000	1.03	16	0.62	3.7	60	8.93	1.9	12
2001	2.21	15	0.66	4.0	60	9.33	1.8	24
2002	1.26	15	0.72	3.8	58	12.00	1.6	12
2003	1.28	18	0.78	3.3	59	12.53	1.9	10
2004	1.39	20	0.84	3.0	60	13.04	2.1	11
Current*	1.40	22	0.90	2.9	64	13.53	2.3	10
Average:		13		5.0	59		1.5	13.7
Growth(%):								
5 Year:	6.9		7.7			10.6		
10 Year:	8.6		7.2			7.4		
20 Year:	3.4		5.6			6.5		

* Current EPS is the 4 Quarter Trailing to Q2/2005.

TER - Rating as of 27-Aug-02 = Mkt

	Date	Rating Change	Share Price
1	21-Nov-02	Mkt to NR	$19.76
2	17-Jan-03	NR to Mkt	$19.39
3	23-Nov-04	Mkt to Und.	$26.95
4	1-Aug-05	Und.to Mkt	$31.40

Last Daily Data Point: August 5, 2005

Company Risk Disclosure

In addition to the risks involved in investing in common stocks generally, we also highlight the following risks that pertain to this company. Terasen could be exposed to significant operational disruptions and environmental liability in event of product spill or accident. Through the regulatory process, the BCUC approves the return on equity for Terasen Gas and Terasen Gas Vancouver Island. Changes in regulation may adversely affect performance. The company's hydrocarbon pipelines are dependent upon the continued availability of crude oil and bitumen. Transportation volumes on the TransMountain Pipeline are sensitive to demand from Washington state refineries, and overseas demand for transportation of Canadian crude oil via tanker.

Albian Sands is the sole shipper on the Corridor Pipeline. The company's natural gas distribution operations are dependent upon the continued availability of natural gas and the relative attractiveness of natural gas versus electricity.

Analyst's Certification

I, Karen Taylor, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

General Disclosure

The information and opinions in this report were prepared by BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltee/Ltd. ("BMO Nesbitt Burns"). Harris Nesbitt Corp. ("HNC") is an affiliate of BMO Nesbitt Burns. BMO Nesbitt Burns and HNC are subsidiaries of Bank of Montreal. The reader should assume that BMO Nesbitt Burns, HNC or their affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of BMO Nesbitt Burns as of the date of this report and are subject to change without notice. BMO Nesbitt Burns endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Nesbitt Burns makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Nesbitt Burns, HNC and their affiliates, which includes the overall profitability of investment banking services. BMO Nesbitt Burns, HNC or their affiliates expect to receive or will seek compensation for investment banking services within the next 3 months from all issuers covered by BMO Nesbitt Burns' Equity Research. BMO Nesbitt Burns HNC or their affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis.

BMO Nesbitt Burns, HNC, their affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns, HNC or their affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. Bank of Montreal or its affiliates ("BMO Financial Group") has lending arrangements with, or provides other remunerated services to, many issuers covered by BMO Nesbitt Burns' Equity Research. A significant lending relationship may exist between BMO Financial Group and certain of the issuers mentioned herein.

Company Specific Disclosure

Disclosure 2: BMO Nesbitt Burns has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 3: BMO Nesbitt Burns has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 10: This issuer is a client (or was a client) of BMO Nesbitt Burns, HNC or an affiliate within the past 12 months: Investment Banking Services.

Distribution of Ratings

Rating Category	BMO NB Rating	BMO NB Universe	BMO NB I.B. Clients*	First Call Universe**
Buy	Outperform	43%	48%	47%
Hold	Market Perform	45%	39%	46%
Sell	Underperform	12%	13%	7%

* Reflects rating distribution of all companies where BMO NB has received compensation for Investment Banking services.

** Reflects rating distribution of all North American equity research analysts.

Ratings Key

BMO Nesbitt Burns uses the following ratings system definitions. **OP = Outperform** - Forecast to outperform the market; **Mkt = Market Perform** - Forecast to perform roughly in line with the market; **Und = Underperform** - Forecast to underperform the market; **(S) = speculative investment**; **NR = No rating at this time** - usually due to a company being in registration or coverage being initiated.

Market performance as measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company.

Prior to September 1, 2003, a fourth rating tier—Top Pick—was used to designate those stocks we felt would be the best performers relative to the market. Our six Top 15 lists which guide investors to our best ideas according to six different objectives (large, small, growth, value, income and quantitative) have replaced the Top Pick rating.

Dissemination of Research

BMO Nesbitt Burns Equity Research is available via our web site http://bmonesbittburns.com. Institutional clients may also receive our research via FIRST CALL Research Direct and Multex. All of our research is made widely available at the same time to all BMO Nesbitt Burns client groups entitled to our research. Please contact your investment advisor or institutional salesperson for more information.

Additional Matters

TO U.S. RESIDENTS: HNC and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through HNC and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are intended solely for the use of, and may only be issued or passed onto, persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

BMO Nesbitt Burns is a Member of CIPF. HNC is a Member of SIPC.

July 30, 2004

Terasen Inc.

(TER : TSX : CAD$23.44 | Issued 104.6M)

HOLD | Target price: CAD$24.00

Bob Hastings
(604) 643-0177
bob_hastings@canaccord.com
Juan Plessis
(604) 643-0181
juan_plessis@canaccord.com

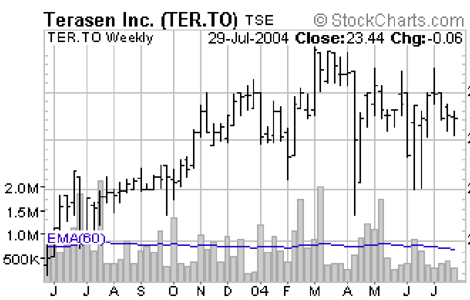
Company Statistics:

Recommendation:	**HOLD**
12-month target price:	$24.00
Price:	$23.44
52 Week Range:	$21.30-25.00
Avg. Daily Vol. (000):	48.7
Market Capitalization:	$2,442.9
Shares Out. (M) basic:	104.6
Current Dividend Yield:	3.6%
Current Dividend/Share:	$0.84
Bk Value/Shr:	$13.06

Earnings Summary:

FYE Dec	2003A	2004E	2005E
EPS:	$1.32	$1.40	$1.50
P/E:	17.8x	16.7x	15.6x
CFPS:	$2.75	$2.93	$3.00
P/CF:	8.5x	8.0x	7.8x

Share Price Performance:



Company Description:

Terasen provides energy and utility services in western Canada and the U.S. Pacific Northwest through two regulated business segments. The Natural Gas Distribution business includes transmission and distribution of natural gas to customers in BC and provides transportation services through the pipeline. The Petroleum Transportation business transports oil and refined products from Alberta to BC and delivers crude oil to refineries in the U.S.

All amounts in CAD unless otherwise noted.

SECOND QUARTER RESULTS SLIGHTLY BELOW CONSENSUS

Event: Terasen reported second quarter earnings that were slightly below the consensus estimate.

Impact: We expect little impact as full year guidance and pipeline expansion projects remain unchanged.

Valuation: We are maintaining our HOLD rating and $24.00 target price.

Summary

Terasen reported second quarter results of $0.10 versus $0.08 last year and a consensus estimate of $0.12. The earnings are quite seasonal for the company, with basically all of the earnings earned in the first and fourth quarters, a small amount of earnings made in the second quarter and a similar size of loss in the summer third quarter. For the first half, earnings were $0.87 versus $0.79.

Outlook

Terasen has given full year earnings guidance in the high $1.30s, up just $0.08 from last year. Earnings are already up $0.08 in the first half, so Terasen is suggesting no real gain in the second half of the year. We note that there is significant earnings variability at its Trans Mountain operation and that Terasen is likely being conservative. However, we suspect the company will still show a small improvement in the second half. Regardless, we are reining in the improvement from $0.05 to just $0.02 per share and therefore reducing our full year estimate from $1.43 to $1.40. For 2005, we are reducing our earnings estimate from $1.55 to $1.50, though we note that certain project timing or a sale of non-strategic Clean Energy could result in a further improvement in earnings.

Issues

- Variability of earnings at Trans Mountain due to lower rates in 2004, significant operating leverage and an earnings-sharing mechanism with producers based on throughput. Second quarter margin improvement was booked this year but was not recorded last year until third quarter, distorting quarterly comparisons.
- Mark to market gain of $0.6 million or $0.05/share in Clean Energy and recorded in "other".
- Many pipeline projects being proposed: 30,000 b/d Trans Mountain expansion from Vancouver into Washington complete by end of September; 108,000 b/d, $110 million Express expansion to be complete end of first quarter 2005; potential pipeline from Hardisty to Edmonton; Heartland terminal crude oil storage facility in Strathcona County, Alberta.
- TMX. The potentially doubling of the Trans Mountain line in three phases (100,000, 100,000 and 500,000) has a new wrinkle. The addition of a spur line from Valemount to Prince Rupert to access the Asian market if producers wish. Smart to add flexibility and try to preempt Enbridge's Gateway project going to the same port. Terasen claims this project is cheaper than Gateway. It will be an interesting debate, but toll claims from competitive projects are historically volatile – and either project is still some time away. Early 2005 will see the first attempt to get real producer backing.

Our C$24.00 target price is based on a combination of valuation metrics which include earnings and dividend yields relative to long term interest rates, dividend discount models, and earnings and cash flow multiples relative both to historical valuation and its utility and pipeline peers. We maintain our HOLD recommendation.

An analyst has visited the issuer's head office in Vancouver. No payment or reimbursement was received from the issuer for any costs.

Figure 1: Terasen Inc. second quarter results details

	Second Quarter 2003	Second Quarter 2004	Favourable/ (Unfavourable)	
Net Earnings (Loss): (mlns)				
Natural gas distribution				
Terasen Gas	($8.3)	($8.5)	-2%	Operating efficiencies partly offset by lower ROE and 50/50 sharing mechanism.
Terasen Gas Vancouver Island	$5.8	$6.3	9%	
	($2.5)	($2.2)	12%	
Petroleum transportation				
Trans Mountain	$9.6	$9.0	-6%	Lower tolls
Corridor	$2.9	$4.0	38%	Corridor started May 1, 2003.
Express System	($0.3)	$3.2	n.m.	2003 earnings lowered by $3.8M FX loss.
	$12.2	$16.2	33%	
Water and utility services	$2.1	$2.6	24%	Growth in asset base: July 30/04 Fairbanks acquisition should boost earnings.
Other businesses	($3.6)	($6.0)	-65%	Increased interest and income tax partly offset by a $0.6M gain on mark to market at 50% owned Clean Energy.
Total Recurring Income	**$8.2**	**$10.6**	**29.9%**	
Non-recurring items	-	-	n.m.	
Net Income	$8.2	$10.6	30%	
Net Earnings (Loss) Per Share:				
Natural gas distribution				
Terasen Gas	($0.08)	($0.08)	-2%	
Terasen Gas Vancouver Island	$0.06	$0.06	8%	
	($0.02)	**($0.02)**	13%	
Petroleum transportation				
Trans Mountain	$0.09	$0.09	-7%	
Corridor	$0.03	$0.04	37%	
Express System	($0.00)	$0.03	n.m.	
	$0.12	**$0.15**	32%	
Water and utility services	$0.02	$0.02	23%	Below the $0.12 consensus estimate, but minor quarter.
Other businesses	($0.04)	($0.06)	-63%	
Reported EPS before unusual items	**$0.08**	**$0.10**	-29%	
Unusual items	-	-	n.m.	
Reported EPS after unusual items	**$0.08**	**$0.10**	-29%	
Average Shares O/S (mlns)	103.8	104.7	-1%	2 for 1 stock split announced for June 14; prior periods restated for comparison.
Book Value	$12.42	$13.00	5%	
Number of Gas Customers	851,261	862,752	1%	
Gas Volumes (petajoules)				
Sales	22.8	18.3	-20%	
Transportation	17.3	14.1	-18%	
Throughput under fixed-price contracts	3.1	3.7	19%	
Total	43.2	36.1	-16%	
Oil Pipeline Deliveries (bbls/day)				
Canadian mainline	155,300	126,100	-19%	
US mainline	55,300	97,400	76%	Great volumes into higher margin pipe.
Express System	167,300	176,200	5%	
Total	377,900	399,700	6%	

Source: Canaccord Research

IMPORTANT DISCLOSURES

Distribution of Ratings

Global Stock Ratings Distribution
(as of July 8, 2004)

	Coverage Universe	
Rating	**#**	**%**
Buy	124	44.0%
Speculative Buy	44	15.6%
Hold	93	33.0%
Sell	21	7.4%
Total	282	100.0%

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Research Disclosures as of July 30, 2004

Company	Disclosure
Terasen Inc.	None

Research Disclosure Legend

1. In the past 12 months, Canaccord Capital Corporation or its affiliates have received compensation for investment banking services from the subject company.
2. In the past 12 months, Canaccord Capital Corporation, its partners, affiliates, officers or directors, or any analyst involved in the preparation of this report has provided services to the subject company for remuneration other than normal course investment advisory or trade execution services.
3. Canaccord Capital Corporation and/or its affiliates expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
4. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a long position in the shares or derivatives of the subject company.
5. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a short position in the shares or derivatives of the subject company.
6. A member of the research analyst's household serves as an officer, director or advisory board member of the subject company.
7. As of the month end immediately preceding the date of publication of this report, or the prior month end if publication is within 10 days following a month end, Canaccord Capital Corporation and its affiliates, in the aggregate, beneficially owned 1% or more of any class of equity securities of the subject company.
8. A partner, director, officer, employee or agent of Canaccord Capital Corporation, or a member of his/her household, is an officer, director or advisor, board member of the subject company and/or one of its subsidiaries, and such person's name is disclosed below.
9. Canaccord Capital Corporation makes a market in the securities of the subject company.
10. Other specific disclosures: ______________________________________

The analysts who are responsible for the preparation of this report are employed by Canaccord Capital Corporation, a securities broker-dealer with principal offices located in Vancouver, Toronto, Montreal, Calgary (all Canada) and London (UK).
The analysts who are responsible for the preparation of this report have received (or will receive) compensation based upon (among other things) the investment banking revenues of Canaccord Capital Corporation or its affiliates, including Canaccord Capital Corporation USA, Inc. However, such analysts have not received, and will not receive, compensation that is directly based upon one or more specific investment banking activities or transactions.
In the event that this is a compendium report (covering six or more subject companies), Canaccord Capital Corporation and its affiliates may choose to provide specific disclosures of the subject companies by reference as well as its policies and procedures regarding the dissemination of research. To access this material, please send a request to Canaccord Capital Corporation, Attn: Disclosures, P.O. Box 6, Suite 1200, 320 Bay Street, Toronto, Ontario, Canada M5H 4A6 (Canadian residents) or to Canaccord Capital Corporation USA, Inc., Attn: Disclosures, 316 Cary Point Drive, Cary, Illinois, 60013 (US residents).

Analyst Certification

Each analyst of Canaccord Capital Corporation whose name appears on the front page of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within such analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in the research report.

For further disclosures, please visit our website at www.canaccord.com.

The information contained in this report has been compiled by Canaccord Capital Corporation ("CCC") from sources believed to be reliable, but no representation or warranty, express or implied, is made by CCC, its affiliates or any other person as to its accuracy, completeness or correctness. All estimates, opinions and other information contained in this report constitute CCC's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility or liability.
CCC and its affiliates may have an investment banking or other relationship with the company that is the subject of this report and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, CCC or their affiliates may at any time have a long or short position in any such securities, related securities or in options, futures or other derivative instruments based thereon.
This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, neither CCC, its affiliates nor any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of the information contained in this report.

For Canadian Residents: This report has been approved by CCC which accepts responsibility for this report and its dissemination in Canada. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC in their particular jurisdiction. **For US Residents:** Canaccord Capital Corporation USA, Inc. ("CCC US"), a US registered broker-dealer, accepts responsibility for this report and its dissemination in the United States. This report is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC US. **For United Kingdom Residents:** This report has been approved for the purposes of section 21 of the UK's Financial Services and Markets Act 2000 by Canaccord Capital (Europe) Limited ("CCE"), which is regulated and authorized by the Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. CCE accepts responsibility for this report and its dissemination in the United Kingdom. The information contained in this report is only intended for distribution in the UK to persons who qualify as intermediate customers or market counterparties, as defined under the rules of the FSA. **Additional information is available on request.**

CANACCORD CAPITAL

Daily Letter | 93

November 5, 2004

Terasen Inc.

(TER : TSX : CAD$25.50 | Issued 104.8M)

HOLD | Target price: CAD$26.00 ↑

Bob Hastings
(604) 643-0177
bob_hastings@canaccord.com
Juan Plessis
(604) 643-0181
juan_plessis@canaccord.com

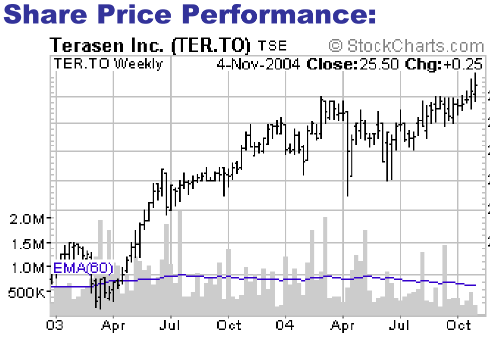
Company Statistics:

Recommendation:	**HOLD**
12-month target price:	$26.00
Price:	$25.50
52 Week Range:	$21.50-25.75
Avg. Daily Vol. (000):	48.7
Market Capitalization:	$2,671.7
Shares Out. (M) basic:	104.8
Current Dividend Yield:	3.6%
Current Dividend/Share:	$0.84
Bk Value/Shr:	$12.71

Earnings Summary:

FYE Dec	2003A	2004E	2005E
EPS:	$1.32	$1.40	$1.50
P/E:	19.4x	18.2x	17.0x
CFPS:	$2.75	$2.93	$3.00
P/CF:	9.3x	8.7x	8.5x

Share Price Performance:



Company Description:

Terasen provides energy and utility services in western Canada and the US Pacific Northwest through two regulated business segments. The Natural Gas Distribution business includes transmission and distribution of natural gas to customers in BC and provides transportation services through the pipeline. The Petroleum Transportation business transports oil and refined products from Alberta to BC and delivers crude oil to refineries in the US.

All amounts in CAD unless otherwise noted.

GOOD QUARTER

Event: Terasen reported third quarter results that were better than expectations, with much of the gain from a non-recurring mark-to-market gain.

Impact: Little impact as full year guidance and pipeline expansion projects remain unchanged.

Valuation: We are maintaining our HOLD rating on the shares of Terasen Inc. but raising our target price to $26.00 from $24.00 to reflect continuing low long-term interest rates. Our target price is derived from a combination of valuation metrics which include earnings and dividend yields relative to long term interest rates, dividend discount models, and earnings and cash flow multiples relative both to historical valuation and its utility and pipeline peers.

Summary

Terasen reported a third quarter loss of $0.01 versus a loss of $0.07 last year and a consensus estimate of a loss of $0.07. Quarterly earnings remain seasonal for the company, with essentially all of the earnings earned in the first and fourth quarters, a small amount of earnings made in the second quarter and a small loss in the summer third quarter. For the first nine months of the year, earnings were $0.86 versus $0.71. Earnings appear to be on track to reach our $1.40 estimate for the year and we are making no adjustments to our estimates. For details on the quarter, please refer to Figure 1.

Outlook

The company reiterated its 2004 per share guidance of upper $1.30 range, which is only slightly lower than our $1.40 estimate. We are comfortable with our higher estimate given the company has not included the $4.3 million ($0.04 per share) mark-to-market gain in its guidance. In addition, Trans Mountain mainline capacity has been increased by 27,000 barrels/day effective October 1 and should help provide earnings growth.

Issues

- Mark-to-market gain of $2.0 million or $0.02 per share in Clean Energy and recorded in "other."
- BC Hydro approval of Vancouver Island natural gas generation plant could be source of new transportation demand.
- Pipeline expansions:
  - Additional 27,000 barrels/day expansion of Trans Mountain went into service October 1, 2004.
  - 108,000 barrels/day, $110 million Express pipeline expansion to be complete by April 01, 2005.
  - TMX (potential doubling of Trans Mountain capacity line in three phases)
    - Seeking expression of interest from producers by end of the year for TMX.
    - Open season for first phase could be mid-2005.
    - External development spending of $2 million in Q3 or $0.01 per share after-tax is capitalized (Enbridge has a competitive project, has spent $7 million to date and is expensing all the costs as incurred).

Figure1:Terasen Inc. third quarter results details

	Third Quarter 2003	Third Quarter 2004	Favourable/ (Unfavourable)
Net Earnings (Loss): (mlns)			
Natural gas distribution			
Terasen Gas	($25.5)	($24.8)	3%
Terasen Gas Vancouver Island	$6.0	$6.8	13%
	($19.5)	($18.0)	8%
Petroleum transportation			
Trans Mountain	$7.9	$8.8	11%
Corridor	$3.8	$3.9	3%
Express System	$2.8	$3.8	36%
	$14.5	$16.5	14%
Water and utility services	$2.2	$3.3	50%
Other businesses	($5.9)	($3.2)	46%
Total Recurring Income	**($8.7)**	**($1.4)**	**83.8%**
Non-recurring items	$1.1	-	n.m.
Net Income	($7.6)	($1.4)	82%
Net Earnings (Loss) Per Share:			
Natural gas distribution			
Terasen Gas	($0.25)	($0.24)	4%
Terasen Gas Vancouver Island	$0.06	$0.06	12%
	($0.19)	**($0.17)**	8%
Petroleum transportation			
Trans Mountain	$0.08	$0.08	10%
Corridor	$0.04	$0.04	2%
Express System	$0.03	$0.04	n.m.
	$0.14	**$0.16**	13%
Water and utility services	$0.02	$0.03	49%
Other businesses	($0.06)	($0.03)	46%
Reported EPS before unusual items	**($0.08)**	**($0.01)**	84%
Unusual items	$0.01	-	n.m.
Reported EPS after unusual items	**($0.07)**	**($0.01)**	82%
Average Shares O/S (mlns)	103.9	104.8	(1%)
Book Value	$12.15	$12.71	5%
Number of Gas Customers	851,551	866,311	2%
Gas Volumes (petajoules)			
Sales	12.0	12.6	5%
Transportation	6.4	14.5	127%
Throughput under fixed-price contracts	11.2	6.0	(46%)
Total	29.6	33.1	12%
Oil Pipeline Deliveries (bbls/day)			
Canadian mainline	177,400	154,200	(13%)
US mainline	55,700	86,900	56%
Express System	174,700	178,200	2%
Total	407,800	419,300	3%

Integration of Terasen Gas & TGVI achieves operating efficiencies. Partly offset by lower allowed ROE and absence of sharing mechanism.

Increased throughput along with lower opex and mtce cost

Mainly due to higher volumes.

Continued growth in asset base; Fairbanks acquisition adds to earnings.

Includes a $2 mln (2¢ per share) mark to market gain in Clean Energy.

Beats consensus of 7¢; mark to market added 2¢.

Stock split effective June 2004. Shown here for comparative purposes.

Strong volumes in higher margin area but down from Q2 due to higher Canadian demand.

Source: Canaccord Research

Investment risks

Some of the specific risk factors that pertain to the projected six to 12 month stock price target for Terasen are as follows: a) Terasen could be exposed to significant operational disruptions and environmental liability in the event of a petroleum product spill or an accident involving natural gas; b) The unprecedented increase in the market price of natural gas in 2000 significantly eroded the competitive advantage of natural gas relative to alternative sources of energy, notably electricity, in British Columbia; c) Terasen's earnings are sensitive to interest rates in several ways. Some outstanding debt has net exposure to short-term interest rates, and is not subject to regulatory interest deferral accounts. In addition, the allowed returns on equity for BC Gas Utility, Centra Gas and Corridor are determined by formulae that result in lower allowed ROEs if long-term Canada bond yields decline; d) A component of BC Gas' earnings, principally earnings from Trans Mountain's US pipeline and the Express System, are denominated in US dollars. As a result, an annual decline of $0.10 in the price of a US dollar in Canadian dollars would be expected to result in a decrease in annual consolidated net earnings of approximately C$1 million; e) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity.

An analyst has visited the issuer's head office in Vancouver. No payment or reimbursement was received from the issuer for the related travel costs.

IMPORTANT DISCLOSURES

Distribution of Ratings

Global Stock Ratings Distribution
(as of November 3, 2004)

	Coverage Universe	
Rating	**#**	**%**
Buy	116	39.7%
Speculative Buy	50	17.1%
Hold	105	36.0%
Sell	21	7.2%
Total	292	100.0%

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Research Disclosures as of November 5, 2004

Company	Disclosure
Terasen Inc.	None

Research Disclosure Legend

1. In the past 12 months, Canaccord Capital Corporation or its affiliates have received compensation for investment banking services from the subject company.
2. In the past 12 months, Canaccord Capital Corporation, its partners, affiliates, officers or directors, or any analyst involved in the preparation of this report has provided services to the subject company for remuneration other than normal course investment advisory or trade execution services.
3. Canaccord Capital Corporation and/or its affiliates expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
4. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a long position in the shares or derivatives of the subject company.
5. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a short position in the shares or derivatives of the subject company.
6. A member of the research analyst's household serves as an officer, director or advisory board member of the subject company.
7. As of the month end immediately preceding the date of publication of this report, or the prior month end if publication is within 10 days following a month end, Canaccord Capital Corporation and its affiliates, in the aggregate, beneficially owned 1% or more of any class of equity securities of the subject company.
8. A partner, director, officer, employee or agent of Canaccord Capital Corporation, or a member of his/her household, is an officer, director or advisor, board member of the subject company and/or one of its subsidiaries, and such person's name is disclosed below.
9. Canaccord Capital Corporation makes a market in the securities of the subject company.
10. Other specific disclosures: ______________________________

The analysts who are responsible for the preparation of this report are employed by Canaccord Capital Corporation, a securities broker-dealer with principal offices located in Vancouver, Toronto, Montreal, Calgary (all Canada) and London (UK).
The analysts who are responsible for the preparation of this report have received (or will receive) compensation based upon (among other things) the investment banking revenues of Canaccord Capital Corporation or its affiliates, including Canaccord Capital Corporation USA, Inc. However, such analysts have not received, and will not receive, compensation that is directly based upon one or more specific investment banking activities or transactions.
In the event that this is a compendium report (covering six or more subject companies), Canaccord Capital Corporation and its affiliates may choose to provide specific disclosures of the subject companies by reference as well as its policies and procedures regarding the dissemination of research. To access this material, please send a request to Canaccord Capital Corporation, Attn: Disclosures, P.O. Box 6, Suite 1200, 320 Bay Street, Toronto, Ontario, Canada M5H 4A6 (Canadian residents) or to Canaccord Capital Corporation USA, Inc., Attn: Disclosures, 316 Cary Point Drive, Cary, Illinois, 60013 (US residents).
Analyst Certification
Each analyst of Canaccord Capital Corporation whose name appears on the front page of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within such analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in the research report.

For further disclosures, please visit our website at www.canaccord.com.
The information contained in this report has been compiled by Canaccord Capital Corporation ("CCC") from sources believed to be reliable, but no representation or warranty, express or implied, is made by CCC, its affiliates or any other person as to its accuracy, completeness or correctness. All estimates, opinions and other information contained in this report constitute CCC's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility or liability.
CCC and its affiliates may have an investment banking or other relationship with the company that is the subject of this report and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, CCC or their affiliates may at any time have a long or short position in any such securities, related securities or in options, futures or other derivative instruments based thereon.
This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, neither CCC, its affiliates nor any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of the information contained in this report.

For Canadian Residents: This report has been approved by CCC which accepts responsibility for this report and its dissemination in Canada. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC in their particular jurisdiction. **For US Residents:** Canaccord Capital Corporation USA, Inc. ("CCC US"), a US registered broker-dealer, accepts responsibility for this report and its dissemination in the United States. This report is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC US. **For United Kingdom Residents:** This report has been approved for the purposes of section 21 of the UK's Financial Services and Markets Act 2000 by Canaccord Capital (Europe) Limited ("CCE"), which is regulated and authorized by the Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. CCE accepts responsibility for this report and its dissemination in the United Kingdom. The information contained in this report is only intended for distribution in the UK to persons who qualify as intermediate customers or market counterparties, as defined under the rules of the FSA. **Additional information is available on request.**

CANACCORD CAPITAL

Terasen Inc.

(TER : TSX : CAD$26.94 | Issued 104.8M)

HOLD | Target price: CAD$26.00

Bob Hastings
(604) 643-0177
bob_hastings@canaccord.com
Juan Plessis
(604) 643-0181
juan_plessis@canaccord.com

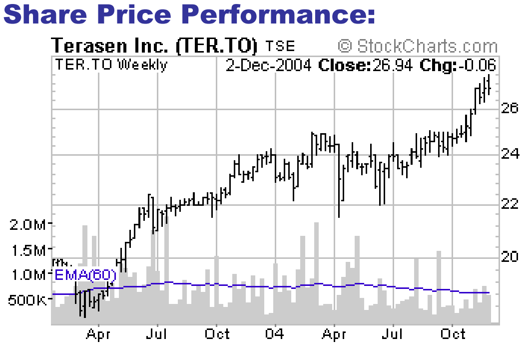
Company Statistics:

Recommendation:	**HOLD**
12-month target price:	$26.00
Price:	$26.94
52 Week Range:	$22.00-50.00
Avg. Daily Vol. (000):	106.2
Market Capitalization (M):	$2,822.6
Shares Out. (M) basic:	104.8
Current Dividend Yield:	3.1%
Current Dividend/Share:	$0.84
Bk Value/Shr:	$13.06

Earnings Summary:

FYE Dec	2003A	2004E	2005E
EPS:	$1.32	$1.40	$1.50
P/E:	20.5x	19.2x	18.0x
CFPS:	$2.75	$2.93	$3.00
P/CF:	9.8x	9.2x	9.0x

Share Price Performance:



Company Description:

Terasen provides energy and utility services in western Canada and the US Pacific Northwest through two regulated business segments. The Natural Gas Distribution business includes transmission and distribution of natural gas to customers in BC and provides transportation services through the pipeline. The Petroleum Transportation business transports oil and refined products from Alberta to BC and delivers crude oil to refineries in the US.

All amounts in CAD unless otherwise noted.

INVESTOR CONFERENCE UPDATE

Event: Terasen hosted an Investor Conference in Toronto, providing an excellent overview of the company.

Impact: There should be little impact on the stock price.

Valuation: We are maintaining our HOLD rating and $26.00 target price on the shares of Terasen Inc. Our target price is derived from a combination of valuation metrics which include earnings and dividend yields relative to long term interest rates, dividend discount models, and earnings and cash flow multiples relative both to historical valuation and its utility and pipeline peers.

Summary

Teresen hosted its first Investor Conference in Toronto yesterday. The company does an excellent job keeping investors informed and the conference provided a good overview of the company and its prospects. The company continues to target annual EPS growth of 6% through both internal growth and new projects, which is helped by its free cashflow (after maintenance capex and dividends) of $95 million. This level of growth combined with dividends should provide investors with 10% annual growth over time. We note Terasen has historically exceeded its stated earnings growth targets (7.2% annual EPS growth since 1998). Internal growth drivers include utility customer growth, pipeline expansion and new water utility projects.

John Reid, President and CEO of Terasen, outlined the company's portfolio of potential projects which totals up to a capital cost of $3.6 billion over the next six years (see Figure 1). While some of these projects will not be developed, there is a strong likelihood that some will be realized and some new ones could be added, helping drive longer-term earnings. We note that the company is not willing to

Figure 1: Terasen Inc. potential project portfolio (2005 – 2010)

Project	($ mln)
Vancouver Island LNG	$100
Whistler Gas Pipeline	$40
Inland Pacific Connector	$300-500
Express Expansion (US$)	$110
Corridor Expansion	$300+
TMX1	$600-700
TMX2	$600-700
TMX3	$800-900
Heartland Terminal	$30-120
Water & Utility Services	$100+
Total (in $ billions)	**$3.0-3.6**
Current Asset Base (in billions)	$4.9

Source: Terasen Inc.

compromise its lower-risk asset base or balance sheet profile and if one (or more) of the projects advances, we would likely see an equity issue to maintain its capital structure. Terasen is also familiar with accessing lowest cost of capital such as it did with its investment in Express Pipeline utilizing pension fund investment.

Terasen is willing to invest more into new areas but it will only invest in areas where it has sufficient business knowledge and when the investment does not alter the current risk profile of the company. The investment would also have to fit geographically and Terasen might look at strategic investments in utilities south of the border or in Alberta. In addition, the investment would have to be accretive to earnings and deliver a return on equity likely in excess of 10%.

The company also announced that it is seeking expressions of interest from current and prospective shippers on a major capacity expansion of the Trans Mountain Pipeline System. This process will help determine the scope and scale of the expansion and once Terasen has received expressions of interest it will follow with a formal open season process for the expanded capacity.

Investment risks

Some of the specific risk factors that pertain to the projected six to 12 month stock price target for Terasen are as follows: a) Terasen could be exposed to significant operational disruptions and environmental liability in the event of a petroleum product spill or an accident involving natural gas; b) The unprecedented increase in the market price of natural gas in 2000 significantly eroded the competitive advantage of natural gas relative to alternative sources of energy, notably electricity, in British Columbia; c) Terasen's earnings are sensitive to interest rates in several ways. Some outstanding debt has net exposure to short-term interest rates, and is not subject to regulatory interest deferral accounts. In addition, the allowed returns on equity for BC Gas Utility, Centra Gas and Corridor are determined by formulae that result in lower allowed ROEs if long-term Canada bond yields decline; d) A component of BC Gas' earnings, principally earnings from Trans Mountain's US pipeline and the Express System, are denominated in US dollars. As a result, an annual decline of $0.10 in the price of a US dollar in Canadian dollars would be expected to result in a decrease in annual consolidated net earnings of approximately C$1 million; e) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity.

An analyst has visited the issuer's head office in Vancouver. No payment or reimbursement was received from the issuer for the related travel costs.

IMPORTANT DISCLOSURES

Price Chart*

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings

Global Stock Ratings Distribution
(as of November 3, 2004)

	Coverage Universe	
Rating	**#**	**%**
Buy	116	39.7%
Speculative Buy	50	17.1%
Hold	105	36.0%
Sell	21	7.2%
Total	292	100.0%

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Research Disclosures as of December 3, 2004

Company	Disclosure
Terasen Inc.	None

Research Disclosure Legend

1. In the past 12 months, Canaccord Capital Corporation or its affiliates have received compensation for investment banking services from the subject company.
2. In the past 12 months, Canaccord Capital Corporation, its partners, affiliates, officers or directors, or any analyst involved in the preparation of this report has provided services to the subject company for remuneration other than normal course investment advisory or trade execution services.
3. Canaccord Capital Corporation and/or its affiliates expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
4. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a long position in the shares or derivatives of the

subject company.

5. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a short position in the shares or derivatives of the subject company.
6. A member of the research analyst's household serves as an officer, director or advisory board member of the subject company.
7. As of the month end immediately preceding the date of publication of this report, or the prior month end if publication is within 10 days following a month end, Canaccord Capital Corporation and its affiliates, in the aggregate, beneficially owned 1% or more of any class of equity securities of the subject company.
8. A partner, director, officer, employee or agent of Canaccord Capital Corporation, or a member of his/her household, is an officer, director or advisor, board member of the subject company and/or one of its subsidiaries, and such person's name is disclosed below.
9. Canaccord Capital Corporation makes a market in the securities of the subject company.
10. Other specific disclosures: ______________________________

The analysts who are responsible for the preparation of this report are employed by Canaccord Capital Corporation, a securities broker-dealer with principal offices located in Vancouver, Toronto, Montreal, Calgary (all Canada) and London (UK).
The analysts who are responsible for the preparation of this report have received (or will receive) compensation based upon (among other things) the investment banking revenues of Canaccord Capital Corporation or its affiliates, including Canaccord Capital Corporation USA, Inc. However, such analysts have not received, and will not receive, compensation that is directly based upon one or more specific investment banking activities or transactions.
In the event that this is a compendium report (covering six or more subject companies), Canaccord Capital Corporation and its affiliates may choose to provide specific disclosures of the subject companies by reference as well as its policies and procedures regarding the dissemination of research. To access this material, please send a request to Canaccord Capital Corporation, Attn: Disclosures, P.O. Box 6, Suite 1200, 320 Bay Street, Toronto, Ontario, Canada M5H 4A6 (Canadian residents) or to Canaccord Capital Corporation USA, Inc., Attn: Disclosures, 316 Cary Point Drive, Cary, Illinois, 60013 (US residents).

Analyst Certification

Each analyst of Canaccord Capital Corporation whose name appears on the front page of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within such analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in the research report.

For further disclosures, please visit our website at www.canaccord.com.

The information contained in this report has been compiled by Canaccord Capital Corporation ("CCC") from sources believed to be reliable, but no representation or warranty, express or implied, is made by CCC, its affiliates or any other person as to its accuracy, completeness or correctness. All estimates, opinions and other information contained in this report constitute CCC's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility or liability.
CCC and its affiliates may have an investment banking or other relationship with the company that is the subject of this report and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, CCC or their affiliates may at any time have a long or short position in any such securities, related securities or in options, futures or other derivative instruments based thereon.
This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted

Terasen Inc.

(TER : TSX : CAD$29.35 | Issued 104.8M)

HOLD | Target price: CAD$28.00

Bob Hastings
(604) 643-0177
bob_hastings@canaccord.com
Juan Plessis
(604) 643-0181
juan_plessis@canaccord.com

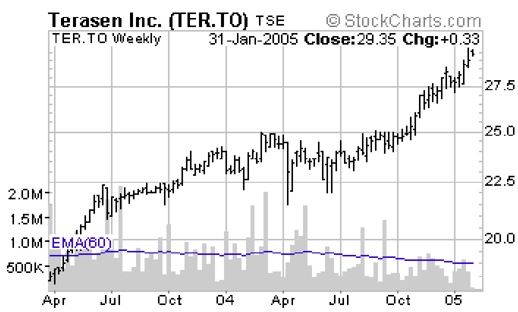
Company Statistics:

Recommendation:	**HOLD**
12-month target price:	$28.00
Price:	$29.35
52 Week Range:	$21.50-29.79
Avg. Daily Vol. (000):	45.4
Market Capitalization (M):	$3,075.9
Shares Out. (M) basic:	104.8
Current Dividend Yield:	2.9%
Current Dividend/Share:	$0.84
Bk Value/Shr:	$13.06

Earnings Summary:

FYE Dec	2003A	2004E	2005E	2006E
EPS:	$1.32	$1.40	$1.50	$1.60
P/E:	22.3x	21.0x	19.6x	18.3x
CFPS:	$2.75	$2.90	$2.95	$3.05
P/CF:	10.7x	10.1x	10.0x	9.6x

Share Price Performance:



Company Description:

Terasen provides energy and utility services in western Canada and the US Pacific Northwest, through two regulated business segments. The Natural Gas Distribution business includes transmission and distribution of natural gas to customers in BC and provides transportation services through the pipeline. The Petroleum Transportation business transports oil and refined products from Alberta to BC and delivers crude oil to refineries in the US.

All amounts in CAD unless otherwise noted.

SHIPPERS WANT MORE PIPELINE CAPACITY

Event: Terasen received solid expressions of interest from shippers, proving out a need for new pipeline facilities to the west coast. Now the more difficult part has to be decided: where are the most attractive markets (Asia or California); the preferred pipeline proposal (Terasen or Enbridge); the economics of the project; the signing of long term commitments with shippers, and; gaining regulatory approval (including environmental and native acceptance).

Impact: Little impact until it becomes clear how much support Terasen has from producers. It is the producers who will pay for the tolls, and they have to decide which route and which project(s) they will financially support. This should be better known in the late spring.

Valuation: We are maintaining our HOLD rating and $28.00 target price on the shares of Terasen Inc. Our target price is derived from a combination of valuation metrics which include earnings and dividend yields relative to long term interest rates, dividend discount models, and earnings and cash flow multiples relative both to historical valuation and its utility and pipeline peers.

Summary

Terasen received expressions of interest from 17 different parties to proceed to the next phase of the Trans Mountain system expansion project (TMX) to carry growing oil sands production to the west coast and offshore markets. The Expression of Interest process took place over the past two months and indicated the need for additional capacity out of Alberta by 2008. It is of course no surprise that shippers see a need for more capacity, but it is the timing, the size, the eventual route and the company that will build it that are more difficult questions. We view the announcement as positive since it confirms that there is definitely interest, but would not award much value to either Terasen or Enbridge until it becomes clearer which project(s) will be supported by the producers. Certainly, both are likely to be involved in expansion opportunities, but the size and timing are still speculative.

Producers love a good competition, particularly when they can challenge two pipeline companies to compete to offer the best and most economical project for producers. That process spurs more creative solutions and lower costs for the shippers (lower returns for the pipelines?). At this point, both Terasen and Enbridge have spent considerable time and effort attracting interest from producers and we suspect that both will have their supporters. We fear this competition, however, has the potential to cause significant delays during the required regulatory approval process, particularly if any rolled-in toll methodology is employed (likely to some extent).

Details of TMX

TMX Phase One is designed to increase the Trans Mountain's capacity 75,000 bpd to 300,000 bpd by the end of 2008. It will add 35,000 bpd by the end of 2006 through the addition of pump stations (about $205 million), and another 40,000 bpd by the end of 2008 by the looping of 178 kilometres of its system (about $365 million).

Terasen will proceed to the next phase if shipper interest warrants, and undertake additional looping system to existing facilities in Burnaby British Columbia and/or extend the Trans Mountain pipeline to a new terminal on BC's north coast in Kitimat or Prince Rupert. This could increase system capacity up to 850,000 bpd in 2010 at an incremental cost of around $1.6-2.4 billion, depending whether a southern or northern route is chosen.

The staged expansion of TMX is designed by Terasen to align incremental oil sands production from Alberta with market demands on the West Coast of Canada, the United States and Asia. Both phases appear to total $2.2-2.9 billion to ship an extra 625,000 bpd. This compares to the approximate $2.5 billion cost for Enbridge's Gateway project to ship 400,000 b/d a year earlier by 2009. Experience tells us that the numbers are likely not all that comparable, expressions of interest do not always materialize into contracts and the approval process may be long.

Investment risks

Some of the specific risk factors that pertain to the projected six to 12 month stock price target for Terasen are as follows: a) Terasen could be exposed to significant operational disruptions and environmental liability in the event of a petroleum product spill or an accident involving natural gas; b) The unprecedented increase in the market price of natural gas in 2000 significantly eroded the competitive advantage of natural gas relative to alternative sources of energy, notably electricity, in British Columbia; c) Terasen's earnings are sensitive to interest rates in several ways. Some outstanding debt has net exposure to short-term interest rates, and is not subject to regulatory interest deferral accounts. In addition, the allowed returns on equity for BC Gas Utility, Centra Gas and Corridor are determined by formulae that result in lower allowed ROEs if long-term Canada bond yields decline; d) A component of BC Gas' earnings, principally earnings from Trans Mountain 's US pipeline and the Express System, are denominated in US dollars. As a result, an annual decline of $0.10 in the price of a US dollar in Canadian dollars would be expected to result in a decrease in annual consolidated net earnings of approximately C$1 million; e) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity.

An analyst has visited the issuer's head office in Vancouver. No payment or reimbursement was received from the issuer for the related travel costs.

IMPORTANT DISCLOSURES
Distribution of Ratings
Global Stock Ratings Distribution
(as of January 7, 2005)

	Coverage Universe	
Rating	**#**	**%**
Buy	127	41.9%
Speculative Buy	51	16.8%
Hold	97	32.0%
Sell	28	9.2%
Total	303	100.0%

Canaccord Ratings System:
BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

Risk Qualifier:
SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Research Disclosures as of February 1, 2005

Company	Disclosure
Terasen Inc.	None

Research Disclosure Legend

1. In the past 12 months, Canaccord Capital Corporation or its affiliates have received compensation for investment banking services from the subject company.
2. In the past 12 months, Canaccord Capital Corporation, its partners, affiliates, officers or directors, or any analyst involved in the preparation of this report has provided services to the subject company for remuneration other than normal course investment advisory or trade execution services.
3. Canaccord Capital Corporation and/or its affiliates expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
4. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a long position in the shares or derivatives of the subject company.
5. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a short position in the shares or derivatives of the subject company.
6. A member of the research analyst's household serves as an officer, director or advisory board member of the subject company.
7. As of the month end immediately preceding the date of publication of this report, or the prior month end if publication is within 10 days following a month end, Canaccord Capital Corporation and its affiliates, in the aggregate, beneficially owned 1% or more of any class of equity securities of the subject company.
8. A partner, director, officer, employee or agent of Canaccord Capital Corporation, or a member of his/her household, is an officer, director or advisor, board member of the subject company and/or one of its subsidiaries, and such person's name is disclosed below.
9. Canaccord Capital Corporation makes a market in the securities of the subject company.
10. Other specific disclosures: ________________________________

The analysts who are responsible for the preparation of this report are employed by Canaccord Capital Corporation, a securities broker-dealer with principal offices located in Vancouver, Toronto, Montreal, Calgary (all Canada) and London (UK).
The analysts who are responsible for the preparation of this report have received (or will receive) compensation based upon (among other things) the investment banking revenues of Canaccord Capital Corporation or its affiliates, including Canaccord Capital Corporation USA, Inc. However, such analysts have not received, and will not receive, compensation that is directly based upon one or more specific investment banking activities or transactions.
In the event that this is a compendium report (covering six or more subject companies), Canaccord Capital Corporation and its affiliates may choose to provide specific disclosures of the subject companies by reference as well as its policies and procedures regarding the dissemination of research. To access this material, please send a request to Canaccord Capital Corporation, Attn: Disclosures, P.O. Box 6, Suite 1200, 320 Bay Street, Toronto, Ontario, Canada M5H 4A6 (Canadian residents) or to Canaccord Capital Corporation USA, Inc., Attn: Disclosures, 316 Cary Point Drive, Cary, Illinois, 60013 (US residents).

Analyst Certification

Each analyst of Canaccord Capital Corporation whose name appears on the front page of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within such analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in the research report.

For further disclosures, please visit our website at www.canaccord.com.

The information contained in this report has been compiled by Canaccord Capital Corporation ("CCC") from sources believed to be reliable, but no representation or warranty, express or implied, is made by CCC, its affiliates or any other person as to its accuracy, completeness or correctness. All estimates, opinions and other information contained in this report constitute CCC's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility or liability.
CCC and its affiliates may have an investment banking or other relationship with the company that is the subject of this report and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, CCC or their affiliates may at any time have a long or short position in any such securities, related securities or in options, futures or other derivative instruments based thereon.
This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, neither CCC, its affiliates nor any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of the information contained in this report.

For Canadian Residents: This report has been approved by CCC which accepts responsibility for this report and its dissemination in Canada. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC in their particular jurisdiction. **For US Residents:** Canaccord Capital Corporation USA, Inc. ("CCC US"), a US registered broker-dealer, accepts responsibility for this report and its dissemination in the United States. This report is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC US. **For United Kingdom Residents:** This report has been approved for the purposes of section 21 of the UK's Financial Services and Markets Act 2000 by Canaccord Capital (Europe) Limited ("CCE"), which is regulated and authorized by the Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. CCE accepts responsibility for this report and its dissemination in the United Kingdom. The information contained in this report is only intended for distribution in the UK to persons who qualify as intermediate customers or market counterparties, as defined under the rules of the FSA. **Additional information is available on request.**

CANACCORD CAPITAL

Terasen Inc.

(TER : TSX : CAD$29.34 | Issued 105.0M)

HOLD | Target price: CAD$28.00

Bob Hastings
(604) 643-0177
bob_hastings@canaccord.com
Juan Plessis
(604) 643-0181
juan_plessis@canaccord.com

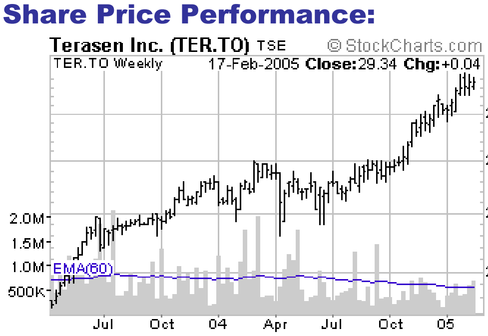
Company Statistics:

Recommendation:	**HOLD**
12-month target price:	$28.00
Price:	$29.34
52 Week Range:	$21.50-29.91
Avg. Daily Vol. (000):	255.4
Market Capitalization (M):	$3,074.8
Shares Out. (M) basic:	105.0
Current Dividend Yield:	3.1%
Current Dividend/Share:	$0.90
Bk Value/Shr:	$13.54

Earnings Summary:

FYE Dec	2003	2004	2005E	2006E
EPS:	$1.32	$1.40	$1.50	$1.60
P/E:	22.2x	21.0x	19.6x	18.3x
CFPS:	$2.75	$2.83	$2.95	$3.05
P/CF:	10.7x	10.4x	9.9x	9.6x

Share Price Performance:



Company Description:

Terasen provides energy and utility services in western Canada and the US Pacific Northwest through two regulated business segments. The Natural Gas Distribution business includes transmission and distribution of natural gas to customers in BC and provides transportation services through the pipeline. The Petroleum Transportation business transports oil and refined products from Alberta to BC and delivers crude oil to refineries in the US.

All amounts in CAD unless otherwise noted.

7.1% DIVIDEND INCREASE

Event: Terasen reported fourth quarter and full year results that were in line with expectations. The company also raised its annual dividend by 7.1% to $0.90/share.

Impact: Mildly positive.

Valuation: We are maintaining our HOLD rating and $28.00 target price on the shares of Terasen Inc. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long term interest rates, dividend discount models, and earnings and cash flow multiples relative both to historical valuation and its utility and pipeline peers.

Summary

Terasen reported fourth quarter recurring income of $0.51 per share versus $0.54 last year. The company reported full year recurring EPS of $1.40 versus $1.32, in line with our $1.40 estimate. In the fourth quarter, the company instituted an accounting change to the way it records utility income tax expense, making the comparison to expected fourth quarter EPS difficult. However, the accounting change does not impact full year earnings, implying fourth quarter earnings were in-line with our estimate. The accounting change does, however, have the effect of reducing more dramatic swings from seasonality, with lower first and fourth quarter earnings and reduced losses in the second and third quarters. The company also announced a 7.1% increase to its annual dividend to $0.90 from $0.84 per share and moved its traditional increase from Q2 to Q1, effectively boosting the year over year cash dividend by 9.1%. For details on the fourth quarter and the full year, please refer to Figures 1 and 2.

Outlook

The company reiterated its 2005 EPS growth target of 6%, suggesting earnings consistent with our $1.50 estimate. Earnings will benefit from a full year of incremental 27,000 barrels/day of capacity at Trans Mountain mainline (in-service October 1, 2004), a 108,000 barrels/day capacity expansion at Express Pipeline (expected in service April 1, 2005) and continued customer growth at its natural gas distribution service areas. The company is not without its challenges however, given a 12 basis point reduction in Terasen Gas' allowed ROE to 9.03% in 2005 and lower first quarter 2005 volumes on Trans Mountain due to refinery customer turnarounds and the recent fire at Suncor's oilsands plant. We are leaving our 2005 and 2006 EPS estimates unchanged at $1.50 and $1.60, respectively.

Issues

- BC Utilities Commission approve Terasen Gas Vancouver Island's proposal of a $106 million LNG storage facility near Nanaimo.
    - The approval is subject to:
        - A long-term transportation agreement with BC Hydro
        - Engineering, procurement & construction below 110% of $75.9 million estimate
        - Construction to begin by December 31, 2005
    - Planned in-service for 2007/2008 winter period
- Mark to market gain of $3.3 million or $0.02 per share for the year in Clean Energy and recorded in "other"
- Pipeline expansions
    - 27,000 barrels/day Trans Mountain expansion in service October 1, 2004
    - 108,000 barrels/day, $110 million Express expansion by April 01, 2005 (on-time & under budget)
    - TMX (potential doubling of Trans Mountain capacity line in three phases)
        - Open season for first phase could be mid-2005
- 2005 capex of $350 million versus $154 million in 2004
    - $240 million in Natural Gas Distribution
        - $50 million to unwind leases at Coastal facilities and bring into rate base
        - $23 million on LNG storage facility

- $50 million in Petroleum Transportation
    - $12 million on TMX project development
    - $7 million Corridor de-bottlenecking
- $50 million in Water and Utility Services
    - $10-20 million potential acquisitions
- $10 million in Other

Figure 1: Terasen Inc. fourth quarter financial details

	Fourth Quarter 2003	Fourth Quarter 2004	Favourable/ (Unfavourable)	
Net Earnings (Loss): (mlns)				
Natural gas distribution				
Terasen Gas	$37.5	$36.2	(3%)	Change in allocating tax expense in quarter causes restatement of 4Q03 earnings: no impact to full year results.
Terasen Gas Vancouver Island	$7.3	$6.4	(12%)	Lower allowed ROE and no sharing mechanism in 2004.
	$44.8	$42.6	(5%)	
Petroleum transportation				
Trans Mountain	$10.0	$11.2	12%	
Corridor	$4.0	$3.8	(5%)	
Express System	$3.9	$4.9	26%	Higher throughput and 2003 earnings impacted by F/X loss.
	$17.9	$19.9	11%	
Water & Utility Services	$0.4	$0.7	75%	First and fourth quarters typically generate lower revenue & earnings.
Other businesses	($7.0)	($9.3)	(33%)	Includes $1 mln mark to market hedging loss at Clean Energy.
Total Recurring Income	**$56.1**	**$53.2**	(5%)	
Non-recurring items	($5.2)	$0.0	n.m.	
Net Income	$50.9	$53.2	5%	
Net Earnings (Loss) Per Share:				
Natural gas distribution				
Terasen Gas	$0.36	$0.34	4%	
Terasen Gas Vancouver Island	$0.07	$0.06	13%	
	$0.43	**$0.41**	6%	
Petroleum transportation				
Trans Mountain	$0.10	$0.11	11%	
Corridor	$0.04	$0.04	(6%)	
Express System	$0.04	$0.05	25%	
	$0.17	**$0.19**	10%	
Water & Utility Services	$0.00	$0.01		
Other businesses	($0.07)	($0.09)	(32%)	
Reported EPS before unusual items	**$0.54**	**$0.51**	5%	New accounting change allocating taxes distorts 4Q EPS. Full year in-line with expectations.
Unusual items	(0.05)	-	n.m.	
Reported EPS after unusual items	**$0.49**	**$0.51**	(5%)	
Average Shares O/S (mlns)	104.1	105.0	(1%)	Stock split effective June 2004.
Book Value	$13.02	$13.54	4%	
Number of Gas Customers	859,183	875,166	2%	
Gas Volumes (petajoules)				
Sales	43.9	41.4	-6%	
Transportation	20.2	19.6	-3%	
Throughput under fixed-price contracts	4.0	5.5	38%	
Total	68.1	66.5	-2%	
Oil Pipeline Deliveries (bbls/day)				
Canadian mainline	160,907	129,200	-20%	
US mainline	57,567	89,300	55%	Strong volumes in higher margin area; up 2.8% from Q3.
Express System[1]	173,871	175,400	1%	
Total	392,345	393,900	0%	

Source: Canaccord Research

Figure 2: Terasen Inc. 2004 full year financial details

	Full Year			
	2003	**2004**	**Favourable/ (Unfavourable)**	
Net Earnings (Loss): (mlns)				
Natural gas distribution				
Terasen Gas	$72.6	$69.7	(4%)	Integration of Terasen Gas & TGVI achieves operating efficiencies. Partly offset by lower allowed ROE and absence of sharing mechanism.
Terasen Gas Vancouver Island	$25.1	$26.2	4%	BCUC approves construction of $100 mln LNG storage facility subject to transportation agreement with BC Hydro.
	$97.7	$95.9	(2%)	
Petroleum transportation				
Trans Mountain	35.8	39.4	10%	Increased throughput.
Corridor	10.7	15.6	46%	Increased throughput.
Express System	9.7	15.9	64%	Contribution for full year; expansion expected to be completed in April/05.
	56.2	70.9	26%	
Water & Utility Services	$4.1	$6.6	61%	Driven by organic and acquisition growth.
Other businesses	($21.2)	($23.6)	11%	Includes $3.3 mln mark to market hedging gain in Clean Energy.
Total Recurring Income	**$136.8**	**$149.8**	9%	
Non-recurring items	($4.1)	$0.0	n.m.	
Net Income	$132.7	$149.8	(13%)	
Net Earnings (Loss) Per Share:				
Natural gas distribution				
Terasen Gas	$0.70	$0.67	(5%)	
Terasen Gas Vancouver Island	$0.24	$0.25	3%	
	$0.94	$0.92	(3%)	
Petroleum transportation				
Trans Mountain	$0.34	$0.38	9%	
Corridor	$0.10	$0.15	n.m.	
Express System	$0.09	$0.15	n.m.	
	$0.54	$0.68	25%	
Water & Utility Services	$0.04	$0.06		
Other businesses	($0.20)	($0.23)	10%	
Reported EPS before unusual items	**$1.32**	**$1.43**	9%	6% EPS growth target.
Unusual items	($0.04)	$0.00	(100%)	
Reported EPS after unusual items	**$1.28**	**$1.43**	12%	Increases dividend 7.1% to $0.90/share.
Average Shares O/S (mlns)	103.8	104.7	1%	
Gas Volumes (petajoules)				
Sales	125.6	121.6	(3%)	
Transportation	62.3	72	16%	
Throughput under fixed-price contracts	22.5	17.5	(22%)	
Total	210.4	211.1	0%	
Oil Pipeline Deliveries (bbls/day)				
Canadian mainline	161,500	144,400	(11%)	
US mainline	54,600	91,700	68%	
Express System	171,200	175,300	2%	
Total	387,300	411,400	6%	

Source: Canaccord Research

Investment risks

Some of the specific risk factors that pertain to the projected six to 12 month stock price target for Terasen are as follows: a) Terasen could be exposed to significant operational disruptions and environmental liability in the event of a petroleum product spill or an accident involving natural gas; b) The unprecedented increase in the market price of natural gas in 2000 significantly eroded the competitive advantage of natural gas relative to alternative sources of energy, notably electricity, in British Columbia; c) Terasen's earnings are sensitive to interest rates in several ways. Some outstanding debt has net exposure to short-term interest rates, and is not subject to regulatory interest deferral accounts. In addition, the allowed returns on equity for BC Gas Utility, Centra Gas and Corridor are determined by formulae that result in lower allowed ROEs if long-term Canada bond yields decline; d) A component of BC Gas' earnings, principally earnings from Trans Mountain 's U.S. pipeline and the Express System, are denominated in U.S. dollars. As a result, an annual decline of $0.10 in the price of a U.S. dollar in Canadian dollars would be expected to result in a decrease in annual consolidated net earnings of approximately C$1 million; e) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity.

An analyst has visited the issuer's head office in Vancouver. No payment or reimbursement was received from the issuer for the related travel costs.

IMPORTANT DISCLOSURES

Distribution of Ratings

Global Stock Ratings Distribution
(as of February 9, 2005)

	Coverage Universe	
Rating	**#**	**%**
Buy	124	39.0%
Speculative Buy	56	17.6%
Hold	111	34.9%
Sell	27	8.5%
Total	318	100.0%

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Research Disclosures as of February 18, 2005

Company	Disclosure
Terasen Inc.	None

Research Disclosure Legend

1. In the past 12 months, Canaccord Capital Corporation or its affiliates have received compensation for investment banking services from the subject company.
2. In the past 12 months, Canaccord Capital Corporation, its partners, affiliates, officers or directors, or any analyst involved in the preparation of this report has provided services to the subject company for remuneration other than normal course investment advisory or trade execution services.
3. Canaccord Capital Corporation and/or its affiliates expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
4. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a long position in the shares or derivatives of the subject company.
5. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a short position in the shares or derivatives of the subject company.
6. A member of the research analyst's household serves as an officer, director or advisory board member of the subject company.
7. As of the month end immediately preceding the date of publication of this report, or the prior month end if publication is within 10 days following a month end, Canaccord Capital Corporation and its affiliates, in the aggregate, beneficially owned 1% or more of any class of equity securities of the subject company.
8. A partner, director, officer, employee or agent of Canaccord Capital Corporation, or a member of his/her household, is an officer, director or advisor, board member of the subject company and/or one of its subsidiaries, and such person's name is disclosed below.
9. Canaccord Capital Corporation makes a market in the securities of the subject company.
10. Other specific disclosures: ________________________________

The analysts who are responsible for the preparation of this report are employed by Canaccord Capital Corporation, a securities broker-dealer with principal offices located in Vancouver, Toronto, Montreal, Calgary (all Canada) and London (UK).

The analysts who are responsible for the preparation of this report have received (or will receive) compensation based upon (among other things) the investment banking revenues of Canaccord Capital Corporation or its affiliates, including Canaccord Capital Corporation USA, Inc. However, such analysts have not received, and will not receive, compensation that is directly based upon one or more specific investment banking activities or transactions.

In the event that this is a compendium report (covering six or more subject companies), Canaccord Capital Corporation and its affiliates may choose to provide specific disclosures of the subject companies by reference as well as its policies and procedures regarding the dissemination of research. To access this material, please send a request to Canaccord Capital Corporation, Attn: Disclosures, P.O. Box 6, Suite 1200, 320 Bay Street, Toronto, Ontario, Canada M5H 4A6 (Canadian residents) or to Canaccord Capital Corporation USA, Inc., Attn: Disclosures, 316 Cary Point Drive, Cary, Illinois, 60013 (US residents).

Analyst Certification

Each analyst of Canaccord Capital Corporation whose name appears on the front page of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within such analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in the research report.

For further disclosures, please visit our website at www.canaccord.com.

The information contained in this report has been compiled by Canaccord Capital Corporation ("CCC") from sources believed to be reliable, but no representation or warranty, express or implied, is made by CCC, its affiliates or any other person as to its accuracy, completeness or correctness. All estimates, opinions and other information contained in this report constitute CCC's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

CCC and its affiliates may have an investment banking or other relationship with the company that is the subject of this report and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, CCC or their affiliates may at any time have a long or short position in any such securities, related securities or in options, futures or other derivative instruments based thereon.

This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, neither CCC, its affiliates nor any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of the information contained in this report.

For Canadian Residents: This report has been approved by CCC which accepts responsibility for this report and its dissemination in Canada. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC in their particular jurisdiction. **For US Residents:** Canaccord Capital Corporation USA, Inc. ("CCC US"), a US registered broker-dealer, accepts responsibility for this report and its dissemination in the United States. This report is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC US. **For United Kingdom Residents:** This report has been approved for the purposes of section 21 of the UK's Financial Services and Markets Act 2000 by Canaccord Capital (Europe) Limited ("CCE"), which is regulated and authorized by the Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. CCE accepts responsibility for this report and its dissemination in the United Kingdom. The information contained in this report is only intended for distribution in the UK to persons who qualify as intermediate customers or market counterparties, as defined under the rules of the FSA. **Additional information is available on request.**

Terasen Inc.

(TER : TSX : CAD$26.84 | Issued 104.8M)

HOLD | Target price: CAD$28.00

Bob Hastings
(604) 643-0177
bob_hastings@canaccord.com
Juan Plessis
(604) 643-0181
juan_plessis@canaccord.com

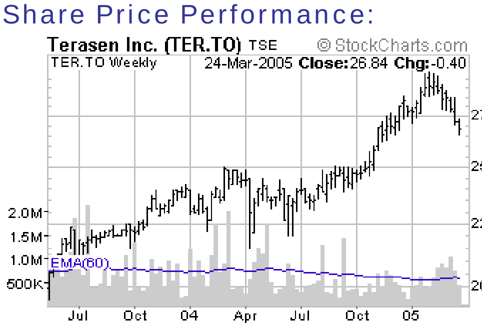
Company Statistics:

Recommendation:	**HOLD**
12-month target price:	$28.00
Price:	$26.84
52 Week Range:	$21.50-29.91
Avg. Daily Vol. (000):	45.4
Market Capitalization (M):	$3,075.9
Shares Out. (M) basic:	104.8
Current Dividend Yield:	3.1%
Current Dividend/Share:	$0.84
Bk Value/Shr:	$13.06

Earnings Summary:

FYE Dec	2004A	2005E	2006E
EPS:	$1.40	$1.50	$1.60
P/E:	19.2X	17.9X	16.8X
CFPS:	$2.90	$2.95	$3.05
P/CF:	9.3x	9.1x	8.8x

Share Price Performance:



Company Description:

Terasen provides energy and utility services in western Canada and the U.S. Pacific Northwest through two regulated business segments. The Natural Gas Distribution business includes transmission and distribution of natural gas to customers in BC and provides transportation services through the pipeline. The Petroleum Transportation business transports oil and refined products from Alberta to BC and delivers crude oil to refineries in the U.S.

All amounts in CAD unless otherwise noted.

OIL THROUGHPUT FORECAST

Event: Terasen filed an updated oil throughput forecast for Trans Mountain Pipe with the National Energy Board (NEB) last week. The company continues to see high demand supporting expansion, with a poor first quarter in 2005 due to refinery downtime. Regardless, the company has a need for new pipeline facilities to the west coast as it has received solid expressions of interest from shippers.

Impact: The negative earnings impact from the lower first quarter volumes might be around $0.10 in the first quarter. However, there should be little impact on the stock as the company had announced in its fourth quarter conference call that first quarter volumes would be low and that it still expected to achieve its 6% targeted earnings growth. In addition, the demand for long-term throughput is increasing and a new round of expansion is coming.

Valuation: We are maintaining our HOLD rating and $28.00 target price on the shares of Terasen. Our target price is derived from a combination of valuation metrics which include earnings and dividend yields relative to long term interest rates, dividend discount models, and earnings and cash flow multiples relative both to historical valuation and its utility and pipeline peers.

Summary

In its Priority Access Application filed with the NEB, Terasen gave an update on its first quarter oil throughput volumes. In the application, it appears first quarter volumes might be just over 150,000 barrels/day versus 239,100 barrels/day in the fourth quarter and 240,400 barrels/day in the first quarter last year.

The volumes are low due to refinery issues in the first quarter that are temporary in nature. Consequently, there should be no continuing impact on volumes or on Terasen's earnings longer term. The impact in the first quarter could be around $0.10 per share, at the high end of our expectations.

While this may modestly impact our earnings estimate for the year, we will not be revising our earnings until we see how well Terasen's other operations are performing, as it appears that the company is having good performance generally. Given this is a temporary situation beyond the company's control and that producers have expressed an interest for further expansion that should continue to see solid long-term earnings growth for the company, we do not expect the lower volumes to impact the stock.

Of greater importance to the stock are both the direction of long-term interest rates and the general stock market. We have assumed somewhat higher interest rates in our target price forecast, with the risk being that interest rates jump more than 50 basis points on the long end. As for the direction of the stock market, utilities normally are viewed as being somewhat defensive in a declining market, declining by less than the overall market. However, they do decline. We remain firm on our $28.00 target price and will watch for any significant price weakness for a buying opportunity.

Investment risks

Some of the specific risk factors that pertain to the projected six to 12 month stock price target for Terasen are as follows: a) Terasen could be exposed to significant operational disruptions and environmental liability in the event of a petroleum product spill or an accident involving natural gas; b) The unprecedented increase in the market price of natural gas in 2000 significantly eroded the competitive advantage of natural gas relative to alternative sources of energy, notably electricity, in British Columbia; c) Terasen's earnings are sensitive to interest rates in several ways. Some outstanding debt has net exposure to short-term interest rates, and is not subject to regulatory interest deferral accounts. In addition, the allowed returns on equity for BC Gas Utility, Centra Gas and Corridor are determined by formulae that result in lower allowed ROEs if long-term Canada bond yields decline; d) A component of BC Gas' earnings, principally earnings from Trans Mountain 's US pipeline and the Express System, are denominated in US dollars. As a result, an annual decline of $0.10 in the price of a US dollar in Canadian dollars would be expected to result in a decrease in annual consolidated net earnings of approximately C$1 million; e) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity.

An analyst has visited the issuer's head office in Vancouver. No payment or reimbursement was received from the issuer for the related travel costs.

IMPORTANT DISCLOSURES

Distribution of Ratings

Global Stock Ratings Distribution
(as of March 7, 2005)

	Coverage Universe	
Rating	**#**	**%**
Buy	116	35.9%
Speculative Buy	55	17.0%
Hold	121	37.5%
Sell	31	9.6%
	323	100.0%

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Research Disclosures as of March 28, 2005

Company	Disclosure
Terasen Inc.	None

Research Disclosure Legend

1. In the past 12 months, Canaccord Capital Corporation or its affiliates have received compensation for investment banking services from the subject company.
2. In the past 12 months, Canaccord Capital Corporation, its partners, affiliates, officers or directors, or any analyst involved in the preparation of this report has provided services to the subject company for remuneration other than normal course investment advisory or trade execution services.
3. Canaccord Capital Corporation and/or its affiliates expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
4. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a long position in the shares or derivatives of the subject company.
5. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a short position in the shares or derivatives of the subject company.
6. A member of the research analyst's household serves as an officer, director or advisory board member of the subject company.
7. As of the month end immediately preceding the date of publication of this report, or the prior month end if publication is within 10 days following a month end, Canaccord Capital Corporation and its affiliates, in the aggregate, beneficially owned 1% or more of any class of equity securities of the subject company.
8. A partner, director, officer, employee or agent of Canaccord Capital Corporation, or a member of his/her household, is an officer, director or advisor, board member of the subject company and/or one of its subsidiaries, and such person's name is disclosed below.
9. Canaccord Capital Corporation makes a market in the securities of the subject company.
10. Other specific disclosures: ______________________________________

The analysts who are responsible for the preparation of this report are employed by Canaccord Capital Corporation, a securities broker-dealer with principal offices located in Vancouver, Toronto, Montreal, Calgary (all Canada) and London (UK).

The analysts who are responsible for the preparation of this report have received (or will receive) compensation based upon (among other things) the investment banking revenues of Canaccord Capital Corporation or its affiliates, including Canaccord Capital Corporation USA, Inc. However, such analysts have not received, and will not receive, compensation that is directly based upon one or more specific investment banking activities or transactions.

In the event that this is a compendium report (covering six or more subject companies), Canaccord Capital Corporation and its affiliates may choose to provide specific disclosures of the subject companies by reference as well as its policies and procedures regarding the dissemination of research. To access this material, please send a request to Canaccord Capital Corporation, Attn: Disclosures, P.O. Box 6, Suite 1200, 320 Bay Street, Toronto, Ontario, Canada M5H 4A6 (Canadian residents) or to Canaccord Capital Corporation USA, Inc., Attn: Disclosures, 316 Cary Point Drive, Cary, Illinois, 60013 (US residents).

Analyst Certification

Each analyst of Canaccord Capital Corporation whose name appears on the front page of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within such analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in the research report.

For further disclosures, please visit our website at www.canaccord.com.

The information contained in this report has been compiled by Canaccord Capital Corporation ("CCC") from sources believed to be reliable, but no representation or warranty, express or implied, is made by CCC, its affiliates or any other person as to its accuracy, completeness or correctness. All estimates, opinions and other information contained in this report constitute CCC's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

CCC and its affiliates may have an investment banking or other relationship with the company that is the subject of this report and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, CCC or their affiliates may at any time have a long or short position in any such securities, related securities or in options, futures or other derivative instruments based thereon.

This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, neither CCC, its affiliates nor any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of the information contained in this report.

For Canadian Residents: This report has been approved by CCC which accepts responsibility for this report and its dissemination in Canada. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC in their particular jurisdiction. **For US Residents:** Canaccord Capital Corporation USA, Inc. ("CCC US"), a US registered broker-dealer, accepts responsibility for this report and its dissemination in the United States. This report is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC US. **For United Kingdom Residents:** This report has been approved for the purposes of section 21 of the UK's Financial Services and Markets Act 2000 by Canaccord Capital (Europe) Limited ("CCE"), which is regulated and authorized by the Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. CCE accepts responsibility for this report and its dissemination in the United Kingdom. The information contained in this report is only intended for distribution in the UK to persons who qualify as intermediate customers or market counterparties, as defined under the rules of the FSA. **Additional information is available on request.**

Terasen Inc.

(TER : TSX : C$27.45 | Issued 105.3M)

HOLD | Target price: C$28.00

Bob Hastings
(604) 643-0177
bob_hastings@canaccord.com
Juan Plessis
(604) 643-0181
juan_plessis@canaccord.com

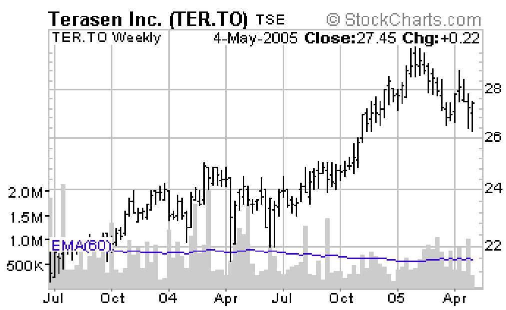
Company Statistics:

Recommendation:	**HOLD**
12-month target price:	C$28.00
52-week Range:	C$22.00-C$29.91
Market Capitalization (M):	C$2,890.5
Price:	C$27.45
Shares Out. (M) basic:	105.3
Current Dividend Yield:	3.3%
Current Dividend/Share:	C$0.90

Earnings Summary:

FYE Dec	2004A	2005E	2006E
EPS:	$1.40	$1.50	$1.60
P/E:	19.6x	18.3x	17.2x
CFPS:	$2.83	$3.03	$3.13
P/CF:	9.7x	9.1x	8.8x

Share Price Performance:



Company Description:

Terasen provides energy and utility services in western Canada and the U.S. Pacific Northwest through two regulated business segments. The Natural Gas Distribution business includes transmission and distribution of natural gas to customers in BC and provides transportation services through the pipeline. The Petroleum Transportation business transports oil and refined products from Alberta to BC and delivers crude oil to refineries in the U.S.

All amounts in C$ unless otherwise noted.

STEADY AS SHE GOES

Event: Terasen reported first quarter results that were in line with expectations.

Impact: None

Valuation: We are maintaining our HOLD rating and $28.00 target price on the shares of Terasen Inc. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long term interest rates, dividend discount models, and earnings and cash flow multiples relative both to historical valuation and its utility and pipeline peers.

Summary

Terasen reported first quarter recurring income of $0.63 per share versus $0.65 last year and in line with the $0.64 consensus estimate. As expected, volume throughput on the Trans Mountain pipeline declined in the first quarter due to refinery turnarounds and oil production outages at the Alberta oil sands. Volumes on the Express System were also lower due to refinery outages. Income from natural gas distribution increased slightly as operating efficiencies, lower interest and effective tax rates offset the impact of a lower allowed return on equity. For additional details on the first quarter results, please see Figures 1 and 2.

Outlook

The company is nothing if not consistent. During its quarterly conference call, Terasen once again reiterated its 2005 EPS growth target of 6%, which implies earnings consistent with our $1.50 estimate. Earnings growth will stem from 27,000 barrels/day of incremental capacity at Trans Mountain (October 1, 2004), 108,000 barrels/day of capacity expansion at Express Pipeline (April 19, 2005), and customer growth in its natural gas distribution franchise area (about 1.8% annual growth). This growth will help offset the challenge of a 12 basis point reduction in ROE at Terasen Gas this year. We are making no changes to our 2005 and 2006 EPS estimates of $1.50 and $1.60, respectively.

Issues

- Company maintains guidance of 6% EPS growth in 2005
- Change in accounting for Clean Energy
    - Moved to an equity basis from a proportional consolidation basis
- Mark to market gain of $2.6 million or $0.02 per share for Clean Energy and recorded in "other"
- Business Development
    - Express expansion completed April 19, 2005
        - US $100 million, 10% under budget
        - Added 108,000 bbls/day of throughput capacity
    - Vancouver Island LNG storage facility - $100 million
        - Currently working with BC Hydro to obtain a Transportation Service Agreement to serve the Duke Power Point project
    - Corridor Expansion - Costs Escalating
        - Phase I increases capacity by 35,000 bbls/day
            - $8.4 million, was $6.5 million
            - In-service in the fall of 2005
        - Phase II currently under review
            - Potential expansion of 110,000 bbls/day
            - Expected in-service date of 2009
            - Estimated cost of $700-800 million, was $500-600 million in annual report, a 33-40% increase
    - TMX Expansion (potential doubling of Trans Mountain capacity line in three phases)
        - Have received support from customers through a non-binding expression of interest process
- Paid $49.4 million in January 2005 to BCG Coastal Facilities Trust to unwind synthetic lease and bring Coastal Facilities assets into rate base beginning 2005

Figure 1: Terasen first quarter income statement and capital structure

	First Quarter 2004	First Quarter 2005	Favourable/ (Unfavourable)
Revenues			
Natural gas distribution	551.5	570.2	3%
Petroleum transportation	55.8	45.9	(18%)
Water and utility services	34.2	42.7	25%
Other activities	7.2	8.5	18%
	648.7	667.3	3%
Expenses			
Cost of natural gas	(351.9)	(372.1)	6%
Cost of revenues from water and utility services	(27.7)	(31.3)	13%
Operation and maintenance	(74.0)	(74.1)	0%
Depreciation and amortization	(36.0)	(36.9)	2%
Property and other taxes	(18.1)	(18.0)	(1%)
	(507.7)	(532.4)	5%
Operating Income	**141.0**	**134.9**	(4%)
Financing costs	(45.1)	(45.3)	0%
EBIT	95.9	89.6	(7%)
Share of earnings of Express Sytem	3.8	3.4	(11%)
EBT	99.7	93.0	(7%)
Income taxes	(31.8)	(26.7)	(16%)
Net earnings	67.9	66.3	(2%)

Strong growth at Terasen Waterworks and addition of Fairbanks Sewer and Water

$2.6 mln vs $1.6 mln mark to market gains of Clean Energy ownership; now accounting for Clean Energy on equity basis.

Impacted by temporary oil sands outages

Capital Structure	**Mar. 31, 2005**	
Long Term Debt	$2,023	57%
Capital Securities	$125	4%
Shareholder's Equity	$1,419	40%
Total Capital	$3,566	100%

Maintains strong balance sheet; up from 37% in Q1/04

Source: Canaccord Capital

Figure 2: Terasen first quarter earnings per share and supplemental information

Net Earnings (Loss) Per Share:				
Natural gas distribution				
Terasen Gas	$0.46	$0.47	(1%)	Lower ROE offset by lower effective tax rate and reduced financing costs
Terasen Gas Vancouver Island	$0.06	$0.06	1%	
	$0.52	**$0.53**	(1%)	
Petroleum transportation				
Trans Mountain	$0.10	$0.05	(49%)	Alberta oil sands production outages and refinery turnarounds reduced throughput
Corridor	$0.04	$0.03	n.m.	
Express System	$0.04	$0.04	n.m.	$100 mln expansion completed in April/05
	$0.18	**$0.12**	(31%)	
Water and utility services	$0.00	$0.01		
Other businesses	($0.05)	($0.03)	44%	
Reported EPS before unusual items	**$0.65**	**$0.63**	3%	
Unusual items	-	-	n.m.	Slightly below 64¢ consensus estimate; on track to achieve our $1.50 estimate
Reported EPS after unusual items	**$0.65**	**$0.63**	3%	
Average Shares O/S (mlns)	104.4	105.3	(1%)	Per share numbers adjusted for June 2004 stock split
Book Value	$13.15	$13.47	2%	
Number of Gas Customers	862,631	878,560	2%	3,394 new customers added in Q1
Gas Volumes (petajoules)				
Sales	49.3	48.8	(1%)	
Transportation	21.9	21.6	(1%)	
Throughput under fixed-price contracts	4.2	4.7	12%	
Total	75.4	75.1	(0%)	
Oil Pipeline Deliveries (bbls/day)				
Canadian mainline	147,100	125,500	(15%)	Refinery outages in Q1; back to full throughput in Q2 (May nominations were > 60% above capacity)
US mainline	93,300	44,500	(52%)	
Express System	171,300	166,900	(3%)	
Total	411,700	336,900	(18%)	

Source: Canaccord Capital

Investment risks

Some of the specific risk factors that pertain to the projected 6-12 month stock price target for Terasen are as follows: 1) Terasen could be exposed to significant operational disruptions and environmental liability in the event of a petroleum product spill, an accident involving natural gas or problems with their water and sewer distribution systems; 2) The unprecedented increase in the market price of natural gas in 2000 significantly eroded the competitive advantage of natural gas relative to alternative sources of energy, notably electricity, in British Columbia; 3) Terasen's earnings are sensitive to interest rates in several ways; Some outstanding debt has net exposure to short-term interest rates, and is not subject to regulatory interest deferral accounts; In addition, the allowed returns on equity for Terasen Gas, Terasen Gas Vancouver Island and Corridor are determined by formulae that result in lower allowed ROEs if long-term Canada bond yields decline; 4) A component of Terasen's earnings, principally earnings from Trans Mountain's U.S. pipeline and the Express System, are denominated in US dollars. As a result, an annual decline of $0.10 in the price of a US dollar in Canadian dollars would be expected to result in a decrease in annual consolidated net earnings of approximately C$1.1 million; 5) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity.

An analyst has visited the issuer's head office in Vancouver. No payment or reimbursement was received from the issuer for the related travel costs.

IMPORTANT DISCLOSURES

Distribution of Ratings

Global Stock Ratings Distribution
(as of April 8, 2005)

	Coverage Universe	
Rating	**#**	**%**
Buy	130	38.2%
Speculative Buy	56	16.5%
Hold	119	35.0%
Sell	35	10.3%
	340	100.0%

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Research Disclosures as of May 5, 2005

Company	Disclosure
Terasen Inc.	None

Research Disclosure Legend

1. In the past 12 months, Canaccord Capital Corporation or its affiliates have received compensation for investment banking services from the subject company.
2. In the past 12 months, Canaccord Capital Corporation, its partners, affiliates, officers or directors, or any analyst involved in the preparation of this report has provided services to the subject company for remuneration other than normal course investment advisory or trade execution services.
3. Canaccord Capital Corporation and/or its affiliates expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
4. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a long position in the shares or derivatives of the subject company.
5. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a short position in the shares or derivatives of the subject company.
6. A member of the research analyst's household serves as an officer, director or advisory board member of the subject company.
7. As of the month end immediately preceding the date of publication of this report, or the prior month end if publication is within 10 days following a month end, Canaccord Capital Corporation and its affiliates, in the aggregate, beneficially owned 1% or more of any class of equity securities of the subject company.
8. A partner, director, officer, employee or agent of Canaccord Capital Corporation, or a member of his/her household, is an officer, director or advisor, board member of the subject company and/or one of its subsidiaries, and such person's name is disclosed below.
9. Canaccord Capital Corporation makes a market in the securities of the subject company.
10. Other specific disclosures: ____

The analysts who are responsible for the preparation of this report are employed by Canaccord Capital Corporation, a securities broker-dealer with principal offices located in Vancouver, Toronto, Montreal, Calgary (all Canada) and London (UK).
The analysts who are responsible for the preparation of this report have received (or will receive) compensation based upon (among other things) the investment banking revenues of Canaccord Capital Corporation or its affiliates, including Canaccord Capital Corporation USA, Inc. However, such analysts have not received, and will not receive, compensation that is directly based upon one or more specific investment banking activities or transactions.
In the event that this is a compendium report (covering six or more subject companies), Canaccord Capital Corporation and its affiliates may choose to provide specific disclosures of the subject companies by reference as well as its policies and procedures regarding the dissemination of research. To access this material, please send a request to Canaccord Capital Corporation, Attn: Disclosures, P.O. Box 6, Suite 1200, 320 Bay Street, Toronto, Ontario, Canada M5H 4A6 (Canadian residents) or to Canaccord Capital Corporation USA, Inc., Attn: Disclosures, 316 Cary Point Drive, Cary, Illinois, 60013 (US residents).

Analyst Certification

Each analyst of Canaccord Capital Corporation whose name appears on the front page of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within such analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in the research report.

For further disclosures, please visit our website at www.canaccord.com.

The information contained in this report has been compiled by Canaccord Capital Corporation ("CCC") from sources believed to be reliable, but no representation or warranty, express or implied, is made by CCC, its affiliates or any other person as to its accuracy, completeness or correctness. All estimates, opinions and other information contained in this report constitute CCC's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility or liability.
CCC and its affiliates may have an investment banking or other relationship with the company that is the subject of this report and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, CCC or their affiliates may at any time have a long or short position in any such securities, related securities or in options, futures or other derivative instruments based thereon.
This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, neither CCC, its affiliates nor any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of the information contained in this report.
For Canadian Residents: This report has been approved by CCC which accepts responsibility for this report and its dissemination in Canada. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC in their particular jurisdiction. **For US Residents:** Canaccord Capital Corporation USA, Inc. ("CCC US"), a US registered broker-dealer, accepts responsibility for this report and its dissemination in the United States. This report is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC US. **For United Kingdom Residents:** This report has been approved for the purposes of section 21 of the UK's Financial Services and Markets Act 2000 by Canaccord Capital (Europe) Limited ("CCE"), which is regulated and authorized by the Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. CCE accepts responsibility for this report and its dissemination in the United Kingdom. The information contained in this report is only intended for distribution in the UK to persons who qualify as intermediate customers or market counterparties, as defined under the rules of the FSA. **Additional information is available on request.**

Terasen Inc.

(TER : TSX : C$30.08 | Issued 105.0M)

HOLD | Target price: C$29.00

Bob Hastings
(604) 643-0177
bob_hastings@canaccord.com
Juan Plessis
(604) 643-0181
juan_plessis@canaccord.com

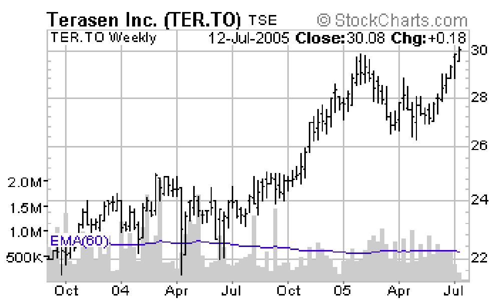
Company Statistics:

Recommendation:	**HOLD**
12-month target price:	C$29.00
52-week Range:	C$23.07-29.91
Market Capitalization (M):	C$3,158.4
Price:	C$30.08
Avg. Daily Vol. (000):	122.6
Shares Out. (M) basic:	105.0
Current Dividend Yield:	2.8%
Current Dividend/Share:	C$0.84

Earnings Summary:

FYE Dec	2004A	2005E	2006E
EPS:	$1.40	$1.50	$1.55
P/E:	21.5x	20.1x	19.4x
CFPS:	$2.83	$3.03	$3.08
P/CF:	10.6x	9.9x	9.8x

Share Price Performance:



Company Description:

Terasen provides energy and utility services in western Canada and the U.S. Pacific Northwest through two regulated business segments. The Natural Gas Distribution business includes transmission and distribution of natural gas to customers in BC and provides transportation services through the pipeline. The Petroleum Transportation business transports oil and refined products from Alberta to BC and delivers crude oil to refineries in the U.S.

All amounts in C$ unless otherwise noted.

FILES TMX EXPANSION APPLICATION WITH NEB

Event:	Terasen announced that it has filed with the National Energy Board (NEB) an application to expand the capacity of the Trans Mountain pipeline system.
Impact:	Mildly positive.
Valuation:	We are maintaining our HOLD rating and $29.00 target price on the shares of Terasen Inc. Our target price is derived from a combination of valuation metrics which include earnings and dividend yields relative to long term interest rates, dividend discount models, and earnings and cash flow multiples relative both to historical valuation and its utility and pipeline peers.

Summary

Terasen announced that it has filed an application with the NEB to increase the capacity of its Trans Mountain crude oil pipeline system by 35,000 barrels per day to 260,000 barrels per day. The filing was expected as the company had announced shipper support earlier this year. Earnings potential from this expansion, if approved, could be around a nickel per share annually of which a portion may potentially be realized in 2006 if Terasen and shippers agree on toll stability. We view this news as a longer-term positive for Terasen. The project is expected to cost $210 million dollars and be in-service in the first quarter of 2007 pending regulatory approval. The expansion will involve building new and upgrading existing pump stations along the pipeline between Edmonton, Alberta and Burnaby, BC. This is the first phase of expansion for the Trans Mountain pipeline system and sets the stage for future pipeline expansion including the construction of a 30" pipeline loop between Hinton, Alberta and Valemount, BC, which Terasen plans to pursue later this summer.

Investment risks

Some of the specific risk factors that pertain to the projected six to 12 month stock price target for Terasen are as follows: a) Terasen could be exposed to significant operational disruptions and environmental liability in the event of a petroleum product spill or an accident involving natural gas; b) The unprecedented increase in the market price of natural gas in 2000 significantly eroded the competitive advantage of natural gas relative to alternative sources of energy, notably electricity, in British Columbia; c) Terasen's earnings are sensitive to interest rates in several ways. Some outstanding debt has net exposure to short-term interest rates, and is not subject to regulatory interest deferral accounts. In addition, the allowed returns on equity for BC Gas Utility, Centra Gas and Corridor are determined by formulae that result in lower allowed ROEs if long-term Canada bond yields decline; d) A component of BC Gas' earnings, principally earnings from Trans Mountain 's US pipeline and the Express System, are denominated in US dollars. As a result, an annual decline of $0.10 in the price of a US dollar in Canadian dollars would be expected to result in a decrease in annual consolidated net earnings of approximately C$1 million; e) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity.

An analyst has visited the issuer's head office in Vancouver. No payment or reimbursement was received from the issuer for the related travel costs costs.

IMPORTANT DISCLOSURES

Distribution of Ratings

Global Stock Ratings Distribution
(as of July 11, 2005)

	Coverage Universe	
Rating	**#**	**%**
Buy	138	46.3%
Speculative Buy	41	13.8%
Hold	93	31.2%
Sell	26	8.7%
	298	100.0%

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Research Disclosures as of July 13, 2005

Company	Disclosure
Terasen Inc.	None

Research Disclosure Legend

1. In the past 12 months, Canaccord Capital Corporation or its affiliates have received compensation for investment banking services from the subject company.
2. In the past 12 months, Canaccord Capital Corporation, its partners, affiliates, officers or directors, or any analyst involved in the preparation of this report has provided services to the subject company for remuneration other than normal course investment advisory or trade execution services.
3. Canaccord Capital Corporation and/or its affiliates expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
4. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a long position in the shares or derivatives of the subject company.
5. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report, has a short position in the shares or derivatives of the subject company.
6. A member of the research analyst's household serves as an officer, director or advisory board member of the subject company.
7. As of the month end immediately preceding the date of publication of this report, or the prior month end if publication is within 10 days following a month end, Canaccord Capital Corporation and its affiliates, in the aggregate, beneficially owned 1% or more of any class of equity securities of the subject company.
8. A partner, director, officer, employee or agent of Canaccord Capital Corporation, or a member of his/her household, is an officer, director or advisor, board member of the subject company and/or one of its subsidiaries, and such person's name is disclosed below.
9. Canaccord Capital Corporation makes a market in the securities of the subject company.
10. Other specific disclosures: ______________________________

The analysts who are responsible for the preparation of this report are employed by Canaccord Capital Corporation, a securities broker-dealer with principal offices located in Vancouver, Toronto, Montreal, Calgary (all Canada) and London (UK).
The analysts who are responsible for the preparation of this report have received (or will receive) compensation based upon (among other things) the investment banking revenues of Canaccord Capital Corporation or its affiliates, including Canaccord Capital Corporation USA, Inc. However, such analysts have not received, and will not receive, compensation that is directly based upon one or more specific investment banking activities or transactions.
In the event that this is a compendium report (covering six or more subject companies), Canaccord Capital Corporation and its affiliates may choose to provide specific disclosures of the subject companies by reference as well as its policies and procedures regarding the dissemination of research. To access this material, please send a request to Canaccord Capital Corporation, Attn: Disclosures, P.O. Box 6, Suite 1200, 320 Bay Street, Toronto, Ontario, Canada M5H 4A6 (Canadian residents) or to Canaccord Capital Corporation USA, Inc., Attn: Disclosures, 316 Cary Point Drive, Cary, Illinois, 60013 (US residents).

Analyst Certification

Each analyst of Canaccord Capital Corporation whose name appears on the front page of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within such analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in the research report.

For further disclosures, please visit our website at www.canaccord.com.

The information contained in this report has been compiled by Canaccord Capital Corporation ("CCC") from sources believed to be reliable, but no representation or warranty, express or implied, is made by CCC, its affiliates or any other person as to its accuracy, completeness or correctness. All estimates, opinions and other information contained in this report constitute CCC's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility or liability.
CCC and its affiliates may have an investment banking or other relationship with the company that is the subject of this report and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, CCC or their affiliates may at any time have a long or short position in any such securities, related securities or in options, futures or other derivative instruments based thereon.
This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, neither CCC, its affiliates nor any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of the information contained in this report.
For Canadian Residents: This report has been approved by CCC which accepts responsibility for this report and its dissemination in Canada. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC in their particular jurisdiction. **For US Residents:** Canaccord Capital Corporation USA, Inc. ("CCC US"), a US registered broker-dealer, accepts responsibility for this report and its dissemination in the United States. This report is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of CCC US. **For United Kingdom Residents:** This report has been approved for the purposes of section 21 of the UK's Financial Services and Markets Act 2000 by Canaccord Capital (Europe) Limited ("CCE"), which is regulated and authorized by the Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. CCE accepts responsibility for this report and its dissemination in the United Kingdom. The information contained in this report is only intended for distribution in the UK to persons who qualify as intermediate customers or market counterparties, as defined under the rules of the FSA. **Additional information is available on request.**

Terasen Inc.

(TER : TSX : C$36.00 | Issued 105.0M)

SELL ↓ | Target price: C$37.00 ↑

Bob Hastings
1 (604) 643-0177
bob_hastings@canaccord.com
Juan Plessis
1(604) 643-0181
juan_plessis@canaccord.com

Company Statistics:

Recommendation:	**SELL**
12-month target price:	C$37.00
Price:	C$36.00
52-week Range:	C$23.48-31.78
Avg. Daily Vol. (000):	119.2
Market Capitalization (M):	C$3,780.0
Shares Out. (M) basic:	105.0
Current Dividend/Share:	C$0.84
Current Dividend Yield:	2.3%

FYE Dec	2004A	2005E	2006E
EPS:	$1.40	$1.50	$1.55
P/E:	25.7x	24.0x	23.2x
CFPS:	$2.83	$3.03	$3.08
P/CF:	12.7x	11.9x	11.7x

Share Price Performance:

Company Description:

Terasen provides energy and utility services in western Canada and the US Pacific Northwest through two regulated business segments. The Natural Gas Distribution business includes transmission and distribution of natural gas to customers in BC and provides transportation services through the pipeline. The Petroleum Transportation business transports oil and refined products from Alberta to BC and delivers crude oil to refineries in the US.

All amounts in C$ unless otherwise noted.

ATTRACTIVE OFFER, TENDER

Event: Terasen and Kinder Morgan each held conference calls to discuss the announced C$6.7 billion acquisition of Terasen Inc. by Kinder Morgan Inc.

Impact: The shares of both Terasen and Kinder Morgan rose significantly on the news of the acquisition. We expect the shares of Terasen to trade at a slight discount to the implied value of the acquisition.

Valuation: We are changing our rating on the shares of Terasen Inc. from Under Review to SELL. Investors can realize about 98% of the transaction value now and avoid any regulatory approval risk and reinvest in stocks with more attractive valuations. Note that even taking the Kinder Morgan shares results in a full capital gain for tax purposes.

Summary

Terasen and Kinder Morgan Inc. held conference calls Tuesday morning to discuss the acquisition of Terasen. No material new information was provided. The prices of both company's shares gained significantly on the first day of trading since the offer was announced. We believe the offer price represents excellent value and advise investors to realize the gain immediately and reinvest in other stocks with lower valuations such as TransAlta Corporation (TA : TSX) or Emera Inc. (EMA : TSX). Quite often, investors have the opportunity to take the acquiring company's shares on a tax-free rollover basis, but this option is not available in this transaction. Consequently, investors are not materially disadvantaged by selling earlier (we assume the capital gain will be realized in the 2005 tax year, as the deal is to be approved by shareholders in October and is slated to close by year end). By selling now, investors will realize about 98% of the acquisition value and avoid any currency and non-completion risk (likely small). Note that we do not follow Kinder Morgan Inc. from an

investment perspective and shareholders may wish to seek their own tax advice.

Clearly, some Terasen shares will be sold and the proceeds reinvested into other utility stocks, which may have helped drive up other utility stocks yesterday. In addition, there will be some speculation that other Canadian Energy Utility stocks may be acquired at a premium to the current market price. We prefer not to speculate on this outside event occurring, but doubt the likelihood of another takeover is high. The primary rationale for Kinder Morgan acquiring Terasen was to gain access to potential future expansions in Canadian oil sands production. There are limited opportunities for exposure to oil sands opportunities on the pipeline side, but include Enbridge Inc, Pembina Pipeline and Inter Pipeline Fund. Enbridge is significantly larger in size (3-4 times the enterprise value of Terasen) and all three are already trading with enterprise value multiples greater than the Terasen purchase price. Finally, while TransCanada has its eye on the oil sands with its Keystone Project, its $30 billion enterprise value ($16 billion market cap) is a bit rich for just one potential project.

Figure 1: Current Terasen Acquisition Value

	(C$/share)
Present Value of cash portion	$22.99
Value based on current KMI share price	$13.42
Present Value of first dividend	$0.2246
Present Value of second dividend	$0.2231
Current Terasen share Price	$36.00
Implied value for Terasen share	**$36.86**
Current share price premium (discount) to implied value	(2.3%)

Source: Canaccord Capital

Investment risks

Some of the specific risk factors that pertain to the projected six to 12 month stock price target for Terasen are as follows: 1) Terasen could be exposed to significant operational disruptions and environmental liability in the event of a petroleum product spill, an accident involving natural gas or problems with their water and sewer distribution systems; 2) The unprecedented increase in the market price of natural gas in 2000 significantly eroded the competitive advantage of natural gas relative to alternative sources of energy, notably electricity, in British Columbia; 3) Terasen's earnings are sensitive to interest rates in several ways; Some outstanding debt has net exposure to short-term interest rates, and is not subject to regulatory interest deferral accounts; In addition, the allowed returns on equity for Terasen Gas, Terasen Gas Vancouver Island and Corridor are determined by formulae that result in lower allowed ROEs if long-term Canada bond yields decline; 4) A component of Terasen's earnings, principally earnings from Trans Mountain's US pipeline and the Express System, are denominated in US dollars. As a result, an annual decline of $0.10 in the price of a US dollar in Canadian dollars would be expected to result in a decrease in annual consolidated net earnings of approximately C$1.1 million; 5) Challenging economic condition which may impact demand for products and services, peer-group valuation, access to capital and share trading liquidity; 6) Current valuation may depend on the success of the announced acquisition of Terasen Inc. by Kinder Morgan Inc.

An analyst has visited the issuer's head office in Vancouver. No payment or reimbursement was received from the issuer for any costs.

IMPORTANT DISCLOSURES
Price Chart*

	Date	Analyst	Rating	Target Price
1)	06/08/04	BH	Hold	24.00
2)	11/05/04	BH	Hold	26.00
3)	01/26/05	BH	Hold	28.00
4)	04/04/05	BH	Hold	26.00
5)	05/05/05	BH	Hold	28.00
6)	07/04/05	BH	Hold	29.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings

Global Stock Ratings Distribution
(as of July 11, 2005)

	Coverage Universe	
Rating	**#**	**%**
Buy	138	46.3%
Speculative Buy	41	13.8%
Hold	93	31.2%
Sell	26	8.7%
	298	100.0%

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Research Disclosures as of August 3, 2005

Company	Disclosure
Terasen Inc.	None

Research Disclosure Legend

1.	Corporate Finance / Investment Banking Client	In the past 12 months, Canaccord or its affiliated companies have received compensation for corporate finance or investment banking services from the Relevant Issuer.
2.	Lead / Co-Lead Manager	In the past 12 months, Canaccord or any of its affiliated companies have been lead manager or co-lead manager of any publicly disclosed offer of securities of the Relevant Issuer or in any related derivatives.

3.	Corporate Broker / Investment Banking Agreement	Canaccord acts as corporate broker for the Relevant Issuer and/or Canaccord or any of its affiliated companies may have an agreement with the Relevant Issuer relating to the provision of Investment Banking services.
4.	Market Making / Liquidity Provider	Canaccord or any of its affiliated companies is a market maker or liquidity provider in the securities of the Relevant Issuer or in any related derivatives.
5.	Provided Services	In the past 12 months, Canaccord, its partners, affiliated companies, officers or directors, or any Investment Analyst involved in the preparation of this Investment Research has provided services to the Relevant Issuer for remuneration other than normal course investment advisory or trade execution services.
6.	Intention to Seek Corporate Finance / Investment Banking Compensation	Canaccord Capital may expect to receive or intend to seek compensation for Corporate Finance services from the Relevant Issuer in the next six months.
7.	Analyst has Long Position	The Investment Analyst, a member of the Investment Analyst's household, any associate of the Investment Analyst, or any individual directly involved in the preparation of this Investment Research, has a long position in the shares or derivatives of the Relevant Issuer.
8.	Analyst has Short Position	The Investment Analyst, a member of the Investment Analyst's household, any associate of the Investment Analyst, or any individual directly involved in the preparation of this Investment Research, has a short position in the shares or derivatives of the Relevant Issuer.
9.	Receipt or Purchase of Shares	Those persons identified as the author(s) of this Investment Research, or any individual involved in the preparation of this Investment Research, have purchased/received shares in the Relevant Issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
10.	Canaccord Executive is an Officer	A partner, director, officer, employee or agent of Canaccord, or a member of his/her household, is an officer, director or advisor, board member of the Relevant Issuer and/or one of its subsidiaries, and such person's name is disclosed above.
11.	Beneficial 1% Ownership / Financial Interest	As of the month end immediately preceding the date of publication of this Investment Research, or the prior month end if publication is within 10 days following a month end, Canaccord and its affiliated companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital of the Relevant Issuer or held any other financial interests in the Relevant Issuer which are significant in relation to the Investment Research.
12.	Beneficial 1% Ownership by the Relevant Issuer in Canaccord or any of its affiliated companies	As of the month end immediately preceding the date of publication of this Investment Research, or the prior month end if publication is within 10 days following a month end, the Relevant Issuer owned 1% or more of any class of the total issued share capital in Canaccord or any of its affiliated companies.
13.	Other Disclosures	Other specific disclosures: ______________________________________

Canaccord Capital is the business name used by certain subsidiaries of Canaccord Capital Inc, including Canaccord Capital Corporation, Canaccord Capital (Europe) Ltd. and Canaccord Capital Corporation USA Inc.

The Investment Analysts who are responsible for the preparation of this Investment Research are employed by Canaccord Capital, a securities broker-dealer with principal offices located in Vancouver, Toronto, Montreal, Calgary (all Canada) and London (UK).

In the event that this is compendium Investment Research (covering six or more Relevant Issuers), Canaccord Capital and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of Investment Research. To access this material, please send a request to Canaccord Capital Corporation, Attn: Disclosures, P.O. Box 6, Suite 1200, 320 Bay Street, Toronto, Ontario, Canada M5H 4A6 (Canadian residents) or to Canaccord Capital (Europe) Ltd., Attn: Disclosures, 1st Floor, Brook House, Upper Brook Street, London, W1K

7QF (UK and European residents) or to Canaccord Capital Corporation USA, Inc., Attn: Disclosures, 316 Cary Point Drive, Cary, Illinois, 60013 (US residents).

Each Investment Analyst of Canaccord Capital whose name appears on the front page of this Investment Research hereby certifies that (i) the recommendations and opinions expressed in the Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all of the Designated Investments or Relevant Issuers discussed herein that are within such Investment Analyst's coverage universe and (ii) no part of the Investment Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the Investment Analyst in the Investment Research.

The Investment Analysts who are responsible for the preparation of this Investment Research have received (or will receive) compensation linked to the investment banking revenues and general profits of Canaccord Capital. However, such Investment Analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance activities, or to recommendations contained in the Investment Research.

Canaccord Capital and its affiliated companies may have a Corporate Finance or other relationship with the company that is the subject of this Investment Research and may trade in any of the Designated Investments mentioned herein either for their own account or the accounts of their customers, in good faith and in the normal course of market making. Accordingly, Canaccord Capital or their affiliated companies may at any time have a long or short position in any such Designated Investments, Related Designated Investments or in options, futures or other derivative instruments based thereon.

In accordance with regulatory requirements, Canaccord Capital manages conflicts of interest which may arise in a way which ensures that all its clients are treated fairly and which ensures that the firm is conducting its business with integrity and according to proper standards of business. Canaccord's Research Departments are located separately from its Corporate Finance Departments. Investment Analysts reach their conclusions concerning the Relevant Investment(s) and/or Relevant Issuer(s) covered by them free from any influence or editorial input from Corporate Finance employees or the management of Relevant Issuers. Investment Analysts are not permitted to participate in Corporate Finance pitches or other marketing activities. Information barriers or firewalls may have been used in the preparation of this Investment Research. Canaccord's full policies and procedures on the creation, publication and dissemination of Investment Research are available on request at the applicable addresses listed above.

The information contained in this Investment Research has been compiled by Canaccord Capital from sources believed to be reliable, but no representation or warranty, express or implied, is made by Canaccord Capital, its affiliated companies or any other person as to its accuracy, completeness or correctness. All estimates, opinions and other information contained in this Investment Research constitute Canaccord Capital's judgement as of the date of this Investment Research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

This Investment Research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any Designated Investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the Designated Investments discussed in this Investment Research may not be eligible for sale in some jurisdictions. This Investment Research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, neither Canaccord Capital its affiliated companies nor any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of the information contained in this Investment Research.

For Canadian Residents: This Investment Research has been approved by Canaccord Capital Corporation ("CCC") which accepts responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of CCC in their particular jurisdiction.

For United Kingdom Residents: This Investment Research complies with of the Financial Services Authority's Handbook's chapter on Conduct of Business and is approved by Canaccord Capital (Europe) Ltd ("CCE"), which is regulated and authorized by the Financial Services Authority, in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the Financial Services Authority. CCE accepts responsibility for this Investment Research and its dissemination in the United Kingdom. The information contained in this Investment Research is only intended for distribution in the UK to persons who qualify as intermediate customers or market counterparties, as defined under the rules of the Financial Services Authority.

For US Residents: Canaccord Capital Corporation USA, Inc. ("CCC US"), a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of CCC US.

CIBC World Markets

Equity Research
Earnings Update

July 30, 2004

Canadian Pipelines & Utilities

Terasen Inc.

Q2 In Line - Guidance Maintained

Company Rating:

Sector Performer

Sector Weighting:

Underweight

12-18 mo. Price Target	$25.00
TER-TSX (7/29/04)	$23.44

Key Indices: TSXUtils

3-5-Yr. EPS Gr. Rate (E):	8.0%
52-week Range	$21.50-$25.00
Shares Outstanding	104.8M
Float	104.8M Shrs
Avg. Daily Trading Vol.	167,052
Market Capitalization	$2,456.5M
Dividend/Div Yield	$0.84 / 3.6%
Fiscal Year Ends	December
Book Value	$13.49 per Shr
2004 ROE (E)	11.0%
LT Debt	$2,518.4M
Preferred	$125.00M
Common Equity	$1,413.8M
Convertible Available	No

Earnings per Share	Prev	Current
2003		$1.33A
2004	$1.43E	$1.40E
2005	$1.53E	$1.50E
P/E		
2003		17.6x
2004	16.4x	16.7x
2005	15.3x	15.6x

Dividends per Share	
2002	$0.705
2003	$0.765
2004E	$0.825
2005E	$0.89

Debt to Total Capital	
2002	66.2%
2003	67.0%
2004E	66.5%

Company Description

Terasen is a gas distribution and oil pipeline company. Its subsidiary, Terasen Gas, distributes natural gas to B.C., including Vancouver and the interior.

www.terasen.com

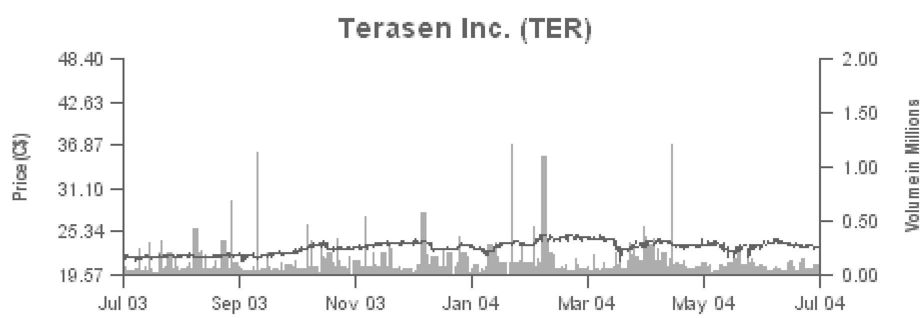
- Terasen reported normalized Q2'04 EPS of $0.10 vs. our estimate of $0.12 and $0.08 in Q2'03. We are making minor downward adjustments to our EPS estimates to reflect lower tolls on Trans Mountain. However, our $25 target price remains intact.

- Management maintained earnings guidance in the high $1.30s for 2004. We had projected earnings ahead of guidance, but lower tolls on Trans Mountain bring our estimate down to the guidance level. The adjustment applies to 2005 as well as 2004.

- Expansion projects driving organic growth through next year are on track. Management confirmed the 30,000 b/d Trans Mountain expansion should boost revenues next year. Also, the Express expansion should still add $0.10 to 2005 EPS.

- Terasen's share price premium relative to its peers is justified in our view by the company's unique visible organic growth through 2005. As we are less sure of growth beyond next year, we are maintaining our Sector Performer rating.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

04-33555 © 2004

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

See "Legal Disclaimer" and "Important Disclosure Footnotes" sections at the end of this report for important disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Matthew Akman
1 (416) 956-6169
Matthew.Akman@cibc.ca

Alda Pavao, CFA
1 (416) 956-3229
Alda.Pavao@cibc.ca

Investment Summary

Terasen reported normalized Q2'04 EPS of $0.10 vs. our estimate of $0.12 and $0.08 in Q2'03. We are making minor downward adjustments to our EPS estimates to reflect lower tolls on Trans Mountain. However, our $25 target price remains intact.

For a detailed breakdown and discussion of earnings by segment, please see the appendix to this comment.

Guidance Maintained But Slight Downward Revisions to Our EPS

Management maintained earnings guidance in the high $1.30s for 2004. We had projected earnings ahead of guidance, but lower tolls on Trans Mountain bring our estimate down to the guidance level. The adjustment applies to 2005 as well as 2004.

After the Q1 earnings report, we believed that the year-over-year Trans Mountain tolling decrease may have been temporary. However, management indicated that the mix of crude and delivery points have driven the toll down on a more sustained basis.

Near-Term Organic Growth Still Best in Group

The good news is that expansion projects driving organic growth through next year are on track. Despite the toll reduction, management confirmed the 30,000 b/d **Trans Mountain expansion** should boost revenues in 2005. The in-service date is scheduled for September of this year.

Also, the **Express expansion** should still add $0.10 to 2005 EPS. The company is adding 110,000 b/d of capacity and the in-service date is scheduled for Q1 2005.

Since Terasen Gas is operating under an incentive regulation framework, modest **cost savings** should create organic growth in that segment. Management also indicated the company is applying to the British Columbia Utilities Commission (BCUC) for a thicker equity ratio and higher allowed ROE.

There is now a precedent for higher allowed returns, recently established by the Alberta Utilities Board (EUB). Terasen Gas has a 9.14% allowed ROE on a 33% equity ratio. The EUB granted Alberta gas distribution companies a 9.6% allowed ROE on a 38% equity ratio.

We estimate that every 100 basis point change in the allowed equity ratio is worth about $0.02 in EPS. Every 50 basis point change in the allowed ROE is worth about $0.04 in EPS. The BCUC will not necessarily follow the EUB, so we are not building any of these possible changes into our earnings forecast.

New Twist on Oil Pipeline Expansion to West Coast

Terasen unveiled a new twist in its expansion plans to the west coast. It is now offering shippers the following option:

- 100,000 b/d expansion of TransMountain to BC border (2008 in-service).
- Followed by a new leg of Trans Mountain from the border heading North to Prince Rupert.

The northern leg would replace prior proposals for a second and third phase of expansion on Trans Mountain to the West Coast. Terasen management indicated the company still believes the three-phase expansion to Vancouver is the most sensible outcome. However, in the interest of providing options to shippers that may choose to improve access to Asia, Terasen is offering the Prince Rupert alternative.

We continue to think it makes sense for Enbridge (ENB-TSX, Sector Performer) and Terasen to work together on major pipeline expansion projects to the West Coast. The companies' proposals overlap now more than ever. Enbridge has moved the origin of its proposed pipeline to Edmonton (the origin of Terasen's TransMountain) and now Terasen has offered to move the end point of its expansion to Price Rupert (the end point of Gateway).

Conclusions: Share Valuation Premium Justified But Already in the Stock

Terasen's share price premium relative to its peers is justified in our view by the company's unique visible organic growth through 2005. Beyond 2005, we are less sure of the company's growth rate. We are hopeful that a $200 million gas pipeline expansion to Vancouver Island will proceed and fill the earnings gap that may otherwise develop in the 2006 – 2008 timeframe. On that basis, we still value Terasen shares at a 16.7 multiple of 2005 EPS and rate the stock as a Sector Performer.

Appendix: Summary of Q2'04 Results

Exhibit 1. Segmented Earnings for Terasen

(data in C$ millions, unless otherwise stated)

	Q2/04A	Q2/03A	2004E	2003A
Terasen Gas	($8.5)	($8.3)	$69.4	$72.6
Terasen Gas (Vancouver Island)	$6.3	$5.8	$28.9	$26.2
Trans Mountain Pipeline	$9.0	$9.6	$41.8	$35.8
Express Pipeline System	$3.2	($0.3)	$13.0	$9.7
Corridor Pipeline	$4.0	$3.3	$15.5	$10.7
Water and Utility Services	$2.6	$2.1	$4.8	$4.0
Other Activities	($4.3)	($2.0)	($21.3)	($14.5)
Capital Securities Distributions (net of tax)	($1.7)	($1.6)	($6.4)	($6.6)
Operating Earnings for Common	**$10.6**	**$8.6**	**$145.7**	**$137.9**
Unusual Items	$0.6	$0.0	$2.3	($5.2)
Reported Earnings	$11.2	$8.6	$148.0	$132.7
Average Shares Outstanding (mln)	104.7	103.8	104.4	103.6
Operating Earnings per Share	**$0.10**	**$0.08**	**$1.40**	**$1.33**
Reported Earnings per Share	$0.11	$0.08	$1.42	$1.28

Notes:

1. Unusual item in Q2/04 relates to a $0.6 million mark-to-market gain on TER's share of Clean Energy's natural gas positions.
1. Unusual items year-to-date in 2004 relate to $2.3 million gains from mark-to-market accounting on Terasen's share of Clean Energy's natural gas positions.
2. Unusual item in 2003 relate to gas utility restructuring charge ($3.4 mln after-tax) and write-down of Westport Innovations investment ($1.8 mln after-tax).

Source: Company reports and CIBC World Markets Inc.

Natural Gas Distribution

Earnings from the gas utilities (Terasen Gas and Terasen Gas (Vancouver Island)) improved slightly from a year ago (combined loss of $2.2 million in Q2'04 vs. $2.5 million loss in Q2'03). The improvement came primarily from lower financing costs and income taxes. Cost savings have also helped to mitigate the impact of a lower ROE and earnings sharing mechanism at Terasen Gas.

Petroleum Transportation

Trans Mountain Pipeline contributed earnings of $9 million in Q2'04 vs. $10.4 million in Q1'04 and $9.6 million last year. Higher volume throughput (averaging 223,500 Bbls/day in Q2'04 compared to 210,600 Bbls/day last year) was offset by lower effective tolls on the Canadian Mainline. A $1.2 million reserve was also taken during Q2 for the revenue sharing mechanism.

Earnings from **Express Pipeline System** came in line, at $3.2 million in Q2'04 compared to a loss of $0.3 million in Q2'03. Excluding the foreign exchange loss of $3.8 million last year, Express' contribution was negatively impacted by lower tolls.

Corridor Pipeline's Q2 earnings came in as expected, at $4 million in Q2'04. Corridor only contributed $2.9 million last year because it started operations on May 1, 2003.

Water and Utility Services

Small acquisitions and some organic growth boosted Q2 earnings from the Water Utility business. We should see similar growth in Q3, with the addition of the Fairbanks acquisition (immediately accretive, according to management).

Other Activities

Excluding the mark-to-market gain from Clean Energy, we estimate that Other Activities contributed a loss of $4.3 million vs. $2 million loss last year. While revenues were up ($9.2 million in Q2'04 vs. $8.4 million in Q2'03), higher operating costs from the International operations continue to be a drag.

Price Target Calculation

Our $25 target price is based on a 16.7x multiple of our 2005 EPS forecast of $1.50 It also implies a 3.6% dividend yield. Given Terasen's superior growth prospects and low risk profile, we are using a target P/E multiple at the higher end of the group average (15.5x), but within the stock's historical trading range of 8x-17x earnings.

Key Risks to Price Target

Terasen could fall short of our 2004 and 2005 earnings forecasts (and fail to meet our target price) for various reasons, including (but not limited to) the lower achieved ROEs and lower than expected growth in oil sands volumes. Increased competition for pipeline and utility assets by financial players also raises risk to returns on possible acquisitions. In addition, the stocks are sensitive to changes in Canadian bond yields. If broader market risk dissipates and bond yields rise significantly, valuation in the sector could fall.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2003 Actual	$0.71A	$0.08A	($0.08A)	$0.62A	$1.33A
2004 Prior	$0.75A	$0.12E	($0.06E)	$0.62E	$1.43E
2004 Current	$0.75A	$0.10A	($0.06E)	$0.61E	$1.40E
2005 Prior	--	--	--	--	$1.53E
2005 Current	--	--	--	--	$1.50E

Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 7/29/2004:
Enbridge Inc. (2a, 2e, 2g, 7) (ENB-TSX, $50.65, Sector Performer)

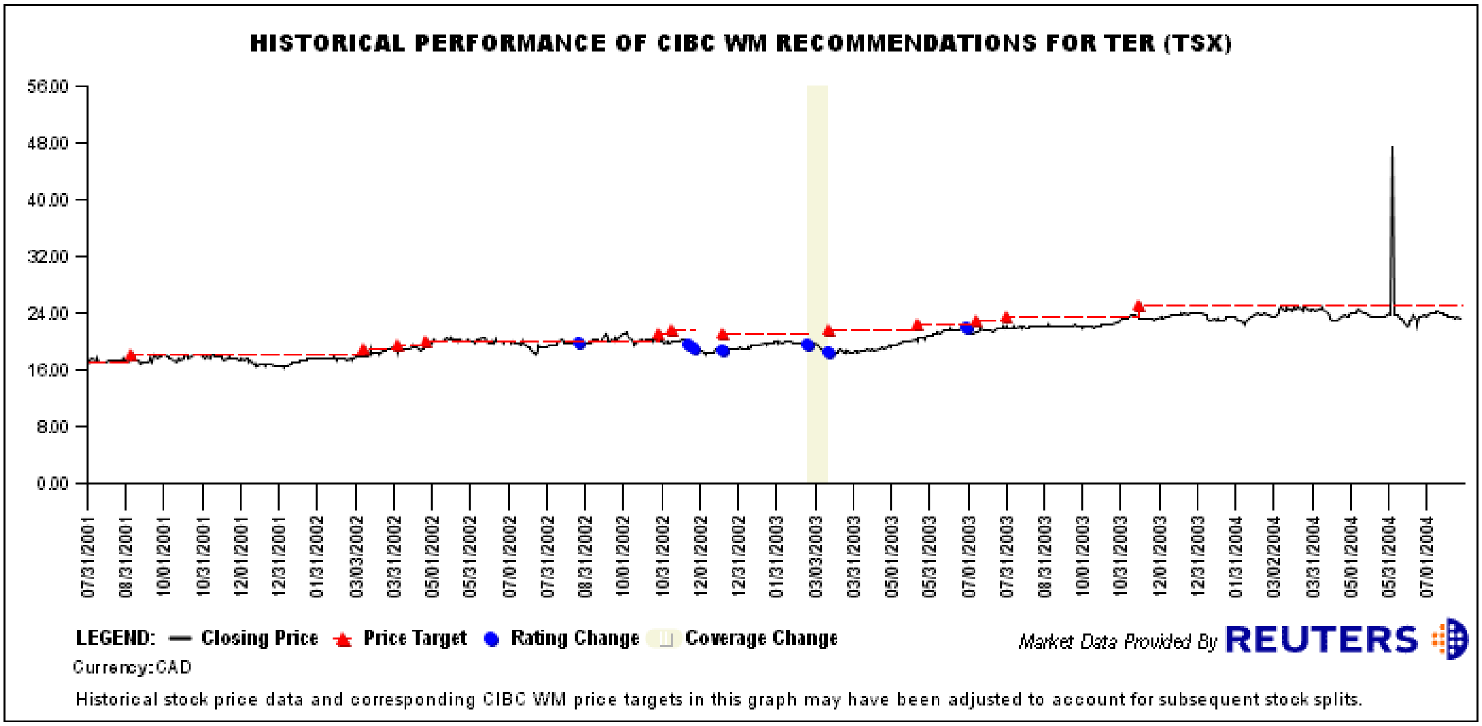
Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

1) CIBC World Markets Corp. makes a market in the securities of this company.
2a) This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
2b) CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
2c) CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
2d) CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
2e) CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
2f) CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
2g) CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3a) This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
3b) CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
3c) CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
4a) This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
4b) CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
4c) CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
5a) The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
5b) A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
6a) The CIBC World Markets Inc. analyst(s) who covers this company also has a long position in its common equity securities.
6b) A member of the household of a CIBC World Markets Inc. research analyst who covers this company has a long position in the common equity securities of this company.
7) CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
8) A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
9) A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
10) Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
11) The equity securities of this company are restricted voting shares.
12) The equity securities of this company are subordinate voting shares.
13) The equity securities of this company are non-voting shares.
14) The equity securities of this company are limited voting shares.

CIBCWM Price Chart



HISTORICAL PERFORMANCE OF CIBC WM RECOMMENDATIONS FOR TER (TSX)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
09/04/2001	▲	17.35	H	18.00	Peter Case
03/08/2002	▲	17.81	H	19.00	Peter Case
04/03/2002	▲	18.38	H	19.50	Peter Case
04/26/2002	▲	19.58	H	20.00	Peter Case
08/26/2002	●	19.66	SU	20.00	Peter Case
10/28/2002	▲	20.10	SU	21.00	Peter Case
11/07/2002	▲	20.13	SU	21.50	Peter Case
11/21/2002	●	19.48	SP	21.50	Peter Case
11/25/2002	▲●	18.85	NR	None	Peter Case
12/18/2002	▲●	18.63	SP	21.00	Peter Case
02/24/2003	▲●□	19.51	S	None	CIBC World Markets Corp.
03/12/2003	▲●□	18.41	SO	21.50	Matthew Akman
05/21/2003	▲	20.13	SO	22.50	Matthew Akman
06/30/2003	●	21.78	SP	22.50	Matthew Akman
07/08/2003	▲	21.30	SP	23.00	Matthew Akman
08/01/2003	▲	21.93	SP	23.50	Matthew Akman
11/13/2003	▲	23.58	SP	25.00	Matthew Akman

CIBCWM Stock Rating System

Abbreviation	Rating	Description
Company Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBCWM is restricted*** from rating the stock.
Company Ratings Prior To August 26th 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
R	Restricted	Restricted
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and S&P/TSX Composite in Canada.
"-S" indicates Speculative. An investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
***Restricted due to a potential conflict of interest.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution: CIBC World Markets Coverage Universe

(as of 29 Jul 2004)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	312	35.4%	Sector Outperformer (Buy)	199	63.8%
Sector Performer (Hold/Neutral)	396	44.9%	Sector Performer (Hold/Neutral)	236	59.6%
Sector Underperformer (Sell)	172	19.5%	Sector Underperformer (Sell)	82	47.7%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Canadian Pipelines & Utilities Coverage Universe

(as of 29 Jul 2004)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	37.5%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	4	50.0%	Sector Performer (Hold/Neutral)	2	50.0%
Sector Underperformer (Sell)	1	12.5%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Canadian Pipelines & Utilities Sector includes the following tickers: ACO.X, CU, EMA, ENB, FTS, TA, TER, TRP.

Important disclosures required by IDA Policy 11, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC on the web at http://research.cibcwm.com/res/Policies/Policies.html or write to CIBC World Markets Inc. BCE Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

Important Disclosure Footnotes for TER

2a Terasen Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from Terasen Inc. in the past 12 months.

2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Terasen Inc. in the next 3 months.

7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Terasen Inc.

Legal Disclaimer

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Conflicts of Interest: CIBC World Markets' equity research analysts are compensated from revenues generated by various CIBC World Markets businesses, including CIBC World Markets' Investment Banking Department. CIBC World Markets may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should not rely solely on this report in evaluating whether or not to buy or sell the securities of the subject company.

Legal Matters: This report is issued and approved for distribution by (i) in Canada by CIBC World Markets Inc., a member of the IDA and CIPF, (ii) in the UK, CIBC World Markets plc, which is regulated by the FSA, and (iii) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report has not been reviewed or approved by CIBC World Markets Corp., a member of the NYSE and SIPC, and is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC Rule 15a-6 and Section 15 of the Securities Act of 1934, as amended). This document and any of the products and information contained herein are not intended for the use of private investors in the UK. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited. This report is provided for informational purposes only, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited.

The securities mentioned in this report may not be suitable for all types of investors; their prices, value and/or income they produce may fluctuate and/or be adversely affected by exchange rates. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Before making an investment decision on the basis of any recommendation made in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgements as of the date of this report and are subject to change without notice.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

Corporate Debt Comments

July 29, 2004

Joanna Zapior, CFA	**Geoff Watson, CFA**	**Trevor Bateman, CFA, CA**	**Peter Weldon**	**Kevin Yong**
(416) 594-8498	(416) 594-8146	(416) 594-7992	(416) 956-3211	(416) 956-6273
Energy●Oil&Gas	Telecom●Industrials●Insurance●Retail	Financials●Autos	ABS●Structures●Consumers	Associate

See "Legal Disclaimer" section at the end of this report for important disclosures, including potential conflicts of interest.

Terasen: 2Q04 results consistent with previous quarters

CREDIT IMPACT: Neutral. Operating results demonstrated ability to manage an adverse regulatory decision for the gas distribution business. Note that in light of the AEUB ROE decision, management filed with BCUC for a review of Terasen Gas' ROE and capital structure. Pipeline earnings helped boost the overall picture. Terasen repaid $42 million in net debt in the quarter and maintained credit metrics. About $150 million in short term debt was termed out. Talk of projects continues, notably 1) looping TransMountain in stages (discussion with shippers; note that ENB said in its conference call its alternative would be cheaper, but this is likely inconclusive given that these are not easily comparable at the current early planning stage, given various route and port possibilities on the drawing boards), 2) filing for an LNG terminal on Vancouver Island, perhaps even this week, and 3) nearest in time in terms of completion, both phases of Express expansion combined in one, due to strong shipper interest.

Terasen: 2Q04	Debt to CF	EBITDA to Interest	Debt to Cap at book	Debt to Cap at Mkt	Realized ROE	LTM CF	YTD FCF	Adjusted debt
2Q04	9.7	2.8	68.0%	49.0%	11.2%	298	144	2,877
2Q03	11.0	2.8	69.7%	52.0%	11.2%	270	-175	2,961
1Q04	9.6	2.7	68.1%	48.7%	11.0%	307	119	2,904

	2Q04	2Q03	YTD 04	YTD 03
Earnings contribution:				
GAS DISTRIBUTION				
Terasen Gas	(8.5)	(8.3)	52.2	52.8
Terasen Gas VC Island	6.3	5.8	13.0	11.8
PETROLEUM TRANSP.				
TransMountain	9.0	9.6	19.4	17.9
Corridor	4.0	2.9	7.9	2.9
Express	3.2	(0.3)	7.2	3.0
WATER & UTILITY	2.6	2.1	2.6	1.5
OTHER	(6.0)	(3.6)	(11.1)	(8.3)
Number of gas customers	NA	NA	862,752	851,261
Gas transportation volume (in petajoules)	14.1	17.3	36	38.3
Trans Mountain Canadian Mainline (bbl/d)	223,500	210,600	231,900	206,200
Trans Mountain US Mainline, included in Canadian Mainline (bbl/d)	97,400	55,300	95,300	52,600
Express System (bbl/d)	176,200	167,300	173,800	168,100

- Earnings were driven by petroleum pipes, notably higher throughput on TransMountain. Nonetheless, TransMountain generated less in earnings this quarter than in 2003 due to lower effective toll. Outside of the currency loss in 2Q03, Express earnings were slightly lower this year than last. All three systems were running close to capacity.
- Terasen Gas is seeing benefits of integration of the mainland and island operations, which are offsetting lower allowed ROE and the sharing of earnings imposed by the regulator under performance regulation, as well as higher operating and maintenance costs. TG Vancouver Island performed better in the quarter than TG (mainland) compared to the same quarter last year.
- Other activities, which include corporate expenses, saw an increase in interest expense on y-o-y higher debt at the corporate level and taxes. Offsetting this was a mark-to-market gain of $600,000 ($2.3 million for YTD) in CleanEnergy (natural gas trading). This is a volatile and more risky business that is growing and from time to time requires capital injections, but it is small in scale. Further, management stated that it does not have long-term plans related to this business.

Please refer to Our Best Bets table (below) to place this credit in its sector-relative-value context

		Senior unsecured			Credit fundamentals	Rating change probab.		YTD total return				YTD change in spread			
								Shorter bond		Longer bond		Shorter bond		Longer bond	
	Analyst	DBRS	Moody's	S&P	(1-3 years)	(1 year)	Valuation	Bond	Return	Bond	Return	Curr Sprd	YTD Chng	Curr Sprd	YTD Chng
Pipelines: *Solid fundamentals, though regulatory fray is wearing down on everybody's patience, including the issuers and rating agencies. Recent review by S&P of large corporate pipelines suggests systemic mis-ratings, which, nevertheless, may not be aligned in the near term without another event-driven catalyst. DBRS now seems to side with S&P regardnig its views on the quality of regulation. Our investment thesis rests on two pillars: 1) operating excellence and cost management will be key in lightl of 2) regulators pressuring for cost control, including returns. Holding company risk has been increasing with expansion in non-regulated areas, equity market push for growth, and still elevated leverage.*															
Alliance Pipe	**JZ**	A(low)	A3	BBB+	Strong	Very low	F	7.23% 2015	1.86%	7.217% 2025	1.38%	98	▲ 28	124	▲ 12
We like the "structuring premium" of an amortizer and the simplicity of this credit; not affected by how the ownership is structured; valuation reflects the defensive nature of this credit. Continues to perform as expected. Mgt turnover has been signficalik (CFO earlier and now CEO) but this has no credit impact either for this contractually structured credit.															
Enbridge Inc	**JZ**	A	A3	A-	May weaken (M&A, projects)	Low	F	5.8% 2008	2.20%	8.2% 2024	1.25%	46	▼ 3	105	▲ 12
Enbridge Pipelines**	**JZ**	A(high)	NR	A-	Stable	Low	R	5.621% 2007	2.17%	7.2% 2032	0.97%	44	▼ 6	128	▲ 13
With rating stability returned, one of the historically defensive credits (judged by spread volatility). We view opcos as better credits in line with DBRS logic but not necessarily better value. Note ECG has a 2005 rate case. Leverage improvement forced bth S&P is a plus but mgt feels it has overshot and will use balance sheet to fund expansion. There is both some M&A and large project risk - lots of noise in the news as juggling for positions continues & in the summer 04 appears to be building a war chest with the sale of AltaGas stake. 1Q was good & CF improved.															
MNEP	**JZ**	A	A1	A	Strong	Very low	F	NA	NA	6.9% 2019	1.73%	NA	NA	95	▲ 3
We like structural protection and simplicity; valuation reflects the defensive nature of this credit.															
TransCanada	**JZ**	A	A2	A- Neg	Changing	Medium	F	6.05% 2007	1.92%	6.5% 2030	0.56%	53	▲ 3	121	▲ 16
Neg outlook will take a long time to hatch, if at all - unless an acquisition forces S&P's hand (the most recent big one of a U.S. pipeline appears to have crystallized the agency thinking in a constructive way, subject to how conservative mgt will remainitlook the financing side) . Expansion in generation, another potential large opportunistic acquisition, large projects and regulatory turmoil are credit risks. Regulatory environment continues to be unsatisfactory in mgt's eyes which raises questions about whnancir the company will want to trustify some of the lower return regulated assets - a potential negative for bondholders.															
Westocast (Duke)	**JZ**	A(low)	NR	BBB	Still pressured (DUK)	Medium	R	5.7% 2008	2.52%	7.15% 2031	0.20%	53	▼ 10	144	▲ 19
Duke took steps to turn the corner but more short-term pain has materialized with the new CEO (large write-off & no cut in dividend). Balance sheet repair actions a positive, but 1Q04 income statement and balance sheet show little improvement yet. More debt reduction and balance sheet repair expected in 2H04. Exit from non-core businesses continues & core regulated operations are stable. At currtent rating has some short-term breathing space but non-regulated cash flow generation & execution on 2004 plan are key. We think DENA will continue to be a source of grief for a while until markets improve. New red flag is resumed talk of growth ahead of proof that clean up is complete.															
Gas distribution: *Stable sector, with strong operating franchises and good fundamentals. However, no standalone credits left and credit quality is affected by parent activities. See also our comment on the pipeline sector.*															
Terasen	**JZ**	A(low)	A3	BBB-p	Stable but some event risk	Low	F	6.3% 2008	2.36%	NA	NA	72	▼ 3	NA	NA
Business fundamentals are a strong combination of regulated gas distribution and pipelines, with aggressive financial profile determining the rating. Market pricing suggests that the market does not give full credence to the S&P rating. Potential creatioess f an income fund for certain assets could turn into a credit risk, depending on the structure & project CAPEX culd be high. 1Q04 strong operationally & leverage reduced.															
Terasen Gas	**JZ**	A	A2	BBBp	Stable	Low	F	6.5% 2005	2.19%	6.95% 2029	1.90%	38	▼ 5	135	▲ 5
We like the fundamentals of gas distribution at current spread, compared to historical spread. Asset could be a candidate for trustification by parent - credit impact dependent on structure.															
Enbridge Gas Dist.	**JZ**	A	NR	A-	Stable	Medium	R	11.15% 2009	1.91%	6.1% 2028	0.18%	53	▲ NA	105	▲ 18
See Enbridge - despite our dislike for the currently tight valuation for Gas Distribution. Regulatory stability improved after a recent spate of decisions. PBR possible.															
Union Gas (Duke)	**JZ**	A	NR	BBB	Standalone stbl but Duke an issue	Medium	R	5.7% 2008	2.09%	8.65% 2025	0.58%	54	▲ 1	126	▲ 19
See Duke - We believe, in the long run, Union Gas's distribution portion, as a non-core asset, is better insulated from Duke than Westcoast. Its storage is a strategic asset to Duke. In the short term, Union provides solid cash flow to Duke and supports Duke credit quality.															

Legal Disclaimers and Important Disclosure Footnotes

CIBC World Markets

Equity Research
Earnings Update

November 5, 2004

Canadian Pipelines & Utilities

Terasen Inc.

Good Q3 Result; Guidance Maintained; 2006 Outlook Murky

Stock Rating:

Sector Performer

Sector Weighting:

Underweight

12-18 mo. Price Target	$25.00
TER-TSX (11/4/04)	$25.50

Key Indices: TSXUtils

3-5-Yr. EPS Gr. Rate (E)	8.0%
52-week Range	$21.50-$25.74
Shares Outstanding	104.9M
Float	104.9M Shrs
Avg. Daily Trading Vol.	119,329
Market Capitalization	$2,675.0M
Dividend/Div Yield	$0.84 / 3.3%
Fiscal Year Ends	December
Book Value	$13.19 per Shr
2004 ROE (E)	11.0%
LT Debt	$2,642.4M
Preferred	$125.00M
Common Equity	$1,384.0M
Convertible Available	No

Earnings per Share	Prev	Current
2003		$1.33A
2004	$1.40E	$1.40E
2005		$1.50E
P/E		
2003		19.2x
2004	18.2x	18.2x
2005		17.0x

Dividends per Share	
2002	$0.705
2003	$0.765
2004E	$0.825
2005E	$0.89

Debt to Total Capital	
2002	66.2%
2003	67.0%
2004E	66.5%

Company Description

Terasen is a gas distribution and oil pipeline company. Its subsidiary, Terasen Gas, distributes natural gas to B.C., including Vancouver and the interior.

www.terasen.com

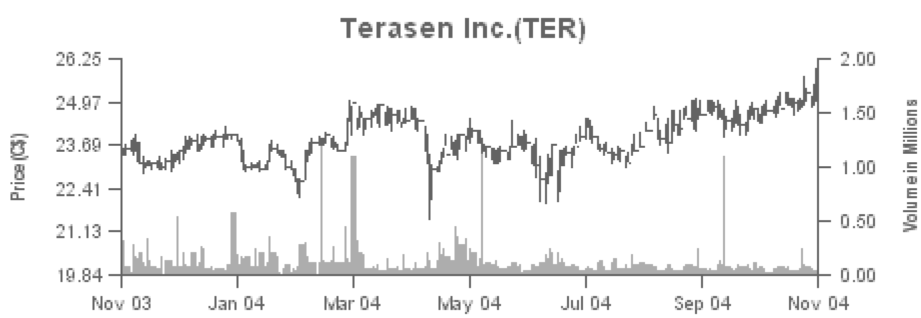
- Terasen reported a normalized Q3'04 EPS loss of $0.03 vs. our estimated loss of $0.06 and a loss of $0.07 in Q3'03. The quarter was solid and management maintained full year guidance of about $1.40. We are maintaining our rating and target price.

- Terasen has a visible path to solid growth in 2005 as well. Expansions on its two largest oil pipelines, Trans Mountain and Express, should boost earnings over 2004. Gas Distribution earnings should be flat because our forecast allowed ROE is flat.

- Our concern about Terasen and reluctance to raise our target price relates to 2006. The tolling agreement on Trans Mountain expires at the end of 2005. We think earnings from the pipeline could drop significantly in 2006.

- Therefore, despite our positive view on the quarter and on 2005, we think growth could stall in 2006. On that basis, we think the stock is fully valued. We will revisit target prices and ratings when we roll out 2006 estimates in the coming weeks.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

See "Legal Disclaimer" and "Important Disclosure Footnotes" sections at the end of this report for important disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Matthew Akman
1 (416) 956-6169
Matthew.Akman@cibc.ca

Alda Pavao, CFA
1 (416) 956-3229
Alda.Pavao@cibc.ca

Investment Summary

Terasen reported a normalized Q3'04 EPS loss of $0.03 vs. our estimated loss of $0.06 and a loss of $0.07 in Q3'03. The quarter was solid and management maintained full year guidance of about $1.40. However, we are concerned about growth waning in 2006. Therefore, we are maintaining our rating and target price.

For a detailed breakdown and analysis of Q3 earnings by segment, please see the appendix to this comment.

Visible Path To Solid Growth in 2005

Terasen has a visible path to solid growth in 2005. Expansions on its two largest oil pipelines, Trans Mountain and Express, should boost earnings over 2004:

- ***Trans Mountain expansion now in place –*** A 27,000 barrel-per-day expansion on Trans Mountain is now in place. This expansion should fill quickly as high oil prices have encouraged new oil drilling in Western Canada. The additional volumes translate almost directly into revenues for Terasen until the end of 2005 when the current tolling agreement expires. We see Trans Mountain contributing an incremental $0.04 of EPS in 2005.
- ***Express expansion on track for April 2005 –*** A 108,000 barrel-per-day expansion on Express is on track for an April 2005 in-service date. Since management guidance has been that the expansion will add about $0.05 in EPS on a full year, we assume it will contribute an incremental $0.03 in 2005.

The oil pipeline expansions will contribute the majority of incremental EPS in 2005. We also see modest positive improvement in the Water business. Gas Distribution earnings will likely be flat to 2004 as we are not forecasting any material increase in allowed ROEs.

Growth Could Wane in 2006

Our concern about Terasen and reluctance to raise our target price relates to 2006:

- ***Expiry of Trans Mountain tolling agreement –*** The tolling agreement on Trans Mountain expires at the end of 2005. Terasen has profited enormously from the existing agreement. Earnings on the pipeline have gone from $21 million in 2000 to our forecast of $37.8 million this year with minimal new capital investment. As a result, the achieved ROE is much higher than the nameplate allowed ROE at the National Energy Board. We think earnings from the pipeline could drop significantly in 2006.
- ***Gas Distribution ROE improvement could offset some of the potential reduction on Trans Mountain –*** Terasen may achieve higher allowed returns on its Gas Distribution business in 2006. The company will commence a hearing on the subject at the British Columbia Utilities Commission at the end of 2005. Based on recent precedent, we think the allowed equity ratio could move up from 33% to at least 35%. This magnitude of increase could add about $0.04 in EPS. However, any decision on this matter is unlikely to be known until mid/late 2006.
- ***Major expansion on Trans Mountain may not contribute until later in the decade –*** We still think Terasen is well positioned to expand the Trans Mountain Pipeline through its proposed TMX project. Management indicated it may hold an open season for expansion capacity in mid-2005. If the project is done one stage at a time (there are three proposed stages), the first stage of expansion could be in service by 2007. However, the company may do the first two stages at the same time to improve project economics. In this event, the expansion may not contribute to earnings until 2008/9.

Relative Valuation Becoming A Concern

Uncertainty surrounding growth post-2005 could overhang Terasen stock in the coming months. In particular, the Trans Mountain tolling agreement is unlikely to be resolved until late in 2005. Until then, we will have little visibility to 2006 earnings.

Meanwhile, Terasen (17x ’05) trades at a premium to other Canadian pipelines TransCanada (TRP-TSX, Sector Outperformer) (15.6x ‘05) and Enbridge (ENB-TSX, Sector Performer) (16.9x ’05). Given the uncertainty surrounding tolling agreements on Trans Mountain in 2006, we do not think the stock will trade at a premium to the other pipelines through 2005.

Therefore, despite our positive view on the quarter and on 2005, we think the stock is fully valued. We will revisit target prices and ratings when we roll out 2006 estimates for all of the pipelines and utilities in the coming weeks.

Appendix: Summary of Q3'04 Results

We normalized Terasen's reported Q3'04 earnings to a loss of $0.03 per share by excluding a $2.0 million (after-tax) mark-to-market gain related to natural gas hedges at Clean Energy.

Exhibit 1. Segmented Earnings for Terasen

(Data in C$ millions, unless otherwise stated)

	Q3/04A	Q3/03A	2004E	2003A
Terasen Gas	($24.8)	($25.5)	$72.4	$72.6
Terasen Gas (Vancouver Island)	$6.8	$7.1	$26.9	$26.2
Trans Mountain Pipeline	$8.8	$7.9	$37.8	$35.8
Express Pipeline System	$3.8	$2.8	$15.0	$9.7
Corridor Pipeline	$3.9	$3.8	$15.9	$10.7
Water and Utility Services	$3.3	$2.2	$7.0	$4.0
Other Activities	($3.6)	($4.2)	($21.5)	($14.5)
Capital Securities Distributions (net of tax)	($1.7)	($1.7)	($6.4)	($6.6)
Operating Earnings for Common	**($3.5)**	**($7.6)**	**$147.0**	**$137.9**
Unusual Items	$2.0	$0.0	$4.3	($5.2)
Reported Earnings	($1.5)	($7.6)	$151.3	$132.7
Average Shares Outstanding (mln)	104.8	103.9	104.7	103.6
Operating Earnings per Share	**($0.03)**	**($0.07)**	**$1.40**	**$1.33**
Reported Earnings per Share	($0.01)	($0.07)	$1.45	$1.28

Notes:

1. Unusual item in Q3/04 relates to a $2.0 million mark-to-market gain on TER's share of Clean Energy's natural gas positions.
1. Unusual items year-to-date in 2004 relate to $4.3 million gains from mark-to-market accounting on Terasen's share of Clean Energy's natural gas positions.
2. Unusual item in 2003 relate to gas utility restructuring charge ($3.4 mln after-tax) and write-down of Westport Innovations investment ($1.8 mln after-tax).

Source: Company reports and CIBC World Markets Inc.

Natural Gas Distribution

Earnings from the gas utilities (Terasen Gas and Terasen Gas Vancouver Island) improved slightly from a year ago (combined loss of $18 million in Q3'04 vs. $18.4 million loss in Q3'03). The improvement came primarily from lower financing costs ($3 million benefit) offset by higher income taxes (tax loss provision at TGVI included in Q3'03 results). Cost savings (from integration of the utility operations) have also helped to mitigate the impact of a lower ROE and incentive sharing mechanism at the B.C. mainline utility this year.

Petroleum Transportation

Earnings from the **Trans Mountain pipeline** continued to show solid growth this year, driven by strong demand from U.S. refiners for oil sands production. Volume throughput on the Canadian mainline was up 8% q/q and 4% y/y, while the U.S. portion showed strong y/y growth (up 56%) but down about 10% from Q2'04. The higher volume flows also helped to offset lower Canadian tolls.

Earnings from **Express Pipeline System** came in slightly higher than expected, at $3.8 million vs. $2.8 million last year and our $3.0 million estimate. The increase was mainly attributable to higher throughput (up 2% y/y and 1% q/q to end Q3 at 178,200 Bbls/day).

Corridor Pipeline's Q3 earnings came in as expected, at $3.9 million and essentially flat compared to last year. Announced plans to increase production at the Athabasca Oil Sands Project (AOSP) to 270-290 MBbls/day (from current capacity of 155 MBbls/day) by 2010 bodes well for a potential expansion on Corridor later this decade.

Water and Utility Services

The Fairbanks acquisition (closed July 31) likely contributed most of the $1.1 million increase in Q3 earnings from Water and Utility Services. The company indicated that it intends to grow these businesses (organically and through acquisitions). They will contribute about one-third of future earnings growth.

Other Activities

Excluding the mark-to-market gain from Clean Energy and capital securities distributions, we estimate that Other Activities contributed a loss of $3.6 million, down from $4.2 million last year. Financing costs benefited from lower interest rates and boosted earnings from Other Activities (including International).

Price Target Calculation

Our $25 target price is based on a 16.7x multiple of our 2005 EPS forecast of $1.50. It also implies a 3.6% dividend yield. Given Terasen's superior long-term growth prospects and low risk profile, we are using a target P/E multiple at the higher end of the group average (15.5x), but within the stock's historical trading range of 8x-17x earnings.

Key Risks to Price Target

Terasen could fall short of our 2004 and 2005 earnings forecasts (and fail to meet our target price) for various reasons, including (but not limited to) the lower achieved ROEs and lower than expected growth in oil sands volumes. Increased competition for pipeline and utility assets by financial players also raises risk to returns on possible acquisitions. In addition, the stocks are sensitive to changes in Canadian bond yields. If broader market risk dissipates and bond yields rise significantly, valuation in the sector could fall.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2003 Actual	$0.71A	$0.08A	($0.07A)	$0.61A	$1.33A
2004 Prior	$0.75A	$0.10A	($0.06E)	$0.61E	$1.40E
2004 Current	$0.75A	$0.10A	($0.03A)	$0.59E	$1.40E
2005 Current	--	--	--	--	$1.50E

* Note: Changes to Q3/03 and Q4/03 EPS reflect restated share counts (from stock split in June 2004).

Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 11/4/2004:
Enbridge Inc. (2a, 2e, 2g, 7) (ENB-TSX, $51.60, Sector Performer)
TransCanada Corp. (7) (TRP-TSX, $27.24, Sector Outperformer)
Westport Innovations Inc. (2a, 2c, 2e, 2g) (WPT-TSX, $1.56, Sector Outperformer)

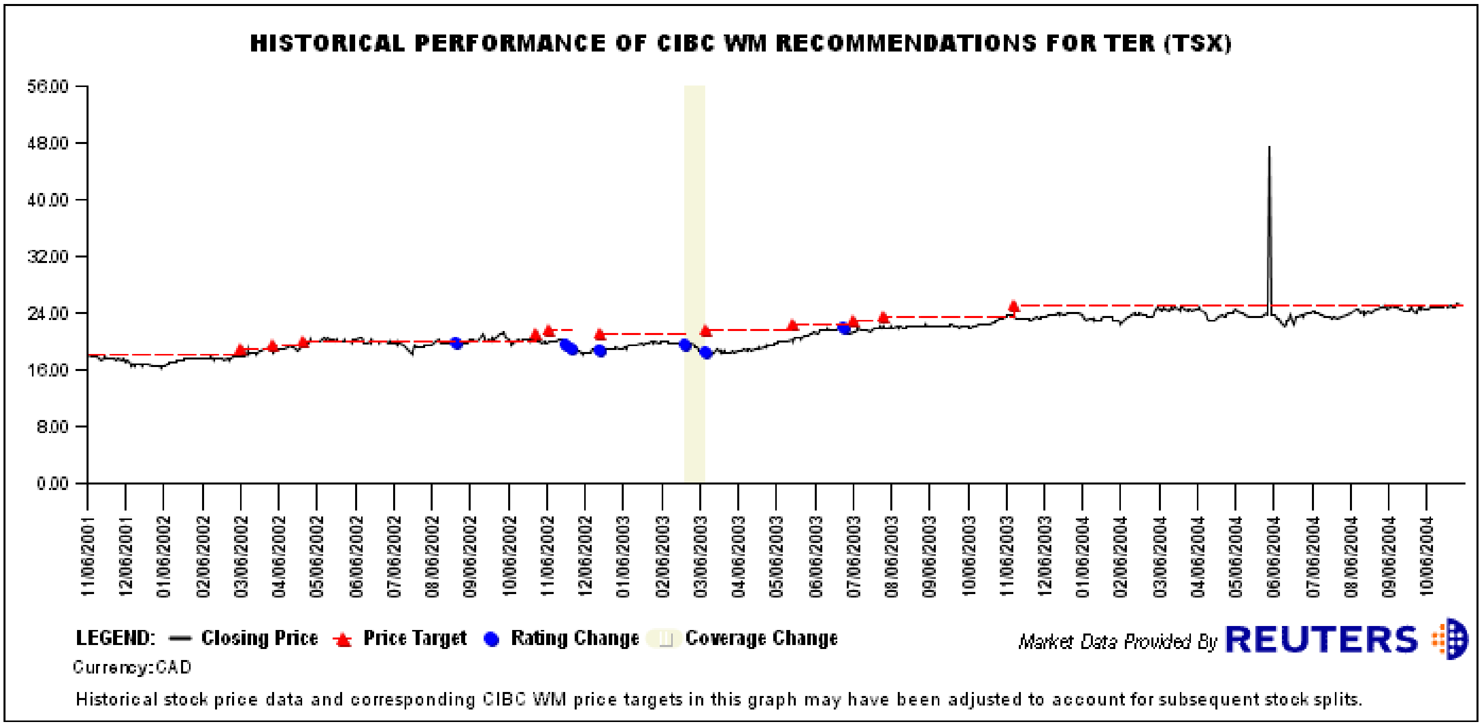
Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

1) CIBC World Markets Corp. makes a market in the securities of this company.
2a) This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
2b) CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
2c) CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
2d) CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
2e) CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
2f) CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
2g) CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3a) This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
3b) CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
3c) CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
4a) This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
4b) CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
4c) CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
5a) The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
5b) A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
6a) The CIBC World Markets Inc. analyst(s) who covers this company also has a long position in its common equity securities.
6b) A member of the household of a CIBC World Markets Inc. research analyst who covers this company has a long position in the common equity securities of this company.
7) CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
8) A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
9) A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
10) Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
11) The equity securities of this company are restricted voting shares.
12) The equity securities of this company are subordinate voting shares.
13) The equity securities of this company are non-voting shares.
14) The equity securities of this company are limited voting shares.

CIBCWM Price Chart



HISTORICAL PERFORMANCE OF CIBC WM RECOMMENDATIONS FOR TER (TSX)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
03/08/2002	▲	17.81	H	19.00	Peter Case
04/03/2002	▲	18.38	H	19.50	Peter Case
04/26/2002	▲	19.58	H	20.00	Peter Case
08/26/2002	●	19.66	SU	20.00	Peter Case
10/28/2002	▲	20.10	SU	21.00	Peter Case
11/07/2002	▲	20.13	SU	21.50	Peter Case
11/21/2002	●	19.48	SP	21.50	Peter Case
11/25/2002	▲●	18.85	NR	None	Peter Case
12/18/2002	▲●	18.63	SP	21.00	Peter Case
02/24/2003	▲●□	19.51	S	None	CIBC World Markets Corp.
03/12/2003	▲●□	18.41	SO	21.50	Matthew Akman
05/21/2003	▲	20.13	SO	22.50	Matthew Akman
06/30/2003	●	21.78	SP	22.50	Matthew Akman
07/08/2003	▲	21.30	SP	23.00	Matthew Akman
08/01/2003	▲	21.93	SP	23.50	Matthew Akman
11/13/2003	▲	23.58	SP	25.00	Matthew Akman

CIBCWM Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBCWM is restricted*** from rating the stock.
Stock Ratings Prior To August 26th 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
R	Restricted	Restricted
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and S&P/TSX Composite in Canada.
"-S" indicates Speculative. An investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
***Restricted due to a potential conflict of interest.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution: CIBC World Markets Coverage Universe

(as of 04 Nov 2004)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	303	33.0%	Sector Outperformer (Buy)	208	68.6%
Sector Performer (Hold/Neutral)	425	46.3%	Sector Performer (Hold/Neutral)	256	60.2%
Sector Underperformer (Sell)	190	20.7%	Sector Underperformer (Sell)	101	53.2%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Canadian Pipelines & Utilities Coverage Universe

(as of 04 Nov 2004)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	25.0%	Sector Outperformer (Buy)	1	50.0%
Sector Performer (Hold/Neutral)	5	62.5%	Sector Performer (Hold/Neutral)	4	80.0%
Sector Underperformer (Sell)	1	12.5%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Canadian Pipelines & Utilities Sector includes the following tickers: ACO.X, CU, EMA, ENB, FTS, TA, TER, TRP.

Important disclosures required by IDA Policy 11, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC on the web at http://research.cibcwm.com/res/Policies/Policies.html or write to CIBC World Markets Inc. BCE Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

Important Disclosure Footnotes for TER

2a	Terasen Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
2c	CIBC World Markets Inc. has managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.
2e	CIBC World Markets Inc. has received compensation for investment banking services from Terasen Inc. in the past 12 months.
2g	CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Terasen Inc. in the next 3 months.
7	CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Terasen Inc.

Legal Disclaimer

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Conflicts of Interest: CIBC World Markets' equity research analysts are compensated from revenues generated by various CIBC World Markets businesses, including CIBC World Markets' Investment Banking Department. CIBC World Markets may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should not rely solely on this report in evaluating whether or not to buy or sell the securities of the subject company.

Legal Matters: This report is issued and approved for distribution by (i) in Canada by CIBC World Markets Inc., a member of the IDA and CIPF, (ii) in the UK, CIBC World Markets plc, which is regulated by the FSA, and (iii) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report has not been reviewed or approved by CIBC World Markets Corp., a member of the NYSE and SIPC, and is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC Rule 15a-6 and Section 15 of the Securities Act of 1934, as amended). This document and any of the products and information contained herein are not intended for the use of private investors in the UK. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited. This report is provided for informational purposes only, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited.

The securities mentioned in this report may not be suitable for all types of investors; their prices, value and/or income they produce may fluctuate and/or be adversely affected by exchange rates. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Before making an investment decision on the basis of any recommendation made in this report, the recipient should consider whether such recommendation is appropriate given the recipient’s particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgements as of the date of this report and are subject to change without notice.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

Corporate Debt Comments

November 4, 2004

Joanna Zapior, CFA (416) 594-8498 | **Geoff Watson, CFA** (416) 594-8146 | **Trevor Bateman, CFA, CA** (416) 594-7992 | **Kevin Yong** (416) 956-6273 | **Adam Bulley** (416) 594-8626 | **Dina Giacomelli** (416) 956-6056

See "Legal Disclaimer" section at the end of this report for important disclosures, including potential conflicts of interest.

Terasen: 3Q04 – our initial take

(All figures in C$ unless otherwise specified).

CREDIT IMPACT: Neutral. Loss in the quarter was smaller than historically as crude pipelines generated higher earnings. EPS was better than expected (a 3 cent loss normalized vs. a 7 cent loss by consensus estimate). However, leverage is back at last year's levels, up sequentially, as debt increased.

Terasen: 3Q04	Debt to CF	EBITDA to Interest	Debt to Cap at book	Debt to Cap at Mkt	Realized ROE	LTM CF	YTD FCF	Adjusted debt
3Q04	10.3	3.0	70.3%	86.2%	12.0%	307	-23	3,053
3Q03	10.7	2.8	71.0%	53.4%	12.6%	289	-275	3,061
2Q04	9.7	2.8	68.0%	49.0%	11.2%	298	144	2,877

	3Q04	3Q03	YTD 04	YTD 03
Earnings contribution:				
GAS DISTRIBUTION				
Terasen Gas	(24.8)	(25.5)	27.4	27.3
Terasen Gas VC Island	6.8	7.1	19.8	18.9
PETROLEUM TRANSP.				
TransMountain	8.8	7.9	28.2	25.8
Corridor	3.9	3.8	11.8	6.7
Express	3.8	2.8	11.0	5.8
WATER & UTILITY	3.3	2.2	5.9	3.7
OTHER	(3.2)	(5.9)	(14.3)	(14.2)
Number of gas customers	NA	NA	866,311	851,551
Gas transportation volume (in petajoules)	14.5	6.4	50.5	44.7
Trans Mountain Canadian Mainline (bbl/d)	241,100	233,100	235,100	215,300
Trans Mountain US Mainline, included in Canadian Mainline (bbl/d)	86,900	55,700	92,500	53,600
Express System (bbl/d)	178,200	174,700	175,200	170,300

Notes to table:

- Pipelines performed well due to high throughput on Trans Mountain and Express.
- TER also continues to see cost savings (shared with customers) from the integration of its gas distribution franchises.
- Debt increased by close to $250 million and credit metrics deteriorated from 2Q04 back to the levels seen in 3Q03. A portion was used to fund an acquisition in the water utilities segment ($57 million), $100 million sits in cash on balance sheet, and the rest funded a cash flow deficiency after working capital and dividend (cash flow generated by operations was actually slightly stronger than a year ago, but was used up for working capital).

Please refer to Our Best Bets table (below) to place this credit in its sector-relative-value context

	Analyst	Senior unsecured DBRS	Moody's	S&P	Credit fundamentals (1-3 years)	Rating change probab. (1 year)	Valuation	YTD total return: Shorter bond: Bond	Return	Longer bond: Bond	Return	YTD change in spread: Shorter bond: Curr Sprd	YTD Chng	Longer bond: Curr Sprd	YTD Chng
Pipelines: *Solid fundamentals, though regulatory fray is wearing down on everybody's patience, including the issuers and rating agencies. Recent review by S&P of large corporate pipelines suggests systemic mis-ratings, which, nevertheless, may not be aligned in the near term without another event-driven catalyst. DBRS now seems to side with S&P regardnig its views on the quality of regulation. Our investment thesis rests on two pillars: 1) operating excellence and cost management will be key in lightl of 2) regulators pressuring for cost control, including returns. Holding company risk has been increasing with expansion in non-regulated areas, equity market push for growth, and still elevated leverage.*															
Alliance Pipe	JZ	A(low)	A3	BBB+	Strong	Very low	F	7.23% 2015	5.46%	7.217% 2025	7.47%	93	▲ 23	102	▼ 10
We like the "structuring premium" of an amortizer and the simplicity of this credit; not affected by how the ownership is structured; valuation reflects the defensive nature of this credit. Continues to perform as expected. Mgt turnover has been signficalik (CFO earlier and now CEO) but this has no credit impact either for this contractually structured credit.															
Enbridge Inc	JZ	A	A3	A-	May weaken (M&A, projects)	Low	F	5.8% 2008	4.72%	8.2% 2024	7.01%	41	▼ 8	104	▲ 11
Enbridge Pipelines**	JZ	A(high)	NR	A-	Stable	Low	R	5.621% 2007	3.79%	7.2% 2032	6.63%	37	▼ 13	132	▲ 17
Leverage improvement forced by S&P is a plus but mgt feels it has overshot and will use balance sheet to fund expansion. There is both M&A and large project risk - lots of noise in the news as juggling for positions continues & in the summer/fall 04 appears to be building a war chest with the sale of AltaGas stake & EEP equity financing. While mgt contemplates even a very large acquisition, its repeatedly stated committment to ratings may be less firm as a US acquisition of BBB rated assets or corps looms. However, if no M&A, more debt may be repaid, notably hybrids later this year. 1Q was good & CF improved, and 2Q okay. In the longer term, we see balance sheet quality weakening as assets move off-balance sheet. That it has historically been a defensive credit (low spread volatility) gives us a pause but history may not repeat itself.															
MNEP	JZ	A	A1	A	Strong	Very low	F	NA	NA	6.9% 2019	6.75%	NA	NA	88	▼ 4
We like structural protection and simplicity; valuation reflects the defensive nature of this credit.															
TransCanada	JZ	A	A2	A- Neg	Stable but event risk	Medium	F	6.05% 2007	3.75%	6.5% 2030	7.11%	38	▼ 12	118	▲ 13
Neg outlook will take a long time to hatch, if at all - unless an acquisition forces S&P's hand (the most recent big one of a U.S. pipeline appears to have crystallized the agency thinking in a constructive way, subject to how conservative mgt will remainitlook the financing side) . Expansion in generation (including a now more likely restart of two more Bruce units), another potential large opportunistic acquisition & large projects in the longer term are credit risks. Regulatory environment continues to be unsatisfactory in mgt's eyes which raises questions about whether the company will want to trustify some of the lower return regulated assets - a potential negative for bondholders.															
Westocast (Duke)	JZ	A(low)	NR	BBB	Improving slowly	Low	R	5.7% 2008	4.87%	7.15% 2031	6.98%	51	▼ 12	138	▲ 13
Duke took steps to turn the corner and the balance sheet repair actions are finally beginning to show, with more debt reduction and balance sheet repair expected in 2H04 - we expect positive headlines in both quarterly reports. Exit from non-core businesses continues & core regulated operations are stable. At currtent rating has breathing space. Non-regulated cash flow generation & execution on 2004 plan are key (now good visibility of success). We think DENA will continue to be a source of grief for a while until markets improve or until the new idea of contributing it to a joint venture hatches (lowering of risk). New red flag is resumed talk of opportunistic growth ahead of proof that clean up is complete.															
Gas distribution: *Stable sector, with strong operating franchises and good fundamentals. However, no standalone credits left and credit quality is affected by parent activities. See also our comment on the pipeline sector.*															
Terasen	JZ	A(low)	A3	BBB-p	Stable but some event risk	Low	F	6.3% 2008	5.10%	NA	NA	60	▼ 15	NA	NA
Business fundamentals are a strong combination of regulated gas distribution and pipelines, with aggressive financial profile determining the rating. Market pricing suggests that the market does not give full credence to the S&P rating. Potential creatioess f an income fund for certain assets could turn into a credit risk, depending on the structure & project CAPEX culd be high. 1H04 strong operationally & leverage reduced somewhat early in the year.															
Terasen Gas	JZ	A	A2	BBBp	Stable	Low	F	NA	NA	6.95% 2029	8.32%	NA	####	132	▲ 2
We like the fundamentals of gas distribution at current spread, compared to historical spread. Asset could be a candidate for trustification by parent - credit impact dependent on structure.															
Enbridge Gas Dist.	JZ	A	NR	A-	Stable	Medium	R	11.15% 2009	4.91%	6.1% 2028	6.47%	42	▼ NA	104	▲ 17
We view opcos as better credits in line with DBRS logic but not necessarily better value. Note ECG has a 2005 rate case. Regulatory stability has improved after a recent spate of decisions. PBR possible.															
Union Gas (Duke)	JZ	A	NR	BBB	Standalone stbl but DUK affects	Low	R	5.7% 2008	4.80%	8.65% 2025	6.49%	44	▼ 9	124	▲ 17
See Duke - We believe, in the long run, Union Gas's distribution portion, as a non-core asset, is better insulated from Duke than Westcoast. Its storage is a strategic asset to Duke. In the short term, Union provides solid cash flow to Duke and supports Duke credit quality.															

Legal Disclaimers and Important Disclosure Footnotes

CIBC World Markets

Equity Research
Company Update

December 3, 2004

Canadian Pipelines & Utilities

Terasen Inc.

Investor Day Highlights Solid Organic Growth

Stock Rating:

Sector Performer

Sector Weighting:

Underweight

12-18 mo. Price Target	$27.00
TER-TSX (12/2/04)	$26.94

Key Indices: TSXUtils

3-5-Yr. EPS Gr. Rate (E)	8.0%
52-week Range	$21.50-$27.66
Shares Outstanding	104.9M
Float	104.9M Shrs
Avg. Daily Trading Vol.	119,329
Market Capitalization	$2,826.0M
Dividend/Div Yield	$0.84 / 3.1%
Fiscal Year Ends	December
Book Value	$13.19 per Shr
2004 ROE (E)	11.0%
LT Debt	$2,642.4M
Preferred	$125.00M
Common Equity	$1,384.0M
Convertible Available	Yes

Earnings per Share	Prev	Current
2003		$1.33A
2004		$1.40E
2005		$1.55E
P/E		
2003		20.3x
2004		19.2x
2005		17.4x

Dividends per Share	
2002	$0.705
2003	$0.765
2004E	$0.825
2005E	$0.89

Debt to Total Capital	
2002	66.2%
2003	67.0%
2004E	66.5%

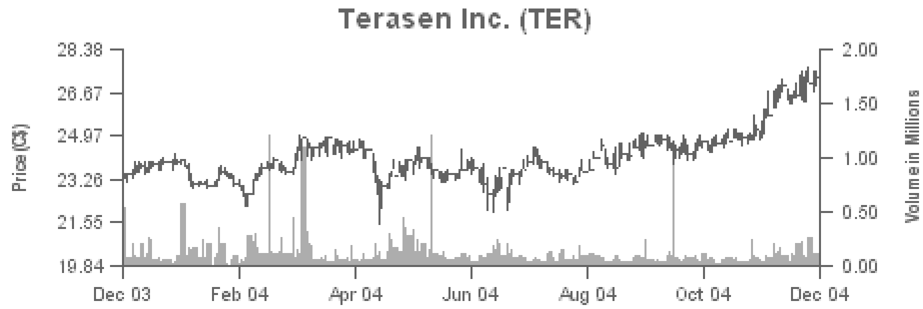
Company Description

Terasen is a gas distribution and oil pipeline company. Its subsidiary, Terasen Gas, distributes natural gas to B.C., including Vancouver and the interior.

www.terasen.com

- Terasen held an investor meeting in Toronto yesterday. The meeting highlighted the company's strong track record and attractive organic growth opportunities. We are maintaining our EPS estimates and target price.
- We believe Terasen's organic growth opportunities excluding the Trans Mountain expansion are in line with the Canadian utility group. If shippers approve the TMX expansion, growth will be superior to the group in our opinion.
- The stock already reflects a premium for the Trans Mountain expansion potential. We think Terasen has developed an impressive and realistic proposal. Yet, while we think they have an inside track, it is truly impossible to say whether they will beat out Enbridge at this time.
- Given the uncertainty of the TMX expansion, and the expiry of existing tolling agreements in 2006, we think the stock is fully valued. It looked overvalued a few weeks ago, but given the strength in bonds and the other utilities lately, we are maintaining our Sector Performer rating.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

04-39199 © 2004

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

See "Legal Disclaimer" and "Important Disclosure Footnotes" sections at the end of this report for important disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Matthew Akman
1 (416) 956-6169
Matthew.Akman@cibc.ca

Alda Pavao, CFA
1 (416) 956-3229
Alda.Pavao@cibc.ca

Investment Conclusions

Terasen held an investor meeting in Toronto yesterday. The meeting highlighted the company's strong track record and attractive organic growth opportunities. We are maintaining our EPS estimates and target price.

Growth Without Trans Mountain Expansion Is Solid But Average

Terasen has achieved superior growth in recent years and investors have been rewarded accordingly with superior returns. Management has done an outstanding job by any measure. The question is, can the company sustain its superior growth rates?

We think the answer is no, unless shippers approve the Trans Mountain expansion (TMX). Apart from TMX, the other proposed projects that could potentially add to EPS are insufficient to drive premium growth, in our opinion:

- ***Inland Pacific Connector vulnerable to competing projects –*** The proposed $300 - $500 million Inland Pacific Connector would deliver Alberta gas from the B.C. interior to the West Coast. We think Duke Energy (DUK-NYSE, Sector Outperformer) has potential to compete with the proposal by expanding its own existing pipeline from Northern B.C. In fact, Duke is interested in investing in Canada and is seeking pipeline expansion opportunities. In addition, gas from a proposed LNG project in Northern B.C. could potentially land in Vancouver, obviating the need for greater supply from the East.
- ***Hard to support much higher ROE on gas distribution –*** The proposed increase in the allowed ROE on gas distribution could theoretically boost EPS. We estimate that every 10 basis point increase is worth almost $0.01 and that every 100 basis points on allowed equity thickness is worth $0.02. However, there is a reason why Terasen Gas has the lowest allowed ROE in the country – it has the lowest risk profile in the country. In this context, we see only minor potential upside on the allowed return in 2006.
- ***Water business still a small portion of overall earnings –*** The water business – highlighted in a special presentation – appears poised for solid growth. However, the business is coming off of a very small base. We see limited potential for large-scale capital investments because water privatization is not part of the Canadian political fabric, and therefore we see limited potential growth in Canada.

On the other hand, we think Terasen has at least three projects in the works with a high likelihood of adding materially to growth in the next few years:

- ***Express expansion on track –*** The Express Pipeline expansion is on track for an April 2005 in-service date and is likely $0.05 - $0.10 additive to EPS in a full year.
- ***Corridor expansion likely required soon –*** The Corridor Pipeline from the oil sands to Edmonton likely requires expansion in the next few years. Current shipper Shell Canada (SHC-TSX, Sector Performer) may require expansion by 2006/7. Terasen may also spend up to $300 million and add expansion capacity for third-party shippers.
- ***Vancouver Island LNG could be done near-term –*** Terasen is proposing to construct a $100 million LNG storage facility for peak power shaving. The facility probably represents the most viable economic means of addressing high seasonal demand on Vancouver Island.

Trans Mountain Expansion Looks Reasonable But Still Uncertain

Since Enbridge (ENB-TSX, Sector Performer) and Terasen advanced competing proposals for new oil pipelines to the West Coast we have leaned toward the Terasen proposal as the likely winner. The incremental approach and use of an existing right-of-way (Terasen) in our view outweighs the advantage of a clear port to Asia (Enbridge).

This view was reinforced by Terasen's release of an expression of interest on December 1. The company outlined proposals to expand shipping capacity out of the Westridge Marine Terminal by dredging the port and adding a second berth. It also quantified landed costs and determined that a Northern landing point (Prince Rupert) would add $0.35 - $0.60 to the producer netback on barrels moving to Asia but subtract similar amounts from barrels moving to California. In this context, the advantage of building to Prince Rupert is unclear.

We would also argue that Terasen has more incentive to win the Western project than Enbridge. Terasen's tolling agreement on Trans Mountain expires at the end of 2005. Its best hope of avoiding a major reduction in the allowed ROE is to offer a lower toll on expanded capacity. Missing this expansion opportunity would leave Terasen with a hole to fill in its 2006 earnings and average growth in the medium-term.

On the other hand, the expansion is unpredictable because politics and preferences of senior executives at major oil producing companies can sway the decision. If major producers decide Asia is the market of the future, they may still approve the Enbridge Gateway project. The reality is nobody knows for sure which project will go forward at this time.

Valuation Slightly Rich Given Tolling Renewal and TMX Risk

Terasen's valuation is slightly rich given risks to 2006 earnings and uncertainty about the TMX expansion. The stock has the lowest yield and is trading at 17.5x 2005 EPS with the Canadian utility group at about 16.5x. If the TMX project were in hand, we think the premium would be justified. Terasen shares may not be trading as high as they would if the TMX project were approved, but they are certainly already trading as though the project has a high likelihood.

Since we believe Terasen's organic growth opportunities excluding the Trans Mountain expansion are only in line with the Canadian utility group, and since the stock is already reflecting a high probability TMX will proceed, we think the stock is fairly valued. It looked overvalued a few weeks ago, but given the strength in bonds lately and the move up in other Canadian utility share prices, we are maintaining our Sector Performer rating.

Price Target Calculation

Our $27 target price is based on a 17.4x multiple of our 2006 EPS forecast of $1.55. It also implies a 3.4% dividend yield. Given Terasen's superior long-term growth prospects and low risk profile, we are using a target P/E multiple at the higher end of the group average, but within the stock's historical trading range of 8x-18x earnings.

Key Risks to Price Target

Terasen could fall short of our 2005 and 2006 earnings forecasts (and fail to meet our target price) for various reasons, including (but not limited to) the lower achieved ROEs and lower than expected growth in oil sands volumes. Our EPS estimates assume that Terasen continues to earn a high return on its Trans Mountain pipeline (tolls are up for renewal by year-end 2005). Increased competition for pipeline and utility assets by financial players also raises risk to returns on possible acquisitions. In addition, the stocks are sensitive to changes in Canadian bond yields. If broader market risk dissipates and bond yields rise significantly, valuation in the sector could fall.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2003 Actual	$0.71A	$0.08A	($0.07A)	$0.61A	$1.33A
2004 Current	$0.75A	$0.10A	($0.03A)	$0.59E	$1.40E
2005 Current	--	--	--	--	$1.55E

Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 12/2/2004:
Duke Energy (2a, 2d, 2g, 7) (DUK-NYSE, US$24.44, Sector Outperformer)
Enbridge Inc. (2a, 2e, 2g, 7) (ENB-TSX, $57.85, Sector Performer)
Shell Canada Limited (2g, 6a) (SHC-TSX, $75.25, Sector Performer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

1) CIBC World Markets Corp. makes a market in the securities of this company.

2a) This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2b) CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.

2c) CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.

2d) CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.

2e) CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.

2f) CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

2g) CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

3a) This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.

3b) CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.

3c) CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.

4a) This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.

4b) CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.

4c) CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.

5a) The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.

5b) A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.

6a) The CIBC World Markets Inc. analyst(s) who covers this company also has a long position in its common equity securities.

6b) A member of the household of a CIBC World Markets Inc. research analyst who covers this company has a long position in the common equity securities of this company.

7) CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.

8) A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.

9) A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.

10) Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.

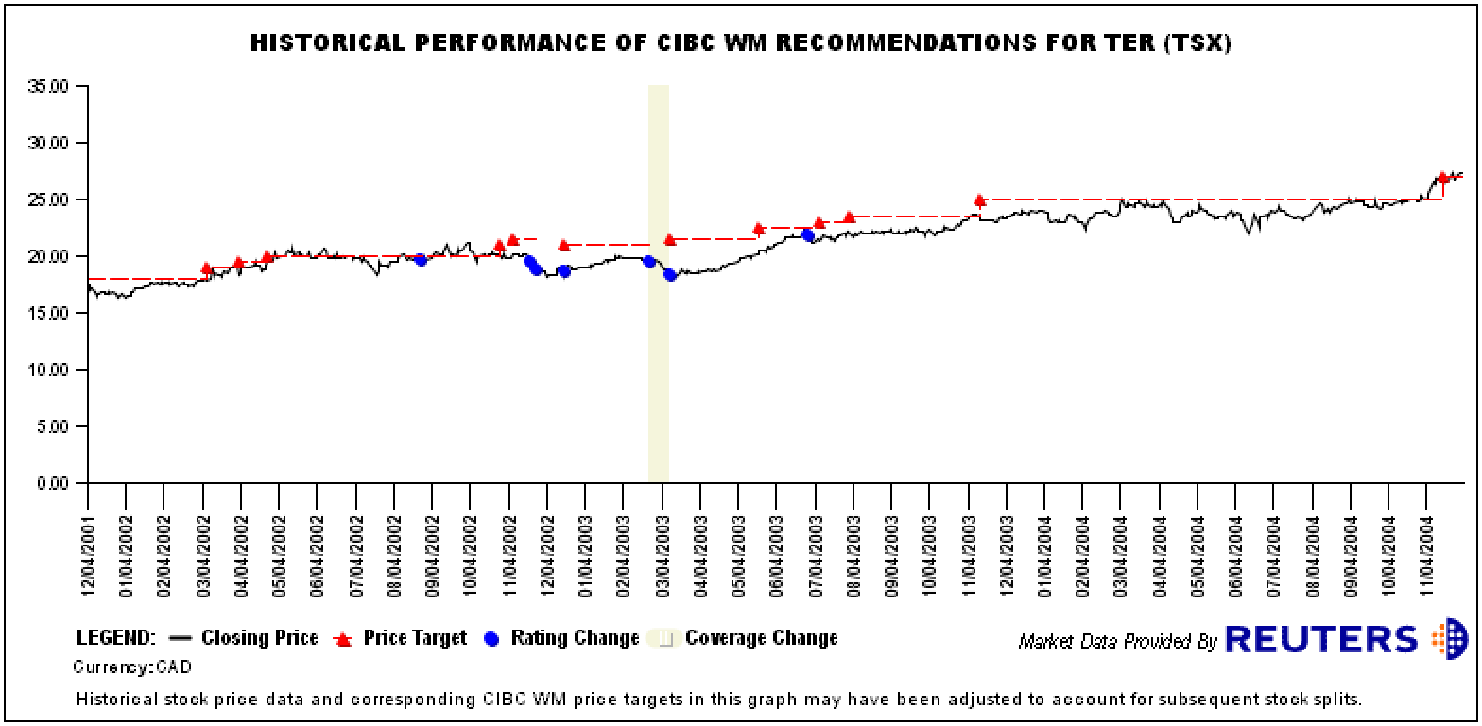
11) The equity securities of this company are restricted voting shares.

12) The equity securities of this company are subordinate voting shares.

13) The equity securities of this company are non-voting shares.

14) The equity securities of this company are limited voting shares.

CIBCWM Price Chart



HISTORICAL PERFORMANCE OF CIBC WM RECOMMENDATIONS FOR TER (TSX)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
03/08/2002	▲	17.81	H	19.00	Peter Case
04/03/2002	▲	18.38	H	19.50	Peter Case
04/26/2002	▲	19.58	H	20.00	Peter Case
08/26/2002	●	19.66	SU	20.00	Peter Case
10/28/2002	▲	20.10	SU	21.00	Peter Case
11/07/2002	▲	20.13	SU	21.50	Peter Case
11/21/2002	●	19.48	SP	21.50	Peter Case
11/25/2002	▲●	18.85	NR	None	Peter Case
12/18/2002	▲●	18.63	SP	21.00	Peter Case
02/24/2003	▲●□	19.51	S	None	CIBC World Markets Corp.
03/12/2003	▲●□	18.41	SO	21.50	Matthew Akman
05/21/2003	▲	20.13	SO	22.50	Matthew Akman
06/30/2003	●	21.78	SP	22.50	Matthew Akman
07/08/2003	▲	21.30	SP	23.00	Matthew Akman
08/01/2003	▲	21.93	SP	23.50	Matthew Akman
11/13/2003	▲	23.58	SP	25.00	Matthew Akman
11/15/2004	▲	27.00	SP	27.00	Matthew Akman

CIBCWM Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBCWM is restricted*** from rating the stock.
Stock Ratings Prior To August 26th 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
R	Restricted	Restricted
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and S&P/TSX Composite in Canada.
"-S" indicates Speculative. An investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
***Restricted due to a potential conflict of interest.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution: CIBC World Markets Coverage Universe

(as of 02 Dec 2004)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	305	32.6%	Sector Outperformer (Buy)	196	64.3%
Sector Performer (Hold/Neutral)	441	47.1%	Sector Performer (Hold/Neutral)	255	57.8%
Sector Underperformer (Sell)	190	20.3%	Sector Underperformer (Sell)	91	47.9%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Canadian Pipelines & Utilities Coverage Universe

(as of 02 Dec 2004)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	25.0%	Sector Outperformer (Buy)	1	50.0%
Sector Performer (Hold/Neutral)	5	62.5%	Sector Performer (Hold/Neutral)	4	80.0%
Sector Underperformer (Sell)	1	12.5%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Canadian Pipelines & Utilities Sector includes the following tickers: ACO.NV.X, CU.NV, EMA, ENB, FTS, TA, TER, TRP.

Important disclosures required by IDA Policy 11, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC on the web at http://research.cibcwm.com/res/Policies/Policies.html or write to CIBC World Markets Inc. BCE Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

Important Disclosure Footnotes for TER

2a Terasen Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from Terasen Inc. in the past 12 months.

2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Terasen Inc. in the next 3 months.

7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Terasen Inc.

Legal Disclaimer

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.
Conflicts of Interest: CIBC World Markets' equity research analysts are compensated from revenues generated by various CIBC World Markets businesses, including CIBC World Markets' Investment Banking Department. CIBC World Markets may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should not rely solely on this report in evaluating whether or not to buy or sell the securities of the subject company.
Legal Matters: This report is issued and approved for distribution by (i) in Canada by CIBC World Markets Inc., a member of the IDA and CIPF, (ii) in the UK, CIBC World Markets plc, which is regulated by the FSA, and (iii) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report has not been reviewed or approved by CIBC World Markets Corp., a member of the NYSE and SIPC, and is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC Rule 15a-6 and Section 15 of the Securities Act of 1934, as amended). This document and any of the products and information contained herein are not intended for the use of private investors in the UK. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited. This report is provided for informational purposes only, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited.
The securities mentioned in this report may not be suitable for all types of investors; their prices, value and/or income they produce may fluctuate and/or be adversely affected by exchange rates. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Before making an investment decision on the basis of any recommendation made in this report, the recipient should consider whether such recommendation is appropriate given the recipient’s particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.
The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgements as of the date of this report and are subject to change without notice.
Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

CIBC World Markets

Equity Research
Earnings Update

February 1, 2005

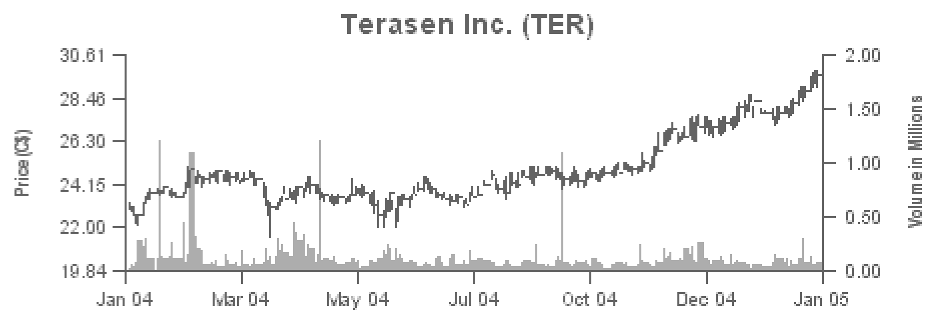
Pipelines, Utilities, & Power

Terasen Inc.

Support for Pipeline Expansion Improves Medium-Term Growth

- Terasen announced it has received strong support for the first phase of the Trans Mountain Pipeline expansion. The so-called "TMX1" is not the big prize but can contribute significantly to earnings. We are raising our target price by $1 to $29.
- Terasen has support from 17 different parties for the expansion. The support was in response to a request for expressions of interest. A formal open season will now proceed, probably this spring or early summer.
- The cost of TMX1 is about $570 million for an additional 75,000 barrels-per-day of capacity on Trans Mountain. Despite the high cost, the project is likely economic and additive to earnings on its own. It should add to earnings in 2007 and again in 2009.
- We are raising our target price because of the positive announcement and because of the lower interest rate environment boosting most utility stocks. Our rating balances the positive longer-term growth outlook against risk of renewing a major tolling agreement this year.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

05-41445 © 2005

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Stock Rating:
Sector Performer

Sector Weighting:
Market Weight

12-18 mo. Price Target	$29.00
TER-TSX (1/31/05)	$29.35
Key Indices: TSXUtils	
3-5-Yr. EPS Gr. Rate (E)	8.0%
52-week Range	$21.50-$29.79
Shares Outstanding	104.9M
Float	104.9M Shrs
Avg. Daily Trading Vol.	119,329
Market Capitalization	$3,078.8M
Dividend/Div Yield	$0.84 / 2.9%
Fiscal Year Ends	December
Book Value	$13.19 per Shr
2005 ROE (E)	11.0%
LT Debt	$2,642.4M
Preferred	$125.00M
Common Equity	$1,384.0M
Convertible Available	Yes

Earnings per Share	Prev	Current
2003		$1.33A
2004		$1.42E
2005		$1.55E
P/E		
2003		22.1x
2004		20.7x
2005		18.9x

Dividends per Share	
2002	$0.705
2003	$0.765
2004E	$0.825
2005E	$0.89

Debt to Total Capital	
2002	66.2%
2003	67.0%
2004E	66.5%

Company Description

Terasen is a gas distribution and oil pipeline company. Its subsidiary, Terasen Gas, distributes natural gas to B.C., including Vancouver and the interior.

www.terasen.com

Matthew Akman
1 (416) 956-6169
Matthew.Akman@cibc.ca

Alda Pavao, CFA
1 (416) 956-3229
Alda.Pavao@cibc.ca

Investment Conclusions

Terasen announced it has received strong support for the first phase of the Trans Mountain Pipeline expansion. The so-called "TMX1" is not the big prize but can contribute significantly to earnings. We are raising our target price by $1.

The company's proposal is to expand the 225,000 barrel-per-day Trans Mountain pipeline in three phases:

- TMX1 would expand the pipeline to 300,000 barrels-per-day by 2008 at a cost of $570 million (35,000 barrels-per-day for $205 million by early 2007 and another 40,000 barrels-per-day for $365 million by early 2009).
- TMX2 would expand the pipeline to 400,000 barrels-per-day by 2009 for an additional $900 million.
- TMX3 would expand the pipeline to 850,000 barrels-per-day by 2010 for an additional $800 million.

Terasen sought initial expressions of interest for the entire project and found support from 17 different parties. However, there was no consensus on whether TMX2 and TMX3 would head North to Prince Rupert or South to Vancouver. This uncertainty leaves open the debate of whether shippers would continue with the TMX expansion after phase 1 is complete, or whether they would instead approve Enbridge's (ENB-TSX, Sector Performer) proposed Gateway project.

But regardless, it looks like TMX1 may move forward with or without TMX2 and TMX3. A formal open season will now proceed, probably this spring or early summer. Despite the high cost, the project is likely economic and additive to earnings on its own. With a US$1.40/barrel Trans Mountain toll from Edmonton to Vancouver, the expansion could add over C$40 million revenues and sufficient earnings to generate a reasonable ROE on the $570 million investment. It should add to EPS in 2007 and again in 2009.

The positive shipper response does not necessarily mean TMX2 and TMX3 will be constructed. Enbridge recently announced plans to expand its pipeline to Chicago (the Superior to Chicago portion) by over 200,000 barrels-per day by 2008. Gateway would add another 400,000 barrels-per-day of capacity to the West Coast. So we do not think the TMX2 and TMX3 can be constructed if shippers choose Gateway instead.

While shippers weigh their options, the tolling agreement on Trans Mountain expires at the end of this year. We estimate Terasen is earning a mid 20% ROE on the pipeline vs. a National Energy Board allowed return of about 9.5%. We do not think the ROE will drop all the way to 9.5%. But we estimate that every 100 basis point reduction in that ROE is worth $0.01 - $0.02 in EPS for Terasen.

Extending the current tolling agreement and having shippers approve TMX2 and TMX3 would be a best-case scenario for Terasen. In that case, the company would be able to offset the (potentially) lower ROE on existing pipeline rate base with earnings from the expansion.

We are raising our target price by $1 because of the positive announcement and because of the lower interest rate environment boosting most utility stocks. Our target on Terasen is now based on an 18.7x multiple of forecast 2006 earnings (in line with the multiple we apply to Enbridge).

The stock has already been trading around the $29 level lately, but most of the Canadian pipelines and utilities are at or near our targets. Our Sector Performer rating balances the positive longer-term growth outlook against near-term risks surrounding the Trans Mountain tolling agreement.

Price Target Calculation

Our $29 target price is based on an 18.7x multiple of our 2006 EPS forecast of $1.55. It also implies a 3.6% dividend yield. Given Terasen's superior growth prospects and low risk profile, we are using a target P/E multiple at the higher end of the group average, but within the stock's historical trading range of 8x-20x forward earnings.

Key Risks to Price Target

Terasen could fall short of our 2005 and 2006 earnings forecasts (and fail to meet our target price) for various reasons, including (but not limited to) the lower achieved ROEs and lower-than-expected growth in oil sands volumes. Increased competition for pipeline and utility assets by financial players also raises risk to returns on possible acquisitions. In addition, the stocks are sensitive to changes in Canadian bond yields. If broader market risk dissipates and bond yields rise significantly, valuation in the sector could fall.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2003 Actual	$0.71A	$0.08A	($0.07A)	$0.61A	$1.33A
2004 Current	$0.75A	$0.10A	($0.03A)	$0.61E	$1.42E
2005 Current	--	--	--	--	$1.55E

IMPORTANT DISCLOSURES:

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Potential Conflicts of Interest: Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department within the Corporate and Leveraged Finance Division. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

Important Disclosure Footnotes for Terasen Inc. (TER)

2a Terasen Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from Terasen Inc. in the past 12 months.

2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Terasen Inc. in the next 3 months.

7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Terasen Inc.

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 01/31/2005:
Enbridge Inc. (2a, 2e, 2g, 7) (ENB-TSX, $62.91, Sector Performer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

1 CIBC World Markets Corp. makes a market in the securities of this company.

2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.

2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.

2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.

2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.

3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.

3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.

4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.

4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.

4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.

5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.

5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.

6a The CIBC World Markets Inc. analyst(s) who covers this company also has a long position in its common equity securities.

6b A member of the household of a CIBC World Markets Inc. research analyst who covers this company has a long position in the common equity securities of this company.

7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.

8 A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.

9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.

10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.

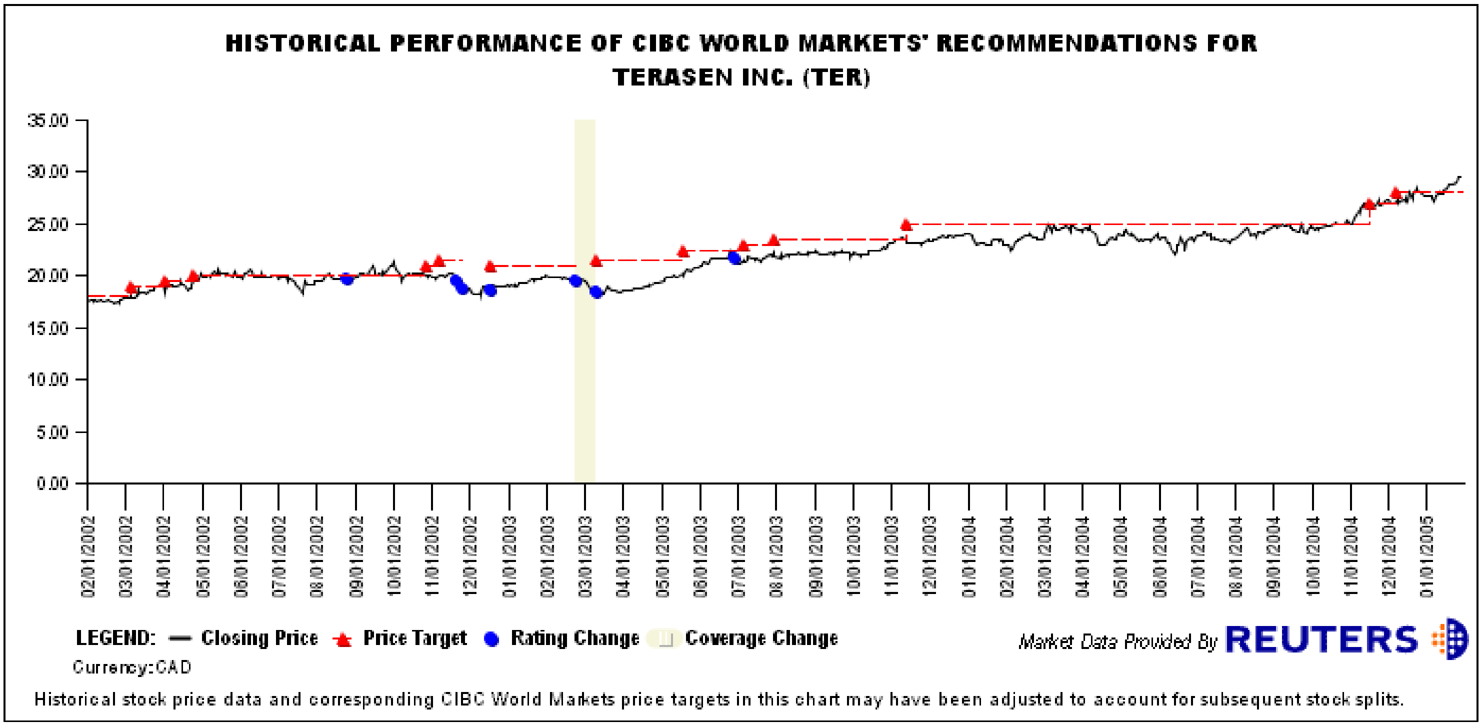
11 The equity securities of this company are restricted voting shares.

12 The equity securities of this company are subordinate voting shares.

13 The equity securities of this company are non-voting shares.

14 The equity securities of this company are limited voting shares.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR TERASEN INC. (TER)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
03/08/2002	▲	17.81	H	19.00	Peter Case
04/03/2002	▲	18.38	H	19.50	Peter Case
04/26/2002	▲	19.58	H	20.00	Peter Case
08/26/2002	●	19.66	SU	20.00	Peter Case
10/28/2002	▲	20.10	SU	21.00	Peter Case
11/07/2002	▲	20.13	SU	21.50	Peter Case
11/21/2002	●	19.48	SP	21.50	Peter Case
11/25/2002	▲●	18.85	NR	None	Peter Case
12/18/2002	▲●	18.63	SP	21.00	Peter Case
02/24/2003	▲●□	19.51	S	None	CIBC World Markets Corp.
03/12/2003	▲●□	18.41	SO	21.50	Matthew Akman
05/21/2003	▲	20.13	SO	22.50	Matthew Akman
06/30/2003	●	21.78	SP	22.50	Matthew Akman
07/08/2003	▲	21.30	SP	23.00	Matthew Akman
08/01/2003	▲	21.93	SP	23.50	Matthew Akman
11/13/2003	▲	23.58	SP	25.00	Matthew Akman
11/15/2004	▲	27.00	SP	27.00	Matthew Akman
12/06/2004	▲	27.00	SP	28.00	Matthew Akman

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Stock Ratings Prior To August 26, 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
R	Restricted	Restricted
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 31 Jan 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	285	32.9%	Sector Outperformer (Buy)	183	64.2%
Sector Performer (Hold/Neutral)	406	46.8%	Sector Performer (Hold/Neutral)	233	57.4%
Sector Underperformer (Sell)	175	20.2%	Sector Underperformer (Sell)	83	47.4%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 31 Jan 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	30.0%	Sector Outperformer (Buy)	2	66.7%
Sector Performer (Hold/Neutral)	5	50.0%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	2	20.0%	Sector Underperformer (Sell)	1	50.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.NV.X, CU.NV, DUK, EEP, EMA, ENB, FTS, TA, TER, TRP.

*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IDA Policy 11, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC on the web at http://research.cibcwm.com/res/Policies/Policies.html or by writing to CIBC World Markets Inc., BCE Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

Legal Disclaimer

This report is issued and approved for distribution by (i) in Canada, CIBC World Markets Inc., a member of the Investment Dealers Association ("IDA"), the Toronto Stock Exchange, the TSX Venture Exchange and CIPF, (ii) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (iii) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report is distributed in the Unites States by CIBC World Markets Inc. and has not been reviewed or approved by CIBC World Markets Corp., a member of the New York Stock Exchange ("NYSE"), NASD and SIPC. This report is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC 15a-6 and Section 15 of the Securities Act of 1934, as amended) and is not intended for the use of any person or entity that is not a major institutional investor. Major Institutional Investors receiving this report should effect transactions in securities discussed in the report through CIBC World Markets Corp. This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

CIBC World Markets

Equity Research
Earnings Update

February 18, 2005

Pipelines, Utilities, & Power

Terasen Inc.

Solid Earnings, But Slightly Lower Than Expected

Stock Rating:
Sector Performer

Sector Weighting:
Market Weight

12-18 mo. Price Target	$29.00
TER-TSX (2/17/05)	$29.34

Key Indices: TSXUtils

3-5-Yr. EPS Gr. Rate (E)	6.0%
52-week Range	$21.50-$29.91
Shares Outstanding	104.9M
Float	104.9M Shrs
Avg. Daily Trading Vol.	94,104
Market Capitalization	$3,077.8M
Dividend/Div Yield	$0.90 / 3.1%
Fiscal Year Ends	December
Book Value	$13.04 per Shr
2005 ROE (E)	11.0%
LT Debt	$2,583.3M
Preferred	$125.00M
Common Equity	$1,371.1M
Convertible Available	Yes

Earnings per Share	Prev	Current
2004	$1.42E	$1.40A
2005	$1.55E	$1.50E
2006	$1.55E	$1.50E
P/E		
2004	20.7x	21.0x
2005	18.9x	19.6x
2006	18.9x	19.6x

Dividends per Share	
2002	$0.705
2003	$0.765
2004	$0.825
2005E	$0.90

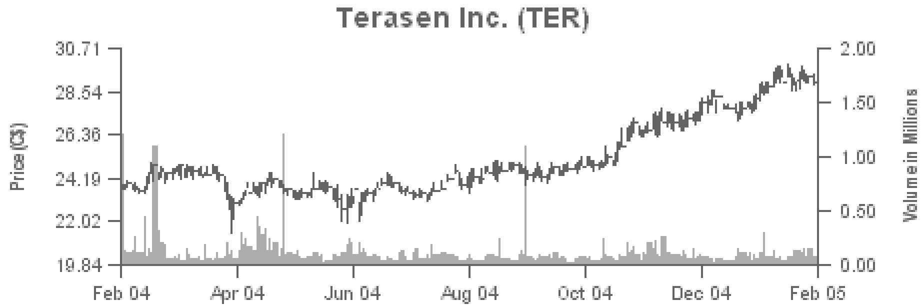
Debt to Total Capital	
2002	66.2%
2003	67.0%
2004	65.4%

Company Description
Terasen is a gas distribution and oil pipeline company. Its subsidiary, Terasen Gas, distributes natural gas to B.C., including Vancouver and the interior.

www.terasen.com

- Terasen reported normalized 2004 EPS of $1.40 vs. our estimate of $1.42 and $1.33 in 2003. A dividend increase of 7% was in line with expectations. We are reducing our estimates by $0.05, but maintaining our $29 target price.
- Gas Distribution earnings are falling due to lower allowed ROEs that move in lockstep with forecast long bond yields. A regulatory hearing in Q3 of this year could help offset this impact going forward, if the BCUC allows for a change in the ROE formula or increase in equity ratio.
- Oil Pipeline earnings remain strong, and offset the decline in Gas Distribution. We see visible growth of 6% in 2005 due to ongoing growth in the segment. However, near-term oil sands production and refinery issues cause us to slightly reduce EPS estimates.
- We are not raising our $29 target price even though the stock is already trading at that level. The TMX project is well developed and makes sense but faces stiff competition. In that context, we believe Terasen shares are fully valued.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Matthew Akman
1 (416) 956-6169
Matthew.Akman@cibc.ca

Alda Pavao, CFA
1 (416) 956-3229
Alda.Pavao@cibc.ca

Investment Summary

Terasen reported normalized 2004 EPS of $1.40 vs. our estimate of $1.42 and $1.33 in 2003, and raised its dividend by 7%. Earnings from Gas Distribution were slightly weaker-than-expected. We are reducing our estimates by $0.05, but maintaining our $29 target price.

For a detailed breakdown and analysis of earnings by segment, please see the appendix to this comment.

Oil Pipeline Growth Offsets Gas Distribution Decline

Oil pipeline earnings drove solid growth again for Terasen in 2004. Volume flows on the Trans Mountain Pipeline improved by over 9% on the Canadian portion, and almost doubled on the U.S. portion. We see continued growth in 2005 as an expansion on the Express Pipeline comes into service by April.

Unfortunately, declining earnings in Gas Distribution are taking some of the upside potential out of Terasen's earnings per share. Gas Distribution earnings are falling due to lower allowed ROEs that now move in lockstep with forecast long bond yields. We estimate that every 50 basis point reduction in bond yields results in a $0.05 EPS impact.

Absent any change in the regulatory framework, Terasen Gas Distribution could experience a further drop in its earnings in 2006. The company has initiated a hearing, likely beginning in Q3, to achieve a new ROE formula and/or thicker equity ratio. However, the outcome of this hearing is uncertain, as the BC regulator has not, to date, signaled an intention to change the current formula.

In addition, management indicated volumes on the Trans Mountain pipeline would be negatively impacted in Q1'05 by refinery outages and oil sands production delays. The combined effect of the Gas Distribution ROE drop, and oil volume issues cause us to reduce our estimates by $0.05 in 2005 and 2006. Our estimate for 2005 is in line with management guidance for 6% growth off of a $1.40 EPS base.

Future Growth Depends on TMX Project

Terasen has plans for $350 million of capital spending in 2005 (internally and debt financed), and has several modest but attractive growth initiatives in the works:

- $100 million LNG plant on Vancouver Island
- Expansion of Corridor Pipeline in Alberta (2007 timeframe)
- Organic growth in the Water & Utility Services business

These initiatives provide some organic growth, but we believe the stock is trading at a premium to the group because the market anticipates a major expansion on the Trans Mountain Pipeline (TMX 1, 2 and 3). The company plans to hold an open season for TMX1 in the summer of this year.

We think the TMX expansion is a logical and viable project. Terasen has done thoughtful and detailed work on the route and on expansion of docking facilities in Vancouver. Our analysis suggests the company could move a lot more oil out of Vancouver and into the California market.

However, competition in the form of Enbridge's (ENB-TSX, Sector Performer) Gateway Project is stiff. Our view is that Enbridge's project is also viable and reflects a sound long-term vision that shippers may choose to follow. Large Chinese companies may support Enbridge, resulting in the cancellation of the TMX project. In this sense, the outcome is highly unpredictable and to some extent, out of Terasen's hands despite its good work.

Still Deserves Premium, But No Higher Than Current One

We believe Terasen shares will continue to trade at some premium to the Canadian pipeline and utility group. The company is very well managed and has some visible growth projects.

But the stock is already trading at 19.5x forward earnings estimates and the company's own guidance on the conference call. Despite the 7% dividend increase, the yield is only 3.1%, at the low end of the utility group.

Unless and until Terasen achieves further clarity on approval of the TMX expansion, we do not see the stock moving up from current levels. The stock is already trading at our $29 target but other stocks in the group are also at or through our price targets. Therefore, we are maintaining our Sector Performer rating.

Appendix: Summary of Q4 and Full Year 2004 Results

We normalized Terasen's reported Q4'04 EPS to $0.52 per share by excluding a $1.0 million (after-tax) mark-to-market loss related to natural gas hedges at Clean Energy. For the full year 2004, normalized EPS came in at $1.40 compared to $1.33 in 2003.

Exhibit 1. Segmented Earnings for Terasen

(data in C$ millions, unless otherwise stated)

	Q4/04A	Q4/03A	2004A	2003A
Terasen Gas	$36.2	$37.5	$69.7	$72.6
Terasen Gas (Vancouver Island)	$6.4	$7.3	$26.2	$26.2
Trans Mountain Pipeline	$11.2	$10.0	$39.4	$35.8
Express Pipeline System	$4.9	$3.9	$15.9	$9.7
Corridor Pipeline	$3.8	$4.0	$15.6	$10.7
Water and Utility Services	$0.7	$0.4	$6.6	$4.1
Other Activities	($6.7)	($5.5)	($20.3)	($14.6)
Capital Securities Distributions (net of tax)	($1.6)	($1.7)	($6.6)	($6.6)
Operating Earnings for Common	**$54.9**	**$55.9**	**$146.5**	**$137.9**
Unusual Items	($1.0)	($5.2)	$3.3	($5.2)
Reported Earnings	$53.9	$50.7	$149.8	$132.7
Average Shares Outstanding (mln)	104.8	104.0	104.7	103.6
Operating Earnings per Share	**$0.52**	**$0.54**	**$1.40**	**$1.33**
Reported Earnings per Share	$0.51	$0.49	$1.43	$1.28

Notes:

1. Unusual item in 2004 relates to $3.3 million gains from mark-to-market accounting on Terasen's share of Clean Energy's natural gas positions.
2. Unusual items in 2003 relate to gas utility restructuring charge ($3.4 mln after-tax) and write-down of Westport Innovations investment ($1.8 mln after-tax).

Source: Company reports and CIBC World Markets Inc.

Natural Gas Distribution

Q4 earnings from the gas distribution utilities came in lower-than-expected, mainly as a result of a change in the method of accounting for quarterly income taxes at Terasen Gas. Going forward, Terasen Gas' income taxes will be determined using an effective tax rate instead of allocating annual taxes based on budgeted quarterly sales revenues. Quarterly earnings from Terasen Gas have been restated in 2003-4 to reflect this accounting change.

For the full year, cost savings from the integration of the utility operations (+$4.1 million earnings impact) helped to mitigate some of the negative impacts from a lower allowed ROE (-$2.4 million earnings impact) and introduction of earnings sharing in 2004 (-$4.7 million impact).

Petroleum Transportation

Trans Mountain Pipeline's earnings showed solid growth in 2004, driven by strong demand from U.S. refiners for oil sands production. Volume throughput on the Canadian mainline was up 9.25% year-over-year while the U.S. portion showed very strong y/y growth (up 68%). The higher volume flows also helped to offset lower Canadian tolls.

CIBC World Markets

Management cautioned that Trans Mountain volumes will be depressed in the first few months of this year due to planned refinery turnarounds and delayed oil sands production from Suncor (SU-TSX, Sector Performer) and other producers. But these refinery and oil volume issues should dissipate by Q3 at the latest and we should see resumed throughput and earnings growth from Trans Mountain.

Earnings from **Express Pipeline System** came in slightly higher-than-expected, at $15.9 million in 2004 vs. $9.7 million in 2003 and our $15 million estimate. The increase was mainly attributable to higher throughput, averaging 175,300 Bbls/d in 2004 (up 2% year-over-year) and the reversal of foreign exchange losses. The 108 MBbls/day capacity expansion on Express is on schedule to come into service by April this year, which should drive solid organic growth from Express in 2005.

A full year of operations (in service May 2003) contributed to the improved earnings from **Corridor Pipeline** in 2004 (reported $15.6 million compared to $10.7 million in 2003).

Terasen announced plans to add 35 MBbls/day of capacity on Corridor with additional pumping facilities this year. This $6.5 million expansion could be the first stage of a larger phased expansion to add 110-200 MBbls/d of incremental capacity by 2009/10.

Water and Utility Services

The $2.5 million increase in full year earnings from the Water and Utility Services segment was attributable to organic growth ($1.3 million in earnings growth) and acquisitions ($1.2 million in growth).

The company intends to grow these businesses (organically and through acquisitions) in 2005 with a capital spending plan of $50 million.

Other Activities

Excluding a $3.3 million mark-to-market gain from Clean Energy and capital securities distributions, we estimate that Other Activities contributed a loss of $20.3 million in 2004, up from $14.6 million last year. An increase in financing costs and lower income tax recovery were the main contributing factors for the higher operating losses from Other Activities.

Price Target Calculation

Our $29 target price is based on a 19.3x multiple of our 2006 EPS forecast of $1.50. It also implies a 3.3% dividend yield. Given Terasen's superior long-term growth prospects and low risk profile, we are using a target P/E multiple at the higher end of the group average, but within the stock's historical trading range of 8x-20x earnings.

Key Risks to Price Target

Terasen could fall short of our 2005 and 2006 earnings forecasts (and fail to meet our target price) for various reasons, including (but not limited to) the lower achieved ROEs and lower-than-expected growth in oil sands volumes. Increased competition for pipeline and utility assets by financial players also raises risk to returns on possible acquisitions. In addition, the stocks are sensitive to changes in Canadian long bond yields. If broader market risk dissipates and bond yields rise significantly, valuation in the sector could fall.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2004 Actual	$0.63A	$0.17A	$0.08A	$0.52A	$1.40A
2005 Prior	--	--	--	--	$1.55E
2005 Current	--	--	--	--	$1.50E
2006 Prior	--	--	--	--	$1.55E
2006 Current	--	--	--	--	$1.50E

IMPORTANT DISCLOSURES:

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Potential Conflicts of Interest: Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department within the Corporate and Leveraged Finance Division. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

Important Disclosure Footnotes for Terasen Inc. (TER)

2a Terasen Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from Terasen Inc. in the past 12 months.

2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Terasen Inc. in the next 3 months.

7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Terasen Inc.

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 02/17/2005:

Enbridge Inc. (2a, 2e, 2g, 7) (ENB-TSX, $63.50, Sector Performer)

Suncor Energy Inc. (2g, 6a, 7, 9) (SU-TSX, $46.05, Sector Performer)

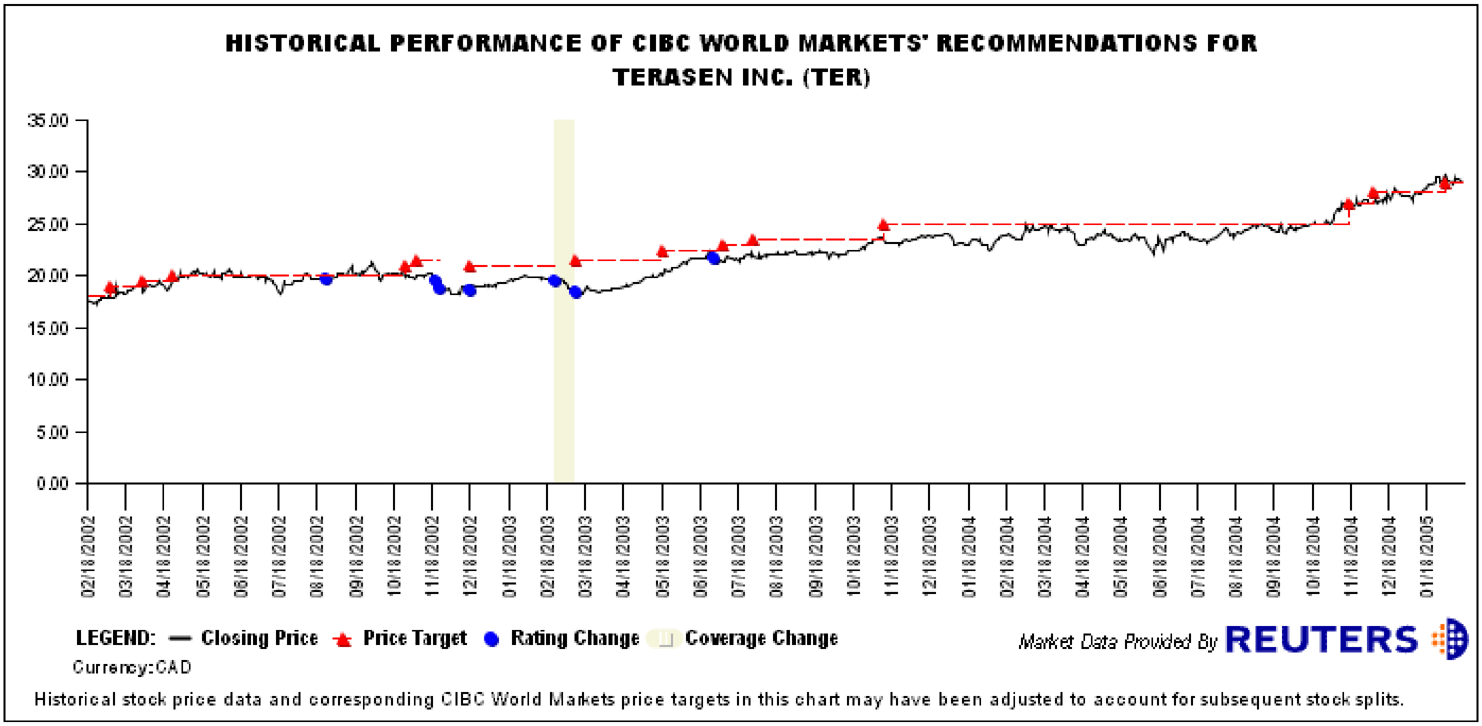
Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

1	CIBC World Markets Corp. makes a market in the securities of this company.
2a	This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
2b	CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
2c	CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
2d	CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
2e	CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
2f	CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
2g	CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3a	This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
3b	CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
3c	CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
4a	This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
4b	CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
4c	CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
5a	The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
5b	A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
6a	The CIBC World Markets Inc. analyst(s) who covers this company also has a long position in its common equity securities.
6b	A member of the household of a CIBC World Markets Inc. research analyst who covers this company has a long position in the common equity securities of this company.
7	CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
8	A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
9	A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
10	Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
11	The equity securities of this company are restricted voting shares.
12	The equity securities of this company are subordinate voting shares.
13	The equity securities of this company are non-voting shares.
14	The equity securities of this company are limited voting shares.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR TERASEN INC. (TER)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
03/08/2002	▲	17.81	H	19.00	Peter Case
04/03/2002	▲	18.38	H	19.50	Peter Case
04/26/2002	▲	19.58	H	20.00	Peter Case
08/26/2002	●	19.66	SU	20.00	Peter Case
10/28/2002	▲	20.10	SU	21.00	Peter Case
11/07/2002	▲	20.13	SU	21.50	Peter Case
11/21/2002	●	19.48	SP	21.50	Peter Case
11/25/2002	▲●	18.85	NR	None	Peter Case
12/18/2002	▲●	18.63	SP	21.00	Peter Case
02/24/2003	▲●□	19.51	S	None	CIBC World Markets Corp.
03/12/2003	▲●□	18.41	SO	21.50	Matthew Akman
05/21/2003	▲	20.13	SO	22.50	Matthew Akman
06/30/2003	●	21.78	SP	22.50	Matthew Akman
07/08/2003	▲	21.30	SP	23.00	Matthew Akman
08/01/2003	▲	21.93	SP	23.50	Matthew Akman
11/13/2003	▲	23.58	SP	25.00	Matthew Akman
11/15/2004	▲	27.00	SP	27.00	Matthew Akman
12/06/2004	▲	27.00	SP	28.00	Matthew Akman
02/01/2005	▲	29.71	SP	29.00	Matthew Akman

CIBC World Markets

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Stock Ratings Prior To August 26, 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
R	Restricted	Restricted
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.
"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
***Restricted due to a potential conflict of interest.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 17 Feb 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	284	33.3%	Sector Outperformer (Buy)	174	61.3%
Sector Performer (Hold/Neutral)	402	47.2%	Sector Performer (Hold/Neutral)	229	57.0%
Sector Underperformer (Sell)	165	19.4%	Sector Underperformer (Sell)	75	45.5%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 17 Feb 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	30.0%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	50.0%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	2	20.0%	Sector Underperformer (Sell)	1	50.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.NV.X, CU.NV, DUK, EEP, EMA, ENB, FTS, TA, TER, TRP.

*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IDA Policy 11, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC on the web at http://research.cibcwm.com/res/Policies/Policies.html or by writing to CIBC World Markets Inc., BCE Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

Legal Disclaimer

This report is issued and approved for distribution by (i) in Canada, CIBC World Markets Inc., a member of the Investment Dealers Association ("IDA"), the Toronto Stock Exchange, the TSX Venture Exchange and CIPF, (ii) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (iii) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report is distributed in the Unites States by CIBC World Markets Inc. and has not been reviewed or approved by CIBC World Markets Corp., a member of the New York Stock Exchange ("NYSE"), NASD and SIPC. This report is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC 15a-6 and Section 15 of the Securities Act of 1934, as amended) and is not intended for the use of any person or entity that is not a major institutional investor. Major Institutional Investors receiving this report should effect transactions in securities discussed in the report through CIBC World Markets Corp. This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

Corporate Debt Comments

February 18, 2005

Joanna Zapior, CFA, CMC (416) 594-8498 Strategy, Utilities, Real Estate, CMBS
Trevor Bateman, CFA, CA (416) 594-7992 Banks, Non-bank financials, Autos, ABS
Kevin Yong, CFA (416) 956-6273 Oil & Gas, Aerospace
Phillip Armstrong (416) 956-3272 Telecom, Cable, Insurance, Retail, Consumer Products
Adam Bulley (416) 594-8626 Associate
Dina Giacomelli (416) 956-6056 Associate
Mark Litowitz (416) 956- 3858 Associate

See "Legal Disclaimer" section at the end of this report for important disclosures, including potential conflicts of interest.

Terasen Inc: 4Q04 results.

Mark Litowitz, 416-956-3858 on behalf of Joanna Zapior.

CREDIT IMPACT: Neutral. Fourth quarter credit metrics were better, both year-over-year and sequentially, with leverage improving by roughly 2% and 1.6% from last quarter and a year ago, respectively. Solid operating cash flows and debt reduction were the primary drivers for the improvements in credit metrics. Strong growth in annual earnings from the pipelines business more than offset weaker annual earnings from the gas distribution segment. We continue to rate this company Market Perform.

Terasen: 4Q04	Debt to CF	EBITDA to Interest	Debt to Cap at book	Debt to Cap at Mkt	Realized ROE	LTM CF	YTD FCF	Adjusted debt
4Q04	10.0	3.0	68.3%	46.1%	11.7%	296	89	2,936
4Q03	10.5	2.7	69.9%	50.4%	11.0%	289	-229	3,030
3Q04	10.4	3.0	70.3%	50.6%	12.0%	304	-23	3,053

	4Q04	4Q03	YTD 04	YTD 03
Earnings contribution:				
GAS DISTRIBUTION				
Terasen Gas	36.2	37.5	69.7	72.6
Terasen Gas VC Island	6.4	7.3	26.2	26.2
PETROLEUM TRANSP.				
TransMountain	11.2	10.0	39.4	35.8
Corridor	3.8	4.0	15.6	10.7
Express	4.9	3.9	15.9	9.7
WATER & UTILITY	0.7	0.4	6.6	4.1
OTHER	(9.3)	(8.8)	(23.6)	(23.0)
Number of gas customers	NA	NA	875,166	859,183
Gas transportation volume (in petajoules)	19.6	20.2	72	72.2
Trans Mountain Canadian Mainline (bbl/d)	239,100	218,500	236,100	216,100
Trans Mountain US Mainline, included in Canadian Mainline (bbl/d)	89,300	57,700	91,700	54,600
Express System (bbl/d)	175,400	174,000	175,300	171,200

- Earnings from Terasen Gas were weaker in 2004 compared to 2003. Lower 2004 earnings were primarily due to lower allowed ROE, which offset efficiency gains from the integration of Vancouver Island and BC mainland operations. Gas customers grew by 1.86%, with about 16,000 new customers signed up during the year.
- Strong demand for oil in both Canada and south of the border helped to increase 2004 throughput volumes on TransMountain and Express pipelines compared to 2003. The increased year-over-year throughput was the main reason for stronger earnings contribution from Petroleum Transportation in 2004 compared with 2003 pipeline earnings. A full year of earnings contribution from Corridor, which commenced operation in May 2003, also contributed to year-over-year growth in pipeline earnings.
- Water and utility services segment earnings improved by $2.5 million in 2004. Most of this growth in earnings was due to organic growth from existing water and utility services business. Another source of earnings growth in this segment came from the acquisition of Fairbanks Sewer and Water.

	Analyst	Senior unsecured DBRS	Moody's	S&P	Credit fundamentals (1-3 years)	Rating change probab. (1 year)	Valuation	YTD total return: Shorter bond — Bond	Return	Longer bond — Bond	Return	YTD change in spread: Shorter bond — Curr Sprd	YTD Chng	Longer bond — Curr Sprd	YTD Chng
Pipelines: *Solid, largely regulated fundamentals, though regulatory environment disadvantages those companies that have North American growth plans as Cdn leverage is higher and returns lower. Our investment thesis rests on two pillars: 1) operating excellence and cost management will be key in light of 2) regulators pressuring for cost control, including returns. Holding company risk has been increasing with expansion in non-regulated areas, equity market push for growth, and still elevated leveragex*															
Gas distribution: *Stable sector, with strong operating franchises and good fundamentals. However, no standalone credits left (exceptand credit quality is affected by parent activities. See also our comment on the pipeline sector.*															
Enbridge Inc	JZ	A	A3	A-	May weaken (M&A, projects)	Medium	C	5.8% 2008	0.63%	8.2% 2024	2.58%	38	▲ 2	98	▼ 3
Enbridge Pipelines	JZ	A(high)	NR	A-	Stable	Medium	R	5.621% 2007	0.48%	7.2% 2032	3.52%	33	▲ 3	121	▼ 4
Enbridge Gas Dist.	JZ	A	NR	A-	Stable	Medium	R	11.15% 2009	0.81%	6.1% 2028	2.75%	53	▲ NA	101	↔ 0
Alliance Pipe	JZ	A(low)	A3	BBB+	Strong	Very low	F	7.23% 2015	1.81%	7.217% 2025	2.04%	48	▼ 15	94	▼ 5
There is continued M&A and large project risk - lots of noise in the news as juggling for positions continues. The market now prices its uncertainty about committment to "A" ratings. Pipe acquisition in the GoM has eroded current balance sheet to the levels conti permissible under the S&P rating. Over time, we see balance sheet quality potentially weakening as more risky assets may be added while mature, stable assets end up in income trust. That it has historically been a defensive credit (low spread volatility) sible us a pause but history may not repeat itself. We view **opcos** as better credits in line with DBRS logic but not necessarily better value. Note **EGD** has a 2005 rate case. Regulatory stability has improved after a recent spate of decisions & PBR is possible. Mainline is renegotiating its settlement this fall. For **Alliance,** we like the "structuring premium" of an amortizer and the simplicity of this credit; not affected by how the ownership is structured; valuation reflects the defensive nature of this credit. It continues to perform as expected. Mgt turnover has been signficant (CFO earlier and now CEO) but this has no credit impact either for this contractually structured credit															
TransCanada	JZ	A	A2	A- Neg	Stable but event risk	Medium	R	6.05% 2007	0.60%	6.5% 2030	3.64%	31	▼ 5	110	▼ 5
Neg outlook will take a long time to hatch, if at all - unless an acquisition forces S&P's hand (the most recent big one of a U.S. pipeline appears to have crystallized the agency thinking in a constructive way, subject to how conservative mgt will remainik will tak financing side) . Expansion in generation (including a now more likely restart of two more Bruce units), another potential large opportunistic acquisition & large projects in the longer term are credit risks. Regulatory environment continues to be unsate) . Expansi mgt's eyes which raises questions about whether the company will want to trustify some of the lower return regulated assets - a potential negative for bondholders.															
Duke (Westcoast)	JZ	A(low)	NR	BBB Pos	Improving	Low	R	5.7% 2008	0.66%	7.15% 2031	2.92%	48	▲ 2	123	↔ 0
Duke (Union Gas)	JZ	A	NR	BBB Pos	Standalone stbl + DUK effect	Low	R	5.7% 2008	0.64%	8.65% 2025	2.51%	43	▲ 2	114	↔ 0
MNEP	JZ	A	A1	A	Strong	Very low	F	NA	NA	6.9% 2019	1.45%	NA	NA	81	▲ 1
Duke took steps to turn the corner and the balance sheet repair actions have finally shown. Exit from non-core businesses continues & core regulated operations are stable. We think DENA will continue to be a source of grief for a while until markets improvtook until the new idea of contributing it to a joint venture hatches (lowering of risk). Resumed talk of opportunistic growth means that the golden age for bondholders is almost over (some upside remains from DENA cleanup & possible upgrade). We believe, in l th long run, **Union Gas's** distribution portion, as a non-core asset, is more separable from Duke than Westcoast. Its storage is a strategic asset to Duke. In the short term, Union provides solid cash flow to Duke and supports its credit quality. Spreads have performed reasonably well & are now in the middle of the utiltiy pack, leaving little further room for outperformance. For **MNEP**, we like structural protection and simplicity; valuation reflects the defensive nature of this credit.															
Terasen	JZ	A(low)	A3	BBB-	Stable but some event risk	Low	C	6.3% 2008	0.89%	NA	NA	55	▼ 3	NA	NA
Terasen Gas	JZ	A	A2	BBB	Stable	Low	C	NA	NA	6.95% 2029	2.87%	NA	NA	129	↔ 0
Business fundamentals are a strong combination of a regulated gas distribution and pipelines, with aggressive financial profile determining the rating. Market pricing suggests that the market does not give full credence to the S&P rating (but still incorpoundamenta despite its now unsolicited status). Project CAPEX could be high. For **Terasen Gas**, we like the fundamentals of gas distribution at current spread, compared to historical spreads, but don't think that holdco spread can tighten much in the near term.															

Legal Disclaimers and Important Disclosure Footnotes

CIBC World Markets

Equity Research
Industry Update

February 24, 2005

Sector Weighting:

Market Weight

Pipelines, Utilities, & Power

Oil Pipelines

Enbridge And Terasen Battle For Producer Support

- On February 14 and 16, we toured Enbridge's and Terasen's competing proposals for a new $2.5 billion oil pipeline from Alberta's oil sands to the West Coast. We were impressed with the viability of both projects but concerned about the competitive dynamics behind them.
- Enbridge's Gateway Project is further advanced than we thought. Detailed route selection and community consultation are well under way. The advantage of a deep water port is likely to sway Chinese oil companies seeking long-term and reliable supply.
- But Terasen's TMX expansion into Vancouver Harbour appears doable despite tanker traffic and urban surroundings. Some domestic oil companies seeking a practical near-term and medium-term alternative to Midwest markets are sure to sign on.
- The tours left us with the impression there is no clear winner and that the companies may wind up in parallel regulatory processes. In the long term, pipeline investors should benefit from new capital investments. But patience may be tested while the process plays out.

All figures in Canadian dollars, unless otherwise stated.

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, or at the end of each section hereof, where applicable.

Matthew Akman
1 (416) 956-6169
Matthew.Akman@cibc.ca

Alda Pavao, CFA
1 (416) 956-3229
Alda.Pavao@cibc.ca

Find CIBC research on Bloomberg, firstcall.com, multex.com, and cibcwm.com

CIBC World Markets Corp., 300 Madison Avenue, New York, NY 10017-6204 (212) 667-7000 (800) 999-6726
CIBC World Markets Inc., P.O. Box 500, 161 Bay Street, BCE Place, Toronto, Canada M5J 2S8 (416) 594-7000

Investment Summary

Some of the best energy infrastructure investments have been spoiled by too much competition. Undersupplied electricity markets seemed ripe for big returns until too many power plants were built. Some interstate gas pipelines to the Northeast suffered for years until gas demand caught up with excess pipeline capacity. Are Western Canadian oil pipelines another overcapacity situation waiting to happen?

On February 14 and 16, we toured Enbridge's (ENB–TSX, Sector Performer) and Terasen's (TER–TSX, Sector Performer) competing proposals for a new $2.5 billion oil pipeline from Alberta's oil sands to the West Coast. Enbridge's Gateway project to a northern port is further advanced than we realized. And Terasen's TMX project to Vancouver is more viable than we thought. But while these projects represent some of the best organic growth opportunities the sector has to offer, we were concerned about the competitive dynamics shaping up between their proponents.

It is clearer to us now than before how oil producers stand to benefit from new oil pipelines to the West but less clear how pipeline investors will benefit. Investor excitement over new oil pipelines to the West Coast is palpable. Shares in Enbridge and Terasen have both achieved premium valuations that, in part, reflect expectations for big new investments. Yet, we see no near-term resolution of the situation. In fact, we see the potential for a drawn-out battle in front of the National Energy Board (NEB).

Enbridge's Gateway Project has, in our view, been wrongly criticized for being impractical. Construction through the Rocky Mountains has been viewed as too challenging and carrying large volumes at the outset viewed as too imprudent. We flew the proposed Gateway route by helicopter and were impressed by natural valleys and ready road access that would facilitate Enbridge's construction plans. The wide-open, deep-water port at Kitimat would accommodate growth well into the future.

At the same time, we think Terasen's project in the Vancouver Harbour has been wrongly characterized as a "Not-In-My-Backyard" protest waiting to happen. We traveled the tanker route by boat through the harbour and reviewed the Westridge Dock and oil storage facilities. Terasen has carefully worked through logistical issues that would permit a large increase in oil volumes to move by ship from Vancouver to the oil-hungry California market.

The viability of both projects and tenacity of their proponents begs the question how this competition will be resolved. Normally one of the two projects would achieve shipper support and proceed, while the other project would not achieve support and wither. But in this instance, we are not convinced that will happen.

Terasen's phased approach may allow shippers to support the first phase of Trans Mountain's expansion and Enbridge's Gateway at the same time. In a worst-case scenario, both projects may wind up at the NEB in parallel review processes with no certainty on the final outcome for another two years.

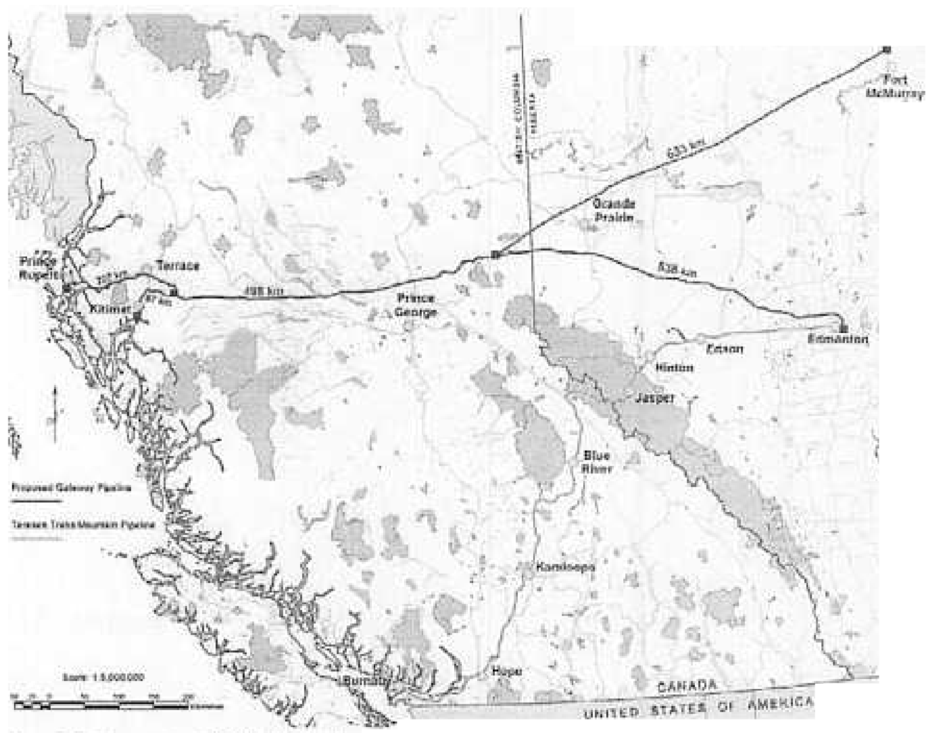
Pipeline investors should hope instead that one of the companies throws up its hands and politely admits defeat. Or even better, that the two companies build one pipeline together. But big new pipelines opening new markets for Canadian oil are the stuff that legacies are made of. Enbridge and Terasen are both deserving of the prize and we expect both will pursue it side by side with passion and vigor.

Enbridge's Gateway Well Advanced – Kitimat The Likely Destination

Enbridge has been studying a new 400,000 barrel-per-day (Bbls/d) pipeline from Edmonton to the West Coast for several years. The Gateway Project now goes well beyond grand visions and lines on a map. Our tour of the proposed project suggests Enbridge is well advanced in the areas of route selection, aboriginal and community consultation and shipper support.

With all the talk of a new dock at Prince Rupert, we were surprised to learn that Kitimat is a significantly more likely final destination for the pipeline. The Gateway Project probably originates in Edmonton and moves to the Coast toward Terrace, British Columbia. It then either splits off to Prince Rupert or to Kitimat. Both towns have deep-water ports shipping natural resources to global markets.

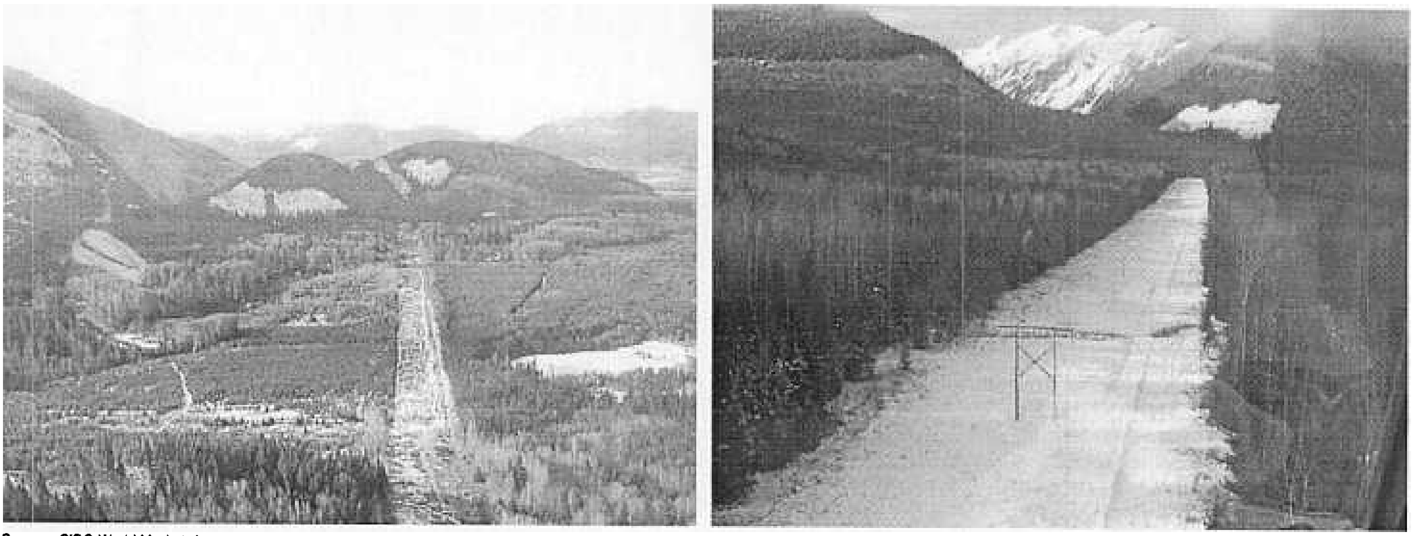
Exhibit 1. Map Of Proposed Gateway Project



Source: Enbridge reports and CIBC World Markets Inc.

We first flew by helicopter from Terrace to Prince Rupert via the potential pipeline route and found it somewhat hostile and environmentally problematic from a construction perspective. The route would at first follow a major hydro right-of-way and the Pacific Northern Gas pipeline route heading west from Terrace. In this initial stage, pipelining would be relatively straightforward.

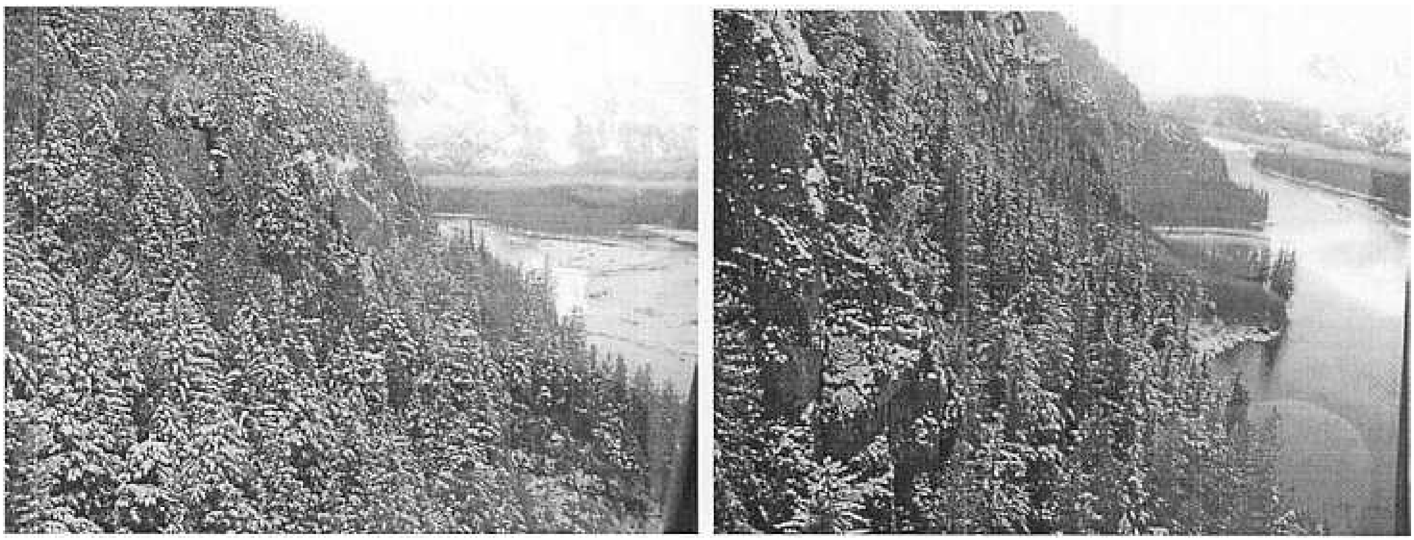
Exhibit 2. Existing Right-of-ways Initially Provide An Easy Route Toward Prince Rupert



Source: CIBC World Markets Inc.

The challenges grow as the pipeline route moves further west to the coast. Steep mountains jutting straight up from the Skeena River present construction problems. With no clear right-of-way in these sections, Enbridge would be forced to blast long tunnels above and along the riverbed.

Exhibit 3. There Simply Isn't Anywhere To Put A Pipeline Along Parts Of The Route To Prince Rupert



Source: CIBC World Markets Inc.

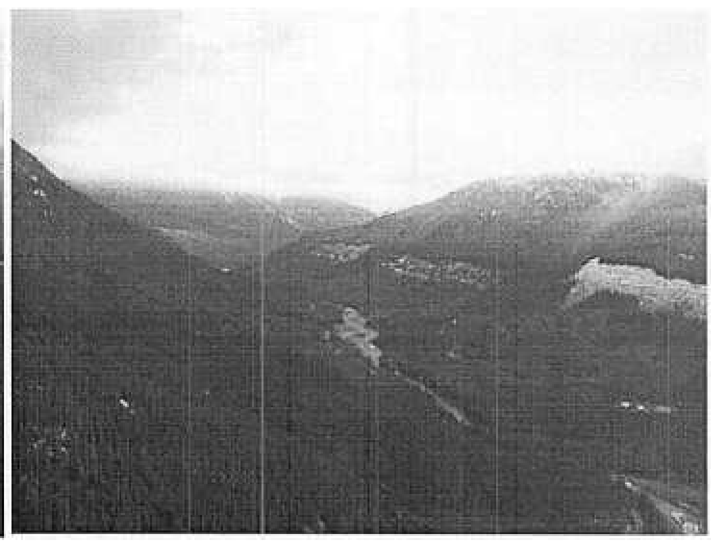
In our view, the biggest challenge for Prince Rupert is the idea of placing an oil pipeline along the pristine Skeena River. The waterway is a major spawning area for salmon and other fish. It may be impossible to avoid silt from moving into the river during construction. Any significant pipeline leak could be seriously hazardous for the environment and fish stocks. We note these challenges are not unique to the Prince Rupert option (Trans Mountain moves through sensitive areas as well), but they may tilt the balance toward Kitimat.

Exhibit 4. Any Oil Leak Along The Pristine Skeena River Could Be Hazardous To Spawning Fish

Source: CIBC World Markets Inc.

Moving oil to Kitimat is no easy feat either, but seems a lot more practical than moving it to Prince Rupert. We flew the potential pipeline route to Kitimat and then well into the harbour and Douglas Channel that the largest tankers would float with up to two million barrels (Bbls) of oil destined for Asia. The route is much less hostile than the route to Prince Rupert. Enbridge has identified wide-open valleys as its potential pipeline route.

Exhibit 5. Rail Lines And Roads In Existing Valleys Make Up The Route To Kitimat



Source: CIBC World Markets Inc.

We did not fully appreciate, prior to our tour, how existing logging roads provide access to the potential pipeline route. Machinery and equipment could be moved in and out of the right-of-way without major environmental disruption and cost. The Kitimat route presents some challenges and may require tunnels in certain bottlenecks, but could cost up to $500 million less than the Prince Rupert route. That cost difference is a meaningful number on a project originally slated for a $2.5 billion total budget.

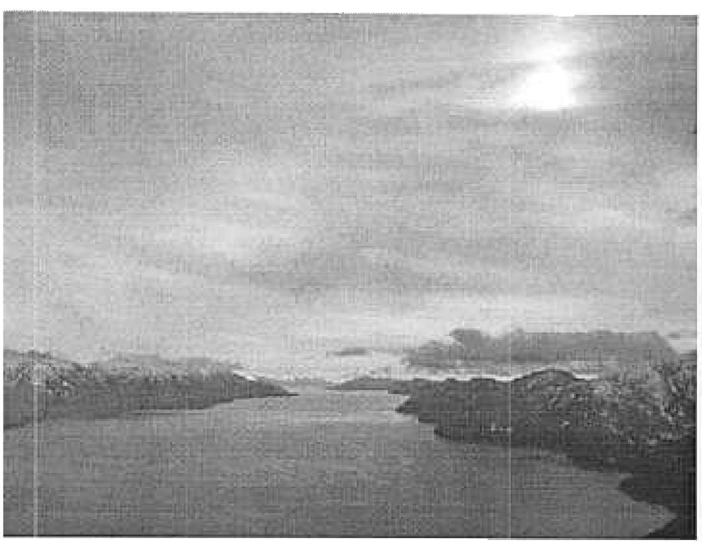
The port at Kitimat was perhaps the most impressive component of the Gateway tour. There are wide-open spaces for a new dock and Enbridge has already identified and begun engineering work on a relatively flat landmass for new storage tanks.

Exhibit 6. A New Dock Would Go On Shore (Left) With Oil Storage Tanks Just Above (Right)

Source: CIBC World Markets Inc.

The Douglas Channel waterway leading out from Kitimat is deep and largely underutilized. In fact, on our flight we did not see a single watercraft on the inlet. Yet, there were no major bottlenecks and the water was calm.

Exhibit 7. Douglas Channel: No Bottlenecks Or Congestion For The Foreseeable Future



Source: CIBC World Markets Inc.

 CIBC World Markets

Enbridge has made progress on community consultation as well as on engineering and route selection. There are about 130 aboriginal communities along the proposed pipeline route. The company has a team with an active outreach and consultation program. We believe Enbridge has also been working directly with key stakeholder groups on environmental and other issues that may affect precise route selection.

Perhaps most important, Enbridge appears to have made progress with Asian shippers. Chief executive Pat Daniel stated at the CIBC Whistler Institutional Investor Conference last week that a memorandum of understanding (MOU) would likely be signed during the current quarter. We think this MOU could involve several Chinese shippers and one or more independent Canadian oil producers.

In summary, we see the Gateway Project as a compelling way to meet shipper needs for a Western alternative well into the future. The Kitimat route appears doable and could accommodate long-term growth for Enbridge and the oil producers.

Terasen Ready To Roll Out Westridge Marine Terminal Expansion

Terasen's proposed TMX expansion involves a doubling of the Trans Mountain Pipeline system and an ultimate increase in capacity from 225,000 Bbls/d to 850,000 Bbls/d. Terasen's project has been criticized for relying on the busy Burrard Inlet (Port of Vancouver) for increased oil shipments. Our tour of the Port and Westridge Dock facilities suggests the company is well on its way to resolving logistical matters that could have otherwise stood in the way.

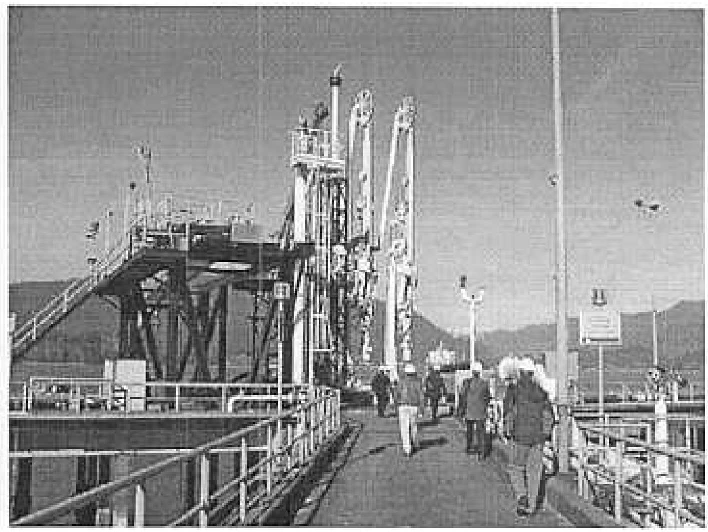
The logistics of loading more and larger tankers at Westridge did not seem overly problematic. The dock is located at the end of the Harbour with no obvious obstructions in the area.

Exhibit 8. The Westridge Dock Is Located In Probably The Least Busy Section Of The Harbour

Source: CIBC World Markets Inc.

Little work would have to be done on the dock or its infrastructure to increase shipments at the outset. The dock is equipped with scrubbers to minimize air emissions. The 24-inch pipeline now terminates on the dock and attaches to large arms that fill tankers in less than a day.

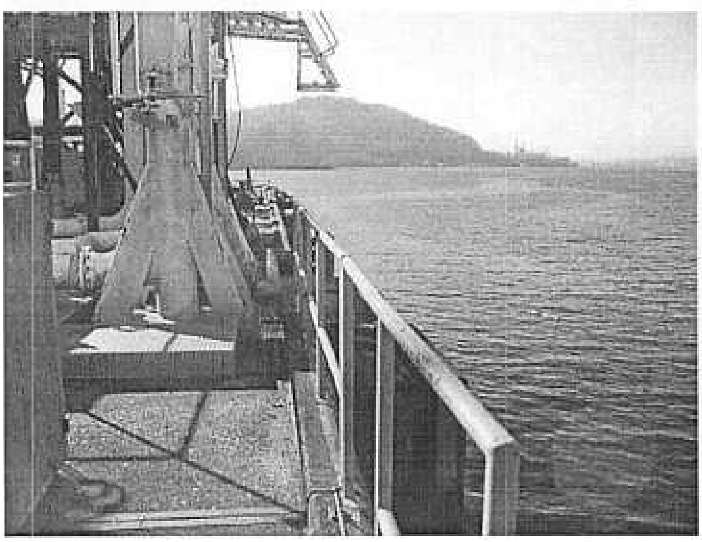
Exhibit 9. The Dock Is Equipped With H_2S Scrubbers (Left) And Oil Loading Arms (Right)



Source: CIBC World Markets Inc.

Key challenges include dredging water off the edge of the dock and then expanding the facility in the longer term. Dredging is necessary to increase the effective cargo capacity of each ship by 100,000 Bbls. Terasen indicated its permit application for dredging is now under consideration by the Port Authority, Department of Fisheries and Department of Environment.

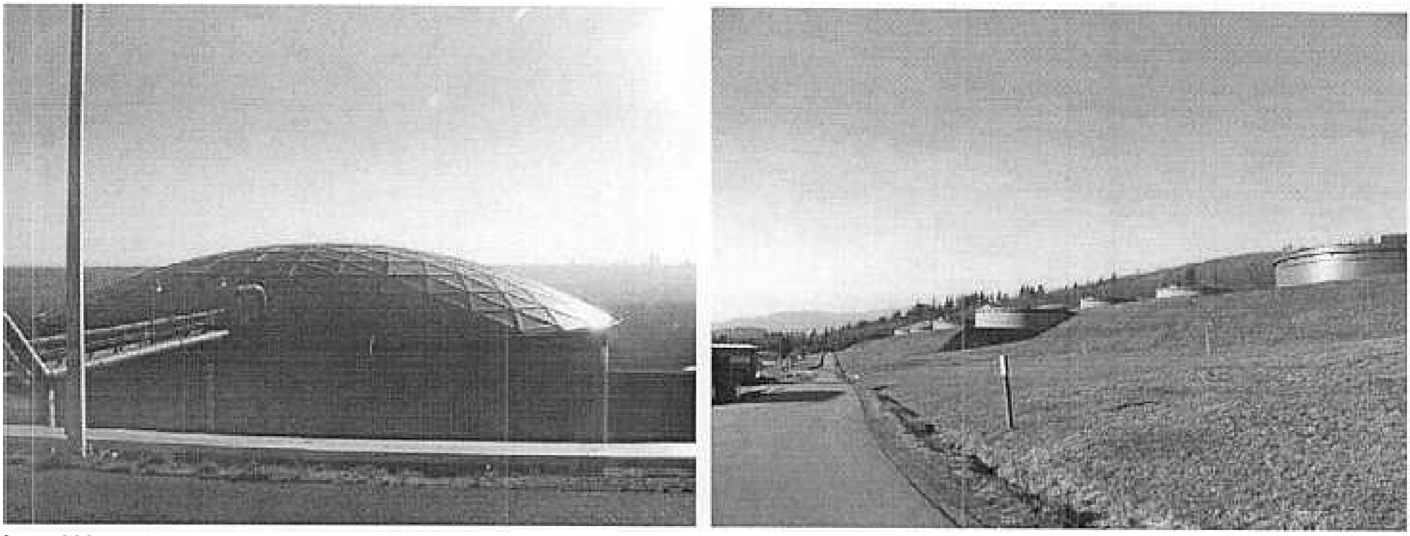
Exhibit 10. Dredging Would Be Permitted Pending Tests On Sediment Off The Dock Berth Face



Source: CIBC World Markets Inc.

We toured the Burnaby oil tank farm that Terasen would expand in conjunction with the TMX project. The company has about 12 large tanks with total capacity of two million Bbls at present. The last tanks were constructed in 1989 but Terasen would add up to six new tanks on site in conjunction with the TMX Project.

Exhibit 11. Burnaby Oil Tanks Work Well Into The Landscape With Room For Expansion

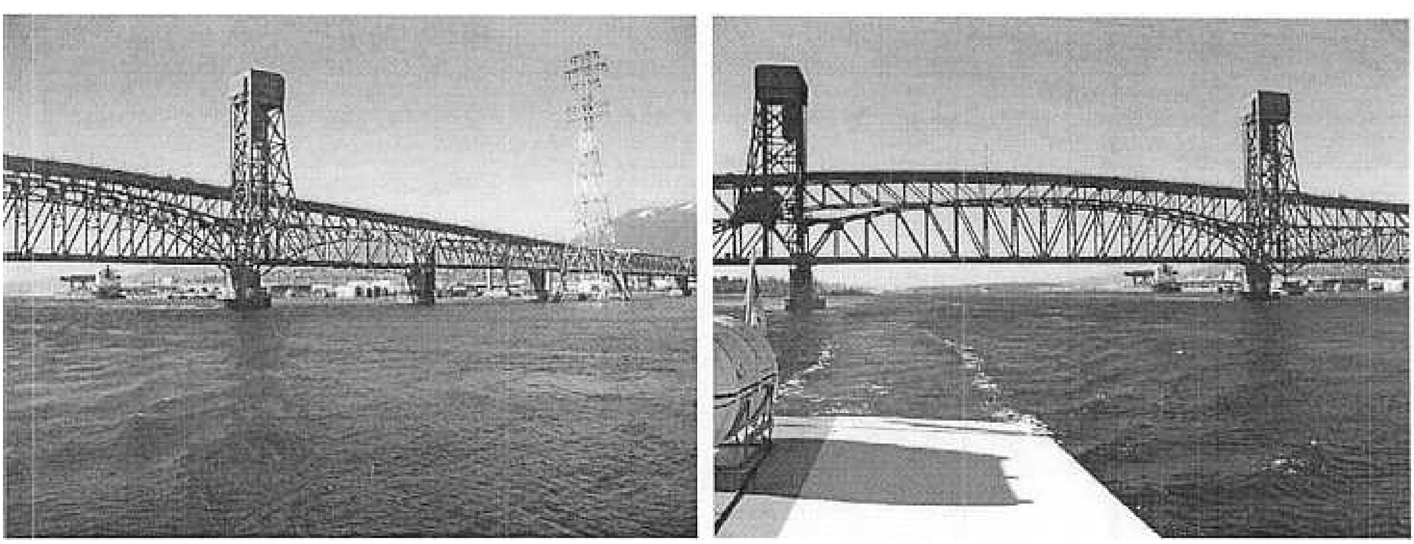


Source: CIBC World Markets Inc.

Terasen has also made good progress on the logistics of navigating the Burrard Inlet with larger ships and more of them. The company has proposed using 80,000 dead-weight-ton Aframax tankers (0.5 million Bbls) as opposed to 50,000 dead-weight-ton Panamax tankers (0.3 million Bbls). It has also proposed sending as many as 10–15 tankers off the dock each month compared to the total of 14 tankers it sent in all of 2004.

The Second Narrows Bridge in the Burrard Inlet poses the most challenging navigation bottleneck. There is a railway bridge that lifts and a highway bridge that does not. Concerns have been raised about the ability to move larger tankers below and between parts of the bridge.

Exhibit 12. The Second Narrows Bridge Is A Logistical Challenge



Source: CIBC World Markets Inc.

It appears Terasen has done sufficient work to prove Aframax tankers can navigate the Second Narrows Bridge passage. The company has conducted detailed simulations under various conditions. Simulations suggest tankers could consistently navigate through the waterway and out to sea.

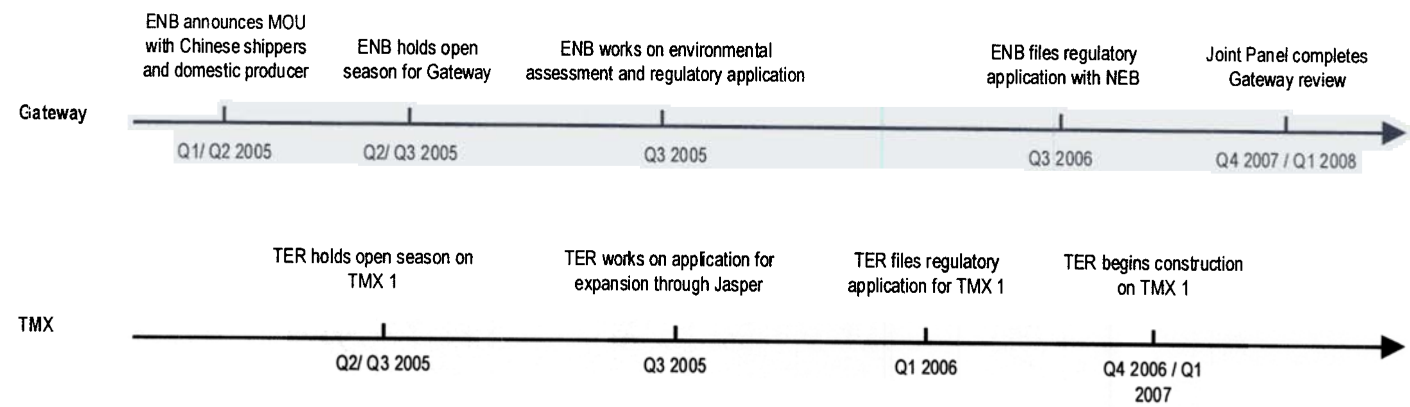
Terasen has already received expressions of interest from parties for the first phase of the Trans Mountain expansion. Last week, Chief Executive John Reid stated at the CIBC World Markets Whistler Institutional Investor Conference that the company plans to proceed with an open season this summer.

In summary, the tour reinforced our view that the Terasen project offers a practical solution to sending more Canadian oil to the Pacific Northwest and California. While shipments out of the Vancouver Harbour may be limited in the very long term, the project likely offers an attractive potential solution for the foreseeable future.

Parallel Processes Could Continue

The viability and soundness of both companies' oil pipeline proposals suggests to us that they will both proceed down parallel tracks for the time being. Enbridge will likely announce a MOU near term and Terasen will commence what is bound to be a successful open season on TMX1. Both companies may wind up pursuing projects in separate regulatory processes at the same time.

Exhibit 13. Enbridge And Terasen's Parallel Processes For New Western Oil Pipelines



Source: Company reports and CIBC World Markets Inc.

One could argue that Terasen has an inside track in the near term because it only needs an incremental 75,000 Bbls/d of support for TMX1, while Enbridge needs more like 350,000 Bbls/d for Gateway. We doubt Enbridge can achieve that level of firm capacity commitment upfront but the company may proceed anyway:

> The toll difference for 300,000 Bbls/d vs. 400,000 Bbls/d is only about $0.45 per Bbl.
>
> Enbridge has a history of building pipelines that achieve sub-optimal returns initially when there is strong potential for growth in the future (Athabasca, SEP II, Spearhead).

At the same time, Terasen is unlikely to back down even if it appears Gateway has strong support:

> TMX is critical to the company's future growth plans.
>
> Terasen has a history of building pipelines at sub-optimal returns initially when there is strong potential for growth in the future (Corridor).

Our suggestion that the companies may continue to proceed down a parallel path does not mean their management teams are irrational. Taking slightly sub-optimal returns near term to enhance growth in the future makes sense especially in a climate where asset acquisitions are too expensive. But we are suggesting that the oil pipeline expansions may add a lot more to shareholder value (EPS) in the long term than in the short and medium term.

Conclusions And Potential Resolutions

Last year, we published reports quantifying supply and pipeline capacity. We concluded that there is not room for both pipeline projects. Enbridge and Terasen both corroborate that finding. In that context, there must be some resolution — albeit probably not any time soon — to the competing proposals. We see several possible outcomes:

Gateway wins scenario – A pipeline to Kitimat makes more sense to us in the long term than a pipeline to Vancouver. There is little doubt that Terasen can accommodate more volumes in the short and medium term from the Vancouver Port. But in the longer-term, we doubt Vancouver can handle the ultimate volumes that may be destined for Asia. Chinese shippers may well recognize this fact, having observed both the Kitimat and Vancouver ports. Terasen has a proposal for Kitimat that could beat out Gateway, but Enbridge has aligned itself more tightly with a northern route. If Chinese shippers are driving the process, Enbridge and Gateway could win out.

TMX wins as planned scenario – The Vancouver Harbour is a practical solution for increasing shipments of oil to California. Chinese shippers may not have sufficient volumes to commit on a 400,000-Bbl pipeline to Kitimat. In this scenario, domestic shippers could select Terasen's staged proposal, slowly sending more oil to California over time.

Terasen surprises with early filing for TMX2 – Terasen has the advantage of being slightly ahead of Enbridge in its expansion process. Terasen's open season planned for this summer could attract sufficient interest to justify building phase 2 as well as phase 1. In this instance, the project may default to TMX before Gateway is fully developed or sufficiently subscribed to move forward. This scenario may sound far-fetched, but Terasen management has never been entirely clear on whether TMX1 could be completed independent of TMX2 and TMX3. It may be possible for Terasen to move toward Vancouver with TMX1 and TMX2 at the same time.

Enbridge and Terasen work together on a pipeline to Kitimat – If the battle for new Western pipelines carries on for too long, the companies may eventually decide to work together. In this scenario, we could see them using the Trans Mountain right-of-way through Jasper, then head north to Kitimat. At this time, we do not believe the companies are prepared to work on a joint project. But they might be in a year or so if they are still locked in a competitive battle.

In many ways, the battle for a big new pipeline to the West Coast may be just beginning, not nearing an end. Hopefully shippers and oil pipeline companies will converge on the solution before the NEB takes a central role. Commercial interests are generally better arbiters of oil pipelines than government regulators.

Notes: The CIBC World Markets analyst who covers Enbridge visited the company's proposed pipeline route from Terrace, B.C. to Prince Rupert and Kitimat on February 14. CIBC World Markets was responsible for all costs, including those associated with air transportation and accommodations.

The CIBC World Markets analyst who covers Terasen visited the company's Westridge dock facilities on February 16. Terasen was responsible for the cost of transportation to and from the operations. CIBC World Markets was responsible for all other costs involved.

Price Target Calculations

Our price targets for the pipeline and utility companies are derived from P/E multiples and dividend yields (relative to bond yields) based on our 2006 earnings and dividend forecasts. Our target dividend yields range from 2.8%–5.3%. Our target P/E multiples range from 12.0x–19x (in line with historical ranges). In the past 15 years, the stocks have tended to peak at no more than 16x–17x earnings. The differences in target multiples reflect different organic growth rates, potential acquisition activity, and current regulatory environment.

Key Risks To Price Targets

Many of our pipeline and utility stocks could fall short of our 2005 and 2006 earnings forecasts (and fail to meet our price targets) for various fundamental reasons, including (but not limited to) lower-than-expected achieved ROEs, low acquisition activity, and weak power prices/spark spreads. Our estimates on Enbridge and Terasen assume that they continue to earn high incentive returns (above NEB-allowed ROE) on their oil pipelines. The pipeline and utility stocks are sensitive to changes in long-term bond yields. If bond yields rise significantly, valuation in the sector could fall.

Exhibit 14. Comparative Valuation Of Selected Canadian And U.S. Pipeline, Utility And Power Generation Companies

Company	Ticker	Rating / Analyst	Price 02/22/05	52-Week Range High	52-Week Range Low	Earnings Per Share 2003	Earnings Per Share 2004E	Earnings Per Share 2005E	Earnings Per Share 2006E	P/E Ratios 2003	P/E Ratios 2004E	P/E Ratios 2005E	P/E Ratios 2006E	'05 P/E Rel. To Group	Dividend Rate	Dividend Yield	Payout 2005E	Price Target	Total Return
Canadian Pipelines																			
Enbridge Inc.	ENB	SP / MA	$62.60	$64.79	$47.25	$2.81	$3.02	$3.20	$3.40	22.3	20.7	19.6	18.4	1.1	2.00	3.2%	62.5%	$65.00	7.0%
Terasen Inc.	TER	SP / MA	$28.40	$29.91	$21.50	$1.33	$1.40	$1.50	$1.50	21.4	20.3	18.9	18.9	1.0	0.90	3.2%	60.0%	$29.00	5.3%
TransCanada Corp.	TRP	SO / MA	$30.21	$30.84	$25.37	$1.59	$1.53	$1.65	$1.80	19.0	19.7	18.3	16.8	1.0	1.22	4.0%	73.9%	$33.00	13.3%
Canadian Pipelines Average										20.9	20.3	18.9	18.0						
U.S. Pipelines																			
Duke Energy	DUK	SO / MA	$26.08	$27.73	$18.85	$1.28	$1.28	$1.60	$1.70	20.4	20.4	16.3	15.3	0.9	1.10	4.2%	68.8%	$29.00	15.4%
El Paso	EP	NR	$12.19	$13.10	$6.57	($1.03)	($0.50)	$0.70	$0.80	NM	NM	17.4	15.2	1.0	0.16	1.3%	22.9%		
Kinder Morgan Inc.	KMI	NR	$78.00	$78.94	$56.85	$3.33	$3.81	$4.21	$4.60	23.4	20.5	18.5	17.0	1.1	2.80	3.6%	66.5%		
National Fuel Gas	NFG	NR	$28.16	$29.15	$23.75	$1.89	$1.98	$1.91	$1.91	14.9	14.2	14.7	14.7	0.8	1.12	4.0%	58.6%		
NiSource	NI	NR	$22.25	$23.18	$19.65	$1.64	$1.63	$1.53	$1.66	13.6	13.7	14.5	13.4	0.8	0.92	4.1%	60.1%		
Williams	WMB	NR	$18.56	$19.19	$8.70	$0.02	$0.42	$0.82	$0.98	NM	44.2	22.6	18.9	1.3	0.20	1.1%	24.4%		
U.S. Pipelines Average										18.1	22.6	17.4	15.8						
Canadian Utilities																			
ATCO	ACO.NV.X	SU / MA	$60.93	$63.00	$45.65	$4.25	$4.40	$4.60	$4.85	14.3	13.8	13.2	12.6	0.7	1.40	2.3%	30.4%	$58.00	-2.5%
Canadian Utilities	CU.NV	SP / MA	$61.75	$64.00	$51.42	$3.95	$3.78	$4.00	$4.15	15.6	16.3	15.4	14.9	0.8	2.20	3.6%	55.0%	$63.00	5.6%
Caribbean Utilities (US$)	CUP.U	NR	$11.05	$13.76	$9.75	$0.77	$0.11	$0.86		14.4	NM	12.8		0.7	0.50	4.5%	57.6%	-	-
Emera Inc.	EMA	SP / MA	$19.00	$19.97	$16.40	$1.26	$1.22	$1.15	$1.20	15.1	15.6	16.5	15.8	0.9	0.89	4.7%	77.4%	$19.50	7.3%
Fortis	FTS	SO / MA	$73.52	$75.50	$56.90	$4.25	$4.29	$4.45	$4.80	17.3	17.1	16.5	15.3	0.9	2.28	3.1%	51.2%	$82.00	14.6%
TransAlta Corp.	TA	SU / MA	$18.85	$19.50	$15.25	$0.73	$0.66	$0.70	$1.00	25.8	28.6	26.9	18.9	1.5	1.00	5.3%	142.9%	$19.00	6.1%
Canadian Utilities Average																3.9%	69.1%		
U.S. Utilities																			
Consolidated Edison	ED	NR	$42.32	$45.59	$37.23	$2.95	$2.67	$2.84	$2.96	14.3	15.9	14.9	14.3	1.0	2.28	5.4%	80.3%		
Dominion Resources	D	NR	$70.00	$72.54	$60.78	$4.50	$4.61	$5.06	$5.37	15.6	15.2	13.8	13.0	1.0	2.68	3.8%	53.0%		
DTE Energy	DTE	NR	$43.21	$45.43	$37.88	$2.97	$2.46	$3.49	$3.85	14.5	17.6	12.4	11.2	0.9	2.06	4.8%	59.0%		
Peoples Energy	PGL	NR	$41.87	$46.03	$38.50	$2.88	$2.56	$2.74	$2.83	14.5	16.4	15.3	14.8	1.1	2.18	5.2%	79.6%		
PPL Corp.	PPL	NR	$53.24	$55.90	$39.85	$3.71	$3.71	$4.09	$4.44	14.4	14.4	13.0	12.0	0.9	1.64	3.1%	40.1%		
WGL Holdings	WGL	NR	$30.11	$31.66	$26.66	$1.62	$1.73	$1.87	$1.91	18.6	17.4	16.1	15.8	1.1	1.30	4.3%	69.5%		
U.S. Utilities Average										15.3	16.1	14.3	13.5						
Merchant Generation																			
AES Corporation	AES	NR	$16.06	$16.69	$7.56	$0.56	$0.58	$0.84	$0.98	28.7	27.7	19.1	16.4	0.7	0.00	0.0%	0.0%		
Calpine Corp.	CPN	NR	$3.31	$6.19	$2.25	$0.10	($0.77)	($0.55)	($0.23)	33.1	NM	NM	NM	-	0.00	0.0%	0.0%		
Reliant Energy	RRI	NR	$12.35	$13.92	$6.61	$0.42	$0.25	$0.38	$0.59	29.4	49.4	32.5	20.9	1.3	0.00	0.0%	0.0%		
Merchant Generation Average										30.4	38.5	25.8	18.7						

Estimates are from CIBC World Markets with the exception of those companies that are not rated (Sources: Company reports, FirstCall and IBES).

Figures for Canadian companies in C$; figures for U.S. companies in US$.

EPS estimates for Caribbean Utilities are for the period ending April 30 the following year.

EPS estimates for PGL, NFG and WGL are for the period ending September 30.

SO = Sector Outperformer; SP = Sector Performer; SU = Sector Underperformer and NR = Not Rated.

Source: Company reports, FirstCall/IBES and CIBC World Markets Inc.

Exhibit 15. Comparative Valuation Of Selected Canadian And U.S. Pipeline, Utility And Power Generation Companies

Company	Shares O/S (mlns.)	Mkt. Cap. ($ blns.)	Inst. Owners	52-Week % Change High	52-Week % Change Low	Cash Flow Per Share 2003	Cash Flow Per Share 2004E	Cash Flow Per Share 2005E	Cash Flow Per Share 2006E	P/CF Ratios 2003	P/CF Ratios 2004E	P/CF Ratios 2005E	P/CF Ratios 2006E	Book Value	Price/ Book	ROE 2005E	Debt To Cap	% Unreg. 05E EBIT	EV/ '05E EBITDA
Canadian Pipelines																			
Enbridge Inc.	167.6	$10.5	50%	(3%)	32%	$5.83	$6.15	$6.29	$6.54	10.7	10.2	10.0	9.6	$22.29	2.8	13.5%	67.1%	10.0%	10.1
Terasen Inc.	105.2	$3.0	15%	(5%)	32%	$2.82	$2.83	$3.07	$3.15	10.1	10.0	9.3	9.6	$13.04	2.2	11.1%	65.4%	5.0%	10.5
TransCanada Corp.	484.9	$14.6	45%	(2%)	19%	$3.96	$3.52	$3.66	$3.82	7.6	8.6	8.3	7.9	$13.54	2.2	12.0%	61.0%	16.0%	8.3
Canadian Pipelines Average																			
U.S. Pipelines																			
Duke Energy	957.0	$25.0	67%	(6%)	38%	$4.35	$4.44	$4.53	$4.65	6.0	5.9	5.8	5.6	$17.18	1.5	9.5%	51.0%	20.0%	7.6
El Paso	643.2	$7.8	79%	(7%)	86%	$3.76				3.2				$6.76	1.8	-	81.4%		9.2
Kinder Morgan Inc.	123.9	$9.7	82%	(1%)	37%	$4.78				16.3				$23.13	3.4	17.1%	44.4%		11.9
National Fuel Gas	83.0	$2.3	46%	(3%)	19%	$4.95	$4.93			5.7	5.9			$16.11	1.7	13.6%	48.8%		6.6
NiSource	270.6	$6.0	73%	(4%)	13%	$2.34	$3.90			9.5	5.9			$17.69	1.3	9.5%	57.0%		7.9
Williams	556.5	$10.3	60%	(3%)	113%	$1.09				17.0				$7.66	2.4	-	68.6%		9.0
U.S. Pipelines Average											5.9								8.7
Canadian Utilities																			
ATCO Ltd.	29.7	$1.8	35%	(3%)	33%	$9.35	$9.15	$10.16	$10.67	6.5	6.7	6.0	5.7	$40.64	1.5	11.1%	50.0%	20.0%	5.9
Canadian Utilities	63.4	$3.9	15%	(4%)	20%	$8.30	$8.35	$8.72	$9.04	7.4	7.4	7.1	6.8	$32.50	1.9	11.8%	51.0%	36.5%	7.3
Caribbean Utilities (US$)	24.9	$0.3	2%	(20%)	13%	$1.32				8.4				$4.63	2.4	16.0%	53.4%	0.0%	8.6
Emera Inc.	108.9	$2.1	18%	(5%)	16%	$2.22	$2.80	$2.87	$3.00	8.6	6.8	6.6	6.3	$12.28	1.5	9.2%	54.0%	5.0%	7.9
Fortis Inc.	23.9	$1.8	32%	(3%)	29%	$9.28	$12.81	$10.50	$10.90	7.9	5.7	7.0	6.7	$41.81	1.8	9.3%	61.5%	21.0%	8.8
TransAlta Corp.	195.0	$3.7	55%	(3%)	24%	$2.86	$3.02	$3.24	$3.50	6.6	6.2	5.8	5.4	$12.74	1.5	5.4%	53.9%	100.0%	8.6
Canadian Utilities Average												6.5	6.2						
U.S. Utilities																			
Consolidated Edison	242.0	$10.2	44%	(7%)	14%	$5.84				7.2				$29.12	1.5	9.3%	49.7%		8.2
Dominion Resources	331.4	$23.2	61%	(4%)	15%	$7.25	$8.00			9.7	9.1			$32.72	2.1	14.1%	59.9%		8.0
DTE Energy	174.2	$7.5	61%	(5%)	14%	$5.63	$5.75			7.7	7.9			$31.85	1.4	8.1%	60.6%		8.4
Peoples Energy	37.9	$1.6	59%	(9%)	9%	$5.57	$5.37			7.5	7.8			$23.37	1.8	12.6%	54.7%		7.8
PPL Corp.	189.0	$10.1	59%	(5%)	34%	$7.82				6.8				$22.42	2.4	18.1%	64.2%		8.5
WGL Holdings	48.7	$1.5	50%	(5%)	13%	$2.96	$4.99			10.2	6.0			$18.11	1.7	10.1%	46.6%		8.7
U.S. Utilities Average																			
Merchant Generation																			
AES Corporation	648.8	$10.4	82%	(4%)	112%	$2.52	$2.43			6.4	6.6			$2.66	-	NM	85.6%	100.0%	7.7
Calpine Corp.	534.3	$1.8	62%	(47%)	47%	$0.69				4.8				$8.68	0.4	0.9%	79.0%	100.0%	13.3
Reliant Energy	298.7	$3.7	72%	(11%)	87%	$2.86				4.3				$15.52	0.8	2.5%	57.0%	100.0%	9.7
Merchant Generation Average																			

Estimates are from CIBC World Markets with the exception of those companies that are not rated (Sources: Company reports, FirstCall and IBES).

Figures for Canadian companies in C$; figures for U.S. companies in US$.

For those companies not rated, ROE figures are actuals for the most recent fiscal year.

EPS estimates for Caribbean Utilities are for the period ending April 30 the following year.

EPS estimates for NFG, PGL and WGL are for the period ending September 30.

Source: Company reports, FirstCall / IBES and CIBC World Markets Inc.

IMPORTANT DISCLOSURES:

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Potential Conflicts of Interest: Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department within the Corporate and Leveraged Finance Division. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 02/24/2005:
Atco Ltd. (13, 7) (ACO.NV.X-TSX, C$60.37, Sector Underperformer)
Canadian Utilities Ltd. (13, 7) (CU.NV-TSX, C$61.00, Sector Performer)
Duke Energy (2a, 2d, 2g, 7) (DUK-NYSE, US$26.71, Sector Outperformer)
Emera Inc. (2g, 7) (EMA-TSX, C$19.08, Sector Performer)
Enbridge Inc. (2a, 2e, 2g, 7) (ENB-TSX, C$61.38, Sector Performer)
Fortis Inc. (2a, 2c, 2e, 2g, 7) (FTS-TSX, C$73.50, Sector Outperformer)
Terasen Inc. (2a, 2c, 2e, 2g, 7) (TER-TSX, C$28.09, Sector Performer)
TransAlta Corporation (2a, 2e, 2g, 7, 9) (TA-TSX, C$18.75, Sector Underperformer)
TransCanada Corp. (2g, 7) (TRP-TSX, C$29.97, Sector Outperformer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Stock Prices as of 02/24/2005:
AES Corp (AES-NYSE, US$16.34, Not Rated)
Calpine Corporation (CPN-NYSE, US$3.26, Not Rated)
Caribbean Utilities Company Ltd. (CUP.U-TSX, C$11.25, Not Rated)
Consolidated Edison (ED-NYSE, US$42.63, Not Rated)
Dominion Resources (D-NYSE, US$70.51, Not Rated)
DTE Energy Company (DTE-NYSE, US$43.18, Not Rated)
El Paso Corp. (EP-NYSE, US$11.93, Not Rated)
Kinder Morgan, Inc. (KMI-NYSE, US$78.56, Not Rated)
National Fuel Gas (NFG-NYSE, US$28.05, Not Rated)
Nisource (NI-NYSE, US$22.30, Not Rated)
Peoples Energy (PGL-NYSE, US$42.41, Not Rated)
PPL Corporation (PPL-NYSE, US$53.85, Not Rated)
Reliant Energy Inc. (RRI-NYSE, US$12.19, Not Rated)
WGL Holdings (WGL-NYSE, US$30.20, Not Rated)
Williams Cos Inc. (WMB-NYSE, US$18.77, Not Rated)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

1 CIBC World Markets Corp. makes a market in the securities of this company.

2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.

2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.

2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.

2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.

3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.

3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.

4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.

4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.

4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.

5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.

5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.

6a The CIBC World Markets Inc. analyst(s) who covers this company also has a long position in its common equity securities.

6b A member of the household of a CIBC World Markets Inc. research analyst who covers this company has a long position in the common equity securities of this company.

7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.

8 A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.

9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.

10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.

11 The equity securities of this company are restricted voting shares.

12 The equity securities of this company are subordinate voting shares.

13 The equity securities of this company are non-voting shares.

14 The equity securities of this company are limited voting shares.

CIBC World Markets Price Chart

For price and performance information charts required under NYSE and NASD rules, please visit CIBC on the web at http://www.cibcwm.com/research/sec2711 or write to CIBC World Markets Corp., 300 Madison Avenue, 7th Floor, New York, NY 10017-6204, Attn: Research Disclosure Chart Request.

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Stock Ratings Prior To August 26, 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
R	Restricted	Restricted
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 24 Feb 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	281	33.3%	Sector Outperformer (Buy)	173	61.6%
Sector Performer (Hold/Neutral)	396	47.0%	Sector Performer (Hold/Neutral)	223	56.3%
Sector Underperformer (Sell)	165	19.6%	Sector Underperformer (Sell)	76	46.1%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 24 Feb 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	30.0%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	5	50.0%	Sector Performer (Hold/Neutral)	3	60.0%
Sector Underperformer (Sell)	2	20.0%	Sector Underperformer (Sell)	1	50.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.NV.X, CU.NV, DUK, EEP, EMA, ENB, FTS, TA, TER, TRP.

*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Legal Disclaimer

This report is issued and approved for distribution by (i) in the United States, CIBC World Markets Corp., a member of the New York Stock Exchange ("NYSE"), NASD and SIPC, (ii) in Canada, CIBC World Markets Inc., a member of the Investment Dealers Association ("IDA"), the Toronto Stock Exchange, the TSX Venture Exchange and CIPF, (iii) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (iv) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report is provided, for informational purposes only, to institutional investor clients of CIBC World Markets in the United States and Canada and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

CIBC World Markets

Equity Research
Earnings Update

May 05, 2005

Pipelines, Utilities, & Power

Terasen Inc.

Q1 Earnings Slightly Soft As Expected

Stock Rating:
Sector Performer

Sector Weighting:
Market Weight

12-18 mo. Price Target	$29.00
TER-TSX (5/4/05)	$27.45
Key Indices: TSXUtils	
3-5-Yr. EPS Gr. Rate (E)	6.0%
52-week Range	$22.00-$29.91
Shares Outstanding	105.4M
Float	104.9M Shrs
Avg. Daily Trading Vol.	94,104
Market Capitalization	$2,893.2M
Dividend/Div Yield	$0.90 / 3.3%
Fiscal Year Ends	December
Book Value	$13.45 per Shr
2005 ROE (E)	11.1%
LT Debt	$2,147.7M
Preferred	Nil
Common Equity	$1,418.5M
Convertible Available	Yes

Earnings per Share	Prev	Current
2004		$1.40A
2005		$1.50E
2006		$1.50E
P/E		
2004		19.6x
2005		18.3x
2006		18.3x

Dividends per Share	
2002	$0.705
2003	$0.765
2004	$0.825
2005E	$0.90

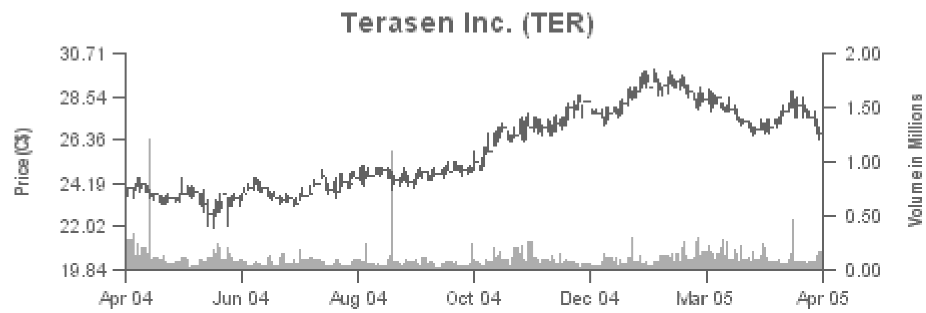
Debt to Total Capital	
2002	66.2%
2003	67.0%
2004	65.4%

Company Description
Terasen is a gas distribution and oil pipeline company. Its subsidiary, Terasen Gas, distributes natural gas to B.C., including Vancouver and the interior.

www.terasen.com

- Terasen reported normalized Q1'05 EPS of $0.60 vs. our estimate of $0.58 and $0.63 in Q1'04. A temporary reduction in oil pipeline volumes caused the weakness and was factored into our numbers. We are maintaining our estimates and target price.
- Management maintained full-year EPS guidance of $1.45 - $1.50, excluding Q1 mark-to-market gains of $0.02 - $0.03. Our earnings estimate of $1.50 is now slightly vulnerable. However, oil volumes have rebounded as of April, and should support earnings in Q2 - Q4.
- Several attractive investment opportunities at Terasen remain on track. The ones we find most promising for the 2006 - 2008 period are an expansion of the Corridor Oil Pipeline, TMX Phase 1, and construction of LNG storage facilities on Vancouver Island.
- We remain concerned about the December 31, 2005, expiry of a lucrative tolling agreement on the Trans Mountain Pipeline. Our Sector Performer rating balances attractive expansion opportunities against the risk of a 2006 reduction in the Trans Mountain toll.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

Matthew Akman
1 (416) 956-6169
Matthew.Akman@cibc.ca

Alda Pavao, CFA
1 (416) 956-3229
Alda.Pavao@cibc.ca

Investment Summary

Terasen reported normalized Q1'05 EPS of $0.60 vs. our estimate of $0.58 and $0.63 in Q1'04. A temporary reduction in oil pipeline volumes caused the weakness and was factored into our numbers. We are maintaining our estimates and target price.

Please see the appendix to this comment for a full breakdown and analysis of normalizing items and earnings by segment.

Slow Start to 2005 – Earnings Should Improve in Q2 – Q4

The first quarter earnings demonstrate Terasen's earnings sensitivity to volume throughput on its oil pipelines. Volume flows on Trans Mountain were 170,000 b/d in Q1'05 vs. 240,000 b/d in Q1'04. As a result, despite capital expansions last year, earnings were lower in Q1'05 than Q1'04.

Our earnings estimate is slightly vulnerable in the context of a slow start to 2005. However, improvements in the oil pipeline division should boost earnings in Q2 - Q4:

- The Trans Mountain expansion that went into service in September of 2004 allows for increased volumes that should show up starting in Q2. Trans Mountain was 35% over-subscribed in May.
- The Express expansion came into service in April and should be immediately additive to earnings (84% of total expanded capacity is long-term contracted).

Management maintained full-year EPS guidance of $1.45 - $1.50 excluding $0.02 - $0.03 in Q1 mark-to-market gains. We are maintaining our EPS estimates perhaps with a slight downward bias due to a slightly weak first quarter.

Investment Opportunities Intact

Several attractive investment opportunities at Terasen remain on track. The ones we find most promising for the 2006 - 2008 period are an expansion of the Corridor Oil Pipeline, TMX1, and construction of LNG storage facilities on Vancouver Island:

- ***Corridor Pipeline expanding with Shell oil sands output –*** Shell (SHC-TSX, Sector Performer) will likely require a 110,000 b/d expansion on the Corridor Pipeline by 2009. The capital cost is estimated at $700 - $800 million.
- ***Vancouver Island LNG still moving forward –*** The BC Utilities Commission has approved a $100 million LNG storage facility that should be added to Vancouver Island gas distribution rate base by 2007.
- ***TMX stage 1 open season for this summer –*** Terasen plans to hold an open season for the first stage of its TMX project. The $570 million project could be in service by 2008.

The rest of the TMX project is still in direct competition against the Enbridge (ENB – TSX, Sector Performer) Gateway proposal. We continue to maintain the view (confirmed by management on the conference call) that Terasen may proceed with Phase 1 of the Trans Mountain expansion even if it does not have firm commitments for all phases of the TMX project. We do not anticipate any final decision on TMX2 and TMX3 vs. Gateway until 2006.

Tolling Renewal Risk Overhangs Stock

We remain concerned about the December 31, 2005, expiry of a lucrative tolling agreement on the Trans Mountain Pipeline. Our calculations suggest the company is earnings an ROE of around 20% (vs. allowed of 9.5%). Every 100 basis point reduction in the ROE is worth $0.01 - $0.02 in EPS. Therefore we see material downside earnings risk on Trans Mountain starting in 2006. Indications from parallel negotiations at Enbridge are that shippers will request a significant reduction in the ROE. Based on recent negotiations with shippers, Enbridge has publicly stated that the ROE on its Mainline will probably drop. Enbridge expects its embedded low-teens ROE will fall to the National Energy Board allowed level of about 9.5%.

Some mitigating factors are working in Terasen's favour. Shippers may be slightly more charitable to Terasen because of the volume throughput risk on Trans Mountain. Enbridge has no material volume risk on the Canadian portion of its pipeline. In addition, Terasen may be able to offer expansion capacity in exchange for an ROE that exceeds the NEB allowed 9.5%.

These mitigating factors allow us to forecast an attractive mid-teens ROE on Trans Mountain in 2006. However, based on the Enbridge situation, we doubt Terasen can fully avoid a reduction in the ROE and toll. Therefore our earnings forecast for 2006 is flat to 2005.

By 2007 or 2008, Terasen should return to a growth trajectory similar to its 6%+ average in recent years. Our Sector Performer rating on Terasen balances the near-term earnings risk for 2006 against attractive expansion opportunities that should contribute to renewed growth later in the decade.

Appendix: Summary of Q1'05 Results

We normalized Terasen's reported Q1'05 EPS to $0.60 per share by excluding a $2.6 million (after-tax) mark-to-market gain related to natural gas hedges at Clean Energy.

Exhibit 1. Segmented Earnings for Terasen

(data in C$ millions, unless otherwise stated)

	Q105A	Q1/04A	2005E	2004A
Terasen Gas	$49.0	$48.0	$70.2	$69.7
Terasen Gas (Vancouver Island)	$6.7	$6.7	$26.2	$26.2
Trans Mountain Pipeline	$5.4	$10.4	$39.5	$39.4
Express Pipeline System	$3.7	$4.0	$20.0	$15.9
Corridor Pipeline	$3.6	$3.9	$15.6	$15.6
Water and Utility Services	$0.8	$0.0	$11.0	$6.6
Other Activities	($5.5)	($6.8)	($25.0)	($26.9)
Operating Earnings for Common	**$63.7**	**$66.2**	**$157.5**	**$146.5**
Unusual Items	$2.6	$1.7	$2.6	$3.3
Reported Earnings	$66.3	$67.9	$160.1	$149.8
Average Shares Outstanding (mln)	105.3	104.6	105.2	104.7
Operating Earnings per Share	**$0.60**	**$0.63**	**$1.50**	**$1.40**
Reported Earnings per Share	$0.63	$0.65	$1.52	$1.43

Notes:

1. Unusual item in Q1/05 relates to $2.6 million after-tax gain from mark-to-market accounting on Terasen's share of Clean Energy's natural gas positions.
1. Unusual item in 2004 relates to $3.3 million gains from mark-to-market accounting on Terasen's share of Clean Energy's natural gas positions.

Source: Company reports and CIBC World Markets Inc.

Natural Gas Distribution

Earnings from the B.C. gas utilities improved by $1 million as a result of lower financing costs (low interest rates) and operational efficiencies.

Petroleum Transportation

As expected, **Trans Mountain Pipeline**'s earnings were down y/y due to lower volumes on both the Canadian (down almost 30%) and US mainlines (down over 50%). Production slowdown from oil sands operations and planned U.S. refinery turnarounds caused Trans Mountain volumes to drop. But the company has indicated that the oil pipeline has returned to full capacity in Q2.

Earnings from **Express Pipeline System** came in slightly lower than expected, at $3.7 million in Q1'05 vs. $4.0 million in Q1'04 and our $4 million estimate. Volume throughput on Express was also negatively impacted by delayed oil sands production from Syncrude. But volumes should improve materially starting in Q2 due to higher contracted capacity post 108 MBbl/day expansion.

A lower allowed ROE contributed to the $0.3 million decrease in **Corridor's** Q1 earnings.

CIBC World Markets

Water and Utility Services

The $0.8 million earnings contribution from the Water and Utility Services segment reflects growth in the waterworks business and a small Fairbanks contribution (seasonally weaker Q1/Q4).

Other Activities

Excluding a $2.6 million mark-to-market gain from Clean Energy, Other Activities contributed a loss of $5.5 million in Q1'04, down from $6.8 million loss last year. A focus on costs and operating efficiencies offset higher interest costs in the quarter.

Price Target Calculation

Our $29 target price is based on a 19.3x multiple of our 2006 EPS forecast of $1.50. It also implies a 3.3% dividend yield. Given Terasen's superior long-term growth prospects and low risk profile, we are using a target P/E multiple at the higher end of the group average, but within the stock's historical trading range of 8x-20x earnings.

Key Risks to Price Target

Terasen could fall short of our 2005 and 2006 earnings forecasts (and fail to meet our target price) for various reasons, including (but not limited to) the lower allowed ROEs on its regulated gas distribution business and a reduction of the toll on its Trans Mountain pipeline. In addition, the stocks are sensitive to changes in Canadian long bond yields. If broader market risk dissipates and bond yields rise significantly, valuation in the sector could fall.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2004 Current	$0.63A	$0.17A	$0.08A	$0.52A	$1.40A
2005 Current	$0.60A	$0.22E	$0.12E	$0.56E	$1.50E
2006 Current	--	--	--	--	$1.50E

IMPORTANT DISCLOSURES:

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Potential Conflicts of Interest: Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department within the Corporate and Leveraged Finance Division. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

Important Disclosure Footnotes for Terasen Inc. (TER)

2a Terasen Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from Terasen Inc. in the past 12 months.

2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Terasen Inc. in the next 3 months.

7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Terasen Inc.

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 05/04/2005:

Enbridge Inc. (2a, 2c, 2e, 2g, 7) (ENB-TSX, $64.30, Sector Performer)

Shell Canada Limited (2g, 6a) (SHC-TSX, $86.80, Sector Performer)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

1 CIBC World Markets Corp. makes a market in the securities of this company.

2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.

2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.

2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.

2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.

3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.

3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.

4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.

4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.

4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.

5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.

5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.

6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.

6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.

7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.

8 A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.

9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.

10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.

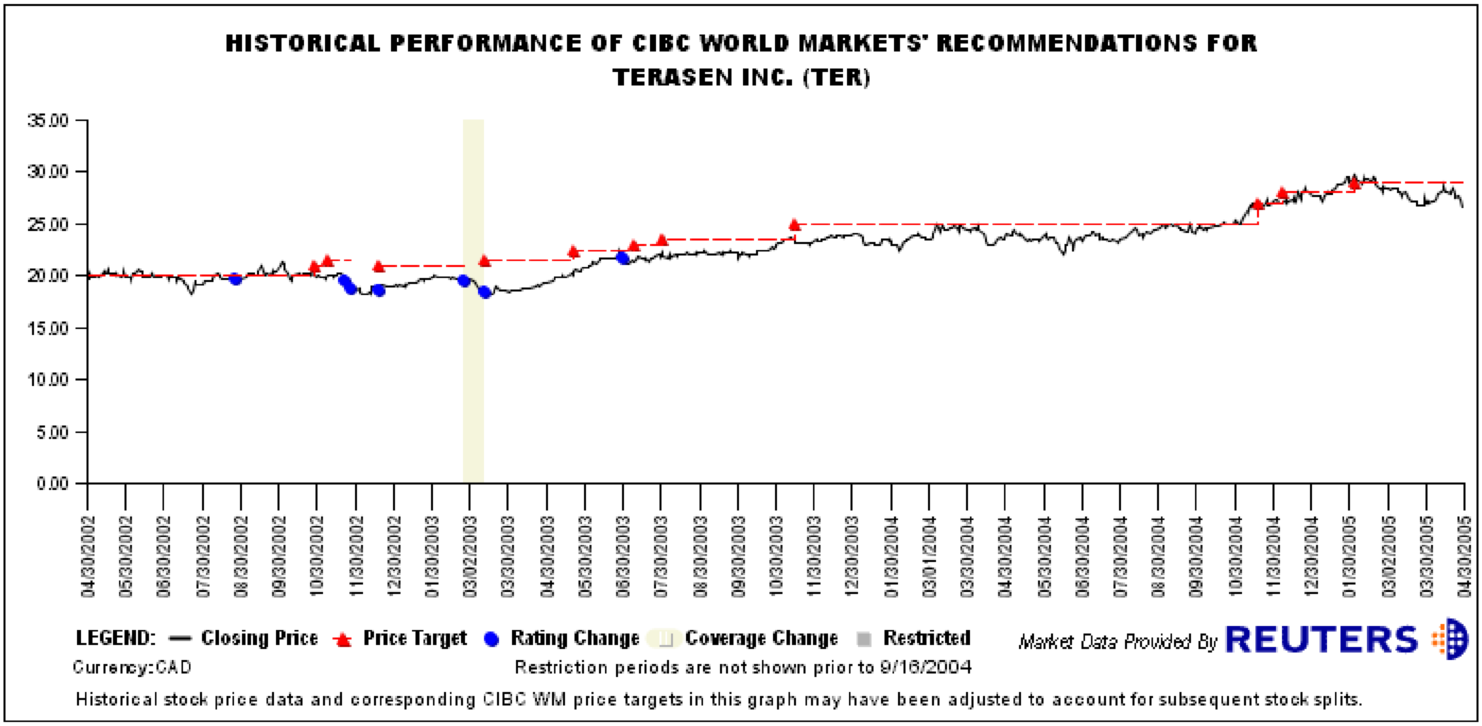
11 The equity securities of this company are restricted voting shares.

12 The equity securities of this company are subordinate voting shares.

13 The equity securities of this company are non-voting shares.

14 The equity securities of this company are limited voting shares.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR TERASEN INC. (TER)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/26/2002	●	19.66	SU	20.00	Peter Case
10/28/2002	▲	20.10	SU	21.00	Peter Case
11/07/2002	▲	20.13	SU	21.50	Peter Case
11/21/2002	●	19.48	SP	21.50	Peter Case
11/25/2002	▲●	18.85	NR	None	Peter Case
12/18/2002	▲●	18.63	SP	21.00	Peter Case
02/24/2003	▲●□	19.51	S	None	CIBC World Markets Corp.
03/12/2003	▲●□	18.41	SO	21.50	Matthew Akman
05/21/2003	▲	20.13	SO	22.50	Matthew Akman
06/30/2003	●	21.78	SP	22.50	Matthew Akman
07/08/2003	▲	21.30	SP	23.00	Matthew Akman
08/01/2003	▲	21.93	SP	23.50	Matthew Akman
11/13/2003	▲	23.58	SP	25.00	Matthew Akman
11/15/2004	▲	27.00	SP	27.00	Matthew Akman
12/06/2004	▲	27.00	SP	28.00	Matthew Akman
02/01/2005	▲	29.71	SP	29.00	Matthew Akman

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Stock Ratings Prior To August 26, 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.
"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
***Restricted due to a potential conflict of interest.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 04 May 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	290	33.8%	Sector Outperformer (Buy)	177	61.0%
Sector Performer (Hold/Neutral)	390	45.4%	Sector Performer (Hold/Neutral)	215	55.1%
Sector Underperformer (Sell)	149	17.3%	Sector Underperformer (Sell)	75	50.3%
Restricted	17	2.0%	Restricted	16	94.1%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 04 May 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	27.3%	Sector Outperformer (Buy)	1	33.3%
Sector Performer (Hold/Neutral)	6	54.5%	Sector Performer (Hold/Neutral)	4	66.7%
Sector Underperformer (Sell)	2	18.2%	Sector Underperformer (Sell)	1	50.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.NV.X, CU.NV, DUK, EEP, EMA, ENB, FTS, RRI, TA, TER, TRP.

*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IDA Policy 11, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC on the web at http://research.cibcwm.com/res/Policies/Policies.html or by writing to CIBC World Markets Inc., BCE Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

Legal Disclaimer

This report is issued and approved for distribution by (i) in Canada, CIBC World Markets Inc., a member of the Investment Dealers Association ("IDA"), the Toronto Stock Exchange, the TSX Venture Exchange and CIPF, (ii) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (iii) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report is distributed in the Unites States by CIBC World Markets Inc. and has not been reviewed or approved by CIBC World Markets Corp., a member of the New York Stock Exchange ("NYSE"), NASD and SIPC. This report is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC 15a-6 and Section 15 of the Securities Act of 1934, as amended) and is not intended for the use of any person or entity that is not a major institutional investor. Major Institutional Investors receiving this report should effect transactions in securities discussed in the report through CIBC World Markets Corp. This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

Corporate Debt Comments

May 5, 2005

Trevor Bateman, CFA, CA
(416) 594-7992
Banks, Non-bank financials, Autos, ABS

Phillip Armstrong
(416) 956-3272
Telecom, Cable, Insurance, Retail, Consumer Products

Kevin Yong, CFA
(416) 956-6273
Oil & Gas, Utilities, Aerospace

Joanna Zapior, CFA, CMC
(416) 594-8498
Strategy

See "Legal Disclaimer" section at the end of this report for important disclosures, including potential conflicts of interest.

Terasen: 1Q05 results weaker as expected but no impact on bonds

Kevin Yong (416) 956-6273 kevin.yong@cibc.ca
Joanna Zapior (416) 594-8498 joanna.zapior@cibc.ca

CREDIT IMPACT: Neutral. We maintain our Market Perform rating on Terasen Inc. and Terasen Gas bonds. As expected, Terasen reported weaker year-over-year earnings and cash flow. Since the main driver (lower pipeline throughput) for weaker cash flow was a temporary event, there should be no impact on bond spreads or credit ratings from 1Q05 results. Credit protection measures showed slight improvement on a year-over-year comparison despite the weaker cash flow. [Terasen Inc.: A(low)/Stable; A3/Stable] and [Terasen Gas: A/Stable; A2/Stable]

- Terasen's weaker cash flow was due to weaker earnings contribution from the Petroleum Transportation segment. Weaker earnings from this segment were a result of lower throughput at Trans Mountain and Express – both throughputs were negatively impacted by oil sands production outages and refinery maintenance. **Given that the lower throughputs were caused by temporary short-term production and refinery outages, the weaker cash flow reported in 1Q05 has no material impact on credit.**
- Although net borrowings increased in the quarter, the increase in leverage was offset by an increase in cash balance. As a result, net debt was essentially flat compared to net debt at the end of 2004 and increased by 1% compared to 1Q04 net debt level. This was the primary reason why credit metrics showed a slight improvement despite softer year-over-year cash flow generation.

CREDIT METRICS

Terasen: 1Q05	Debt to CF	Debt to Cap at book	EBITDA to Interest	FFO to Interest	LTM Realized ROE	LTM CF	LTM FCF
1Q05	10.6	67.3%	3.0	1.6	9.6%	276	-18
1Q04	10.0	67.9%	2.7	1.5	9.9%	289	28
4Q04	9.9	68.2%	3.0	1.7	11.7%	296	95

CONSOLIDATED QUARTERLY RESULTS SUMMARY

	Revenue	EBITDA	Net Interest Expense	Earnings	FFO	Free Cash Flow	Net borrowings (repayment) of debt	Share Issuance (repurchase)	Net Debt
year-over-year change	3%	-3%	0%	-2%	-6%	-96%	220%	-47%	1%
quarter-over-quarter change	8%	10%	-3%	19%	13%	-91%	159%	5%	0%
1Q05	$667	$172	$45	$66	$99	$5	$115	$4	$2,926
1Q04	$649	$177	$45	$68	$105	$117	-$96	$8	$2,904
4Q04	$616	$156	$47	$56	$87	$56	-$194	$4	$2,936

SELECTED OPERATING STATISTICS

	1Q05	1Q04	4Q04	YTD 03
Operating Statistics:				
Number of gas customers	878,560	862,631	875,166	875,166
Gas transportation volume (in petajoules)	21.6	21.9	19.6	72
Trans Mountain Canadian Mainline (bbl/d)	170,000	240,400	239,100	236,100
Trans Mountain US Mainline (bbl/d)	44,500	93,300	89,300	91,700
Express System (bbl/d)	166,900	171,300	175,400	175,300

- Despite lower reported earnings and cash flow from 1Q05, management is maintaining its full-year 2005 earnings guidance.
- The lower earnings contribution from the pipelines was partially offset by a small improvement in gas distribution earnings, earnings from water utilities, and lower corporate expenses.
- Terasen Gas earnings improved by $1 million in 1Q05 compared 1Q04. Operating efficiencies and customer growth more than offset lower allowed ROE in 2005.

Please refer to Our Opinions table (below) to place this credit in its sector-relative-value context

	Analyst	Senior unsecured DBRS	Moody's	S&P	Credit fundamentals (1-3 years)	Rating change probab. (1 year)	Valuation	YTD total return Shorter bond: Bond	Return	Longer bond: Bond	Return	YTD change in spread Shorter bond: Curr Sprd	YTD Chng	Longer bond: Curr Sprd	YTD Chng
Pipelines: *Solid, largely regulated fundamentals, though regulatory environment disadvantages those companies that have North American growth plans as Cdn leverage is higher and returns lower. Our investment thesis rests on two pillars: 1) operating excellence and cost management will be key in light of 2) regulators pressuring for cost control, including returns. Holding company risk has been increasing with expansion in non-regulated areas, equity market push for growth, and still elevated leveragex*															
Gas distribution: *Stable sector, with strong operating franchises and good fundamentals. However, no standalone credits left (exceptand credit quality is affected by parent activities. See also our comment on the pipeline sector.*															
Enbridge Inc	**KY**	A	A3	A-	May weaken (M&A, projects)	Medium	C	5.8% 2008	1.52%	8.2% 2024	3.93%	37	▲ 1	103	▲ 2
Enbridge Pipelines	**KY**	A(high)	NR	A-	Stable	Medium	R	5.621% 2007	1.07%	7.2% 2032	4.59%	37	▲ 7	130	▲ 5
Enbridge Gas Dist.	**KY**	A	NR	A-	Stable	Medium	R	11.15% 2009	1.74%	6.1% 2028	4.48%	57	▲ 6	104	▲ 3
Alliance Pipe	**KY**	A(low)	A3	BBB+	Strong	Very low	F	7.23% 2015	3.44%	7.217% 2025	3.42%	39	▼ 24	98	▼ 1
There are continued M&A and large project risks - lots of noise in the news as juggling for positions continues. The market now prices its uncertainty about committment to "A" ratings. Pipe acquisition in the GoM has eroded current balance sheet to the lev continue permissible under the S&P rating. Over time, we see balance sheet quality potentially weakening as more risky assets may be added while mature, stable assets end up in income trust. That it has historically been a defensive credit (low spread volatility) under the pause but history may not repeat itself. We view **opcos** as better credits in line with DBRS logic but not necessarily better value. Note **EGD** has a 2005 rate case. Regulatory stability has improved after a recent spate of decisions & PBR is possible. Mainline is renegotiating its settlement this fall. For **Alliance,** we like the "structuring premium" of an amortizer and the simplicity of this credit; not affected by how the ownership is structured; valuation reflects the defensive nature of this credit. It continues to perform as expected. Mgt turnover has been signficant (CFO earlier and now CEO) but this has no credit impact either for this contractually structured credit															
TransCanada	**KY**	A	A2	A- Neg	Stable but event risk	Medium	R	6.05% 2007	1.27%	6.5% 2030	3.90%	31	▼ 5	125	▲ 10
Neg outlook will take a long time to hatch, if at all - unless an acquisition forces S&P's hand (the most recent big one of a U.S. pipeline appears to have crystallized the agency thinking in a constructive way, subject to how conservative mgt will remainik will tak financing side) . Expansion in generation and another potential large opportunistic acquisition & large projects in the longer term are credit risks. Regulatory environment continues to be unsatisfactory in mgt's eyes which raises questions about whetheing si company will want to trustify some of the lower return regulated assets - a potential negative for bondholders.															
Duke (Westcoast)	**KY**	A(low)	NR	BBB	Improving	Low	R	5.7% 2008	1.74%	7.15% 2031	3.02%	40	▼ 6	140	▲ 17
Duke (Union Gas)	**KY**	A	NR	BBB	Standalone stbl + DUK effect	Low	R	5.7% 2008	1.71%	8.65% 2025	3.19%	36	▼ 5	126	▲ 12
MNEP	**KY**	A	A1 UR-PD	A	Strong	Very low	F	NA	NA	6.9% 2019	2.86%	NA	NA	84	▲ 4
Duke took steps to turn the corner and the balance sheet repair actions have finally shown. Exit from non-core businesses continue & core regulated operations are stable. We think DENA will continue to be a source of grief for a while until markets improvesteps to t the new idea of contributing it to a joint venture hatches (lowering of risk). Resumed talk of opportunistic growth means that the golden age for bondholders is almost over (some upside remains from DENA cleanup & possible upgrade). We believe, in the loidea of **Union Gas's** distribution portion, as a non-core asset, is more separable from Duke than Westcoast. Its storage is a strategic asset to Duke. In the short term, Union provides solid cash flow to Duke and supports its credit quality. Spreads have performed reasonably well & are now in the middle of the utiltiy pack, leaving little further room for outperformance. For **MNEP**, we like structural protection and simplicity; valuation reflects the defensive nature of this credit.															
Terasen	**KY**	A(low)	A3	BBB-	Stable but some event risk	Low	C	6.3% 2008	1.92%	NA	NA	52	▼ 6	NA	NA
Terasen Gas	**KY**	A	A2	BBB	Stable	Low	C	NA	NA	6.95% 2029	5.57%	NA	NA	126	▼ 3
Business fundamentals are a strong combination of a regulated gas distribution and pipelines, with aggressive financial profile determining the rating. Market pricing suggests that the market does not give full credence to the S&P rating (but still incorpoundamental despite its now unsolicited status). Project CAPEX could be high. For **Terasen Gas**, we like the fundamentals of gas distribution at current spread, compared to historical spreads, but don't think that holdco spread can tighten much in the near term.															
Electric T&D: *Regulated; should have reasonably stable credit protection. Dark cloud of S&P and DBRS negative outlook on Ontario reflects political risk rather than material risk of deterioration in credit quality, and has by now almost dissipated though stability in the sector has not entirely returned. Our investment thesis is that given a general regulatory/rating agency/issuer stand-off, operating excellence and low cost structure will be key differentiating factors, given the aging assets and broad grid restructuot entirely retu North America.*															
Hydro One	**KY**	A Pos	A2	A	Stable	Low	R	7.15% 2010	2.21%	6.93% 2032	4.68%	34	▼ 1	85	▲ 4
Quasi-provincial credit nature still somewhat offset by political noise although the most recent policy changes appear to bypass Hydro One (with one exception being taking away from it the responsibility for long-term planning of the network); fairly valueovincial "provincially-supported" credit, otherwise expensive. Liberal government appears to be more constructive for the electricity sector than the Conservatives have been in terms of power market functionality, while the risk of divestiture remains very low.															
Toronto Hydro	**KY**	A	NR	A-	Stable	Low	R	6.11% 2013	2.42%	NA	NA	63	▲ 6	NA	NA
Some political and regulatory uncertainties remain. Scarcity value supports valuation. Recent political developments increase our confidence in a positive restructuring of the industry, including regulatory environment. Volatile non-regulated business ccal and reg impact earnings - mitigating factor is that TH said it will exit retail electricity by end 2006. We think that in the medium term performance-based regulation will introduce marginally higher operating risk.															

Our ratings:

Market Perform. The issuer's bonds are expected to perform in line with our universe of bonds over the next 12 months.
Outperfrom. The issuer's bonds are expected to outperform our universe of bonds over the next 12 months.
Underperform. The Issuer's bonds are expected to underperform our universe of bonds over the next 12 months.

Legal Disclaimers and Important Disclosure Footnotes

Important disclosures, including potential conflict of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC on the web at http://research.cibcwm.com/res/Policies/Policies.html or write to CIBC World Markets Inc. BCE Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

CIBC World Markets

Equity Research
Earnings Update

July 29, 2005

Pipelines, Utilities, & Power

Stock Rating:
Sector Performer

Sector Weighting:
Market Weight

12-18 mo. Price Target	$31.00
TER-TSX (7/28/05)	$31.64
Key Indices: TSXUtils	
3-5-Yr. EPS Gr. Rate (E)	6.0%
52-week Range	$23.07-$31.78
Shares Outstanding	105.5M
Float	105.2M Shrs
Avg. Daily Trading Vol.	94,104
Market Capitalization	$3,339.4M
Dividend/Div Yield	$0.90 / 2.8%
Fiscal Year Ends	December
Book Value	$13.53 per Shr
2005 ROE (E)	11.2%
LT Debt	$2,029.1M
Preferred	Nil
Common Equity	$1,427.5M
Convertible Available	Yes

Earnings per Share	Prev	Current
2004		$1.40A
2005	$1.50E	$1.50E
2006	$1.50E	$1.55E
P/E		
2004		22.6x
2005	21.1x	21.1x
2006	21.1x	20.4x

Dividends per Share	
2002	$0.705
2003	$0.765
2004	$0.825
2005E	$0.90

Debt to Total Capital	
2003	67.0%
2004	65.4%
2005E	65.2%

Company Description

Terasen is a gas distribution and oil pipeline company. Its subsidiary, Terasen Gas, distributes natural gas to B.C., including Vancouver and the interior.

www.terasen.com

Matthew Akman
1 (416) 956-6169
Matthew.Akman@cibc.ca

Alda Pavao, CFA
1 (416) 956-3229
Alda.Pavao@cibc.ca

Terasen Inc.

Small Target Increase Following Express Pipeline Upside

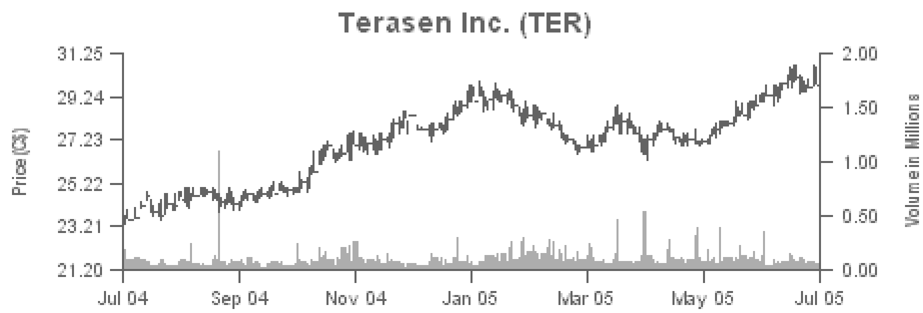
- Terasen reported normalized Q2'05 EPS of $0.23 vs. our estimate of $0.22 and $0.16 in Q2'04. Earnings from the Express Pipeline surprised on the upside. We are raising our 2006 EPS estimate to $1.55 (from $1.50) and our target price to $31 (from $30).

- The Express Pipeline expansion went into service in April of this year. Management had previously guided to a $0.05 EPS contribution but is now disclosing a contribution of more like $0.10. The change in guidance causes us to raise our 2006 EPS estimate by $0.05.

- News on longer-term growth initiatives was mixed. On the one hand, the company now anticipates a delay of up to two years on the Vancouver Island LNG storage facility. On the other hand, a major expansion on the Corridor oil pipeline appears on track.

- The upside surprise on Express likely allows Terasen to continue growing earnings in 2006 despite a pending expiry of the lucrative Trans Mountain tolling agreement. We are raising our target price to $31 and maintaining our Sector Performer rating.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

05-48985 © 2005

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Investment Summary

Terasen reported normalized Q2'05 EPS of $0.23 vs. our estimate of $0.22 and $0.16 in Q2'04. Earnings from the Express Pipeline surprised on the upside. We are raising our 2006 EPS estimate by $0.05 and our target price by $1.

For a breakdown and analysis of earnings by segment and normalizing items, please see the appendix to this comment.

Express Pipeline Surprises on the Upside

The Express Pipeline expansion went into service in April of this year. Management had previously guided to a $0.05 EPS contribution but is now disclosing a contribution of more like $0.10.

The change in outlook is likely related to tax planning rather than improved project economics. Our best guess would have been that project economics were running in line with expectations. Volume flows are strong but electricity costs have moved up since the expansion was announced. Therefore, the upside is likely attributable to the unique Express structure. In fact, management disclosed that tax benefits will deliver about $4 million in annual net income ($0.04 in EPS).

Whether from tax planning or other factors, the change in outlook on Express causes a $0.05 increase in our 2006 EPS estimate. On its own it would also have caused us to raise estimates by about $0.03 in 2005 but weakness in Trans Mountain offsets the upside this year. Management disclosed Trans Mountain volume flows weakened temporarily in the third quarter. We assume these disruptions are temporary and will not recur in 2006.

Oil Pipeline Growth Initiatives Still on Track

News on longer-term growth initiatives was mixed. On the one hand, the company now anticipates a delay of up to two years on the Vancouver Island LNG storage facility and has deferred the Inland Pacific Connector (IPC). On the other hand, we have never been optimistic about the IPC project and the company's major oil pipeline expansion activities remain on track:

- ***Expansion on Corridor by 2009 –*** Shell (SHC-TSX, Sector Performer) will likely require an expansion of at least 110,000 b/d on the Corridor Pipeline by 2009. Terasen is planning a 200,000 b/d expansion for an estimated cost of $700 - $800 million. The company is seeking third party shippers but expansion is not dependent on success in adding to the list of shippers.
- ***Trans Mountain phase 1 moving forward –*** Terasen has already applied to the National Energy Board for a 35,000 b/d expansion that will be achieved by investing $210 million in additional pumping. We think an open season this summer should solidify support for an additional $365 million investment in looping that would add another 40,000 b/d to Trans Mountain capacity by 2009.

Whether Terasen can achieve full support for the second and third phases of Trans Mountain expansion remains to be seen. We anticipate shippers will first focus on major expansion to the core Midwest market. Given market uncertainties and the tight competition between Enbridge (ENB – TSX, Sector Performer) and Terasen, it is conceivable shippers will not finally decide on any large expansion to the West Coast until the 2006/7 timeframe.

Most But Not All of the ROE Reduction Can Be Offset

Terasen is facing potentially significant reductions in the ROEs on its existing gas distribution and oil pipeline assets. We think some, but not all, of the impacts can be offset:

- ***Trans Mountain tolling renewal suggests small hit only –*** We believe management will succeed in avoiding a large reduction in the ROE on Trans Mountain. Enbridge has recently established a tolling precedent suggesting limited downside for Terasen. Having said that, we believe shippers will require some reduction in returns and seek relatively low returns on the initial Trans Mountain expansion proposals.
- ***Gas Distribution ROE hearing begins soon –*** Terasen may offset some or all of the formula ROE reduction for its gas utility business through a hearing commencing next month. The company has requested a 500 basis point increase in its equity ratio and a 175 basis point increase in its allowed ROE. We anticipate Terasen will receive sufficient benefit to offset an anticipated 50 basis point reduction that would normally have resulted from its formula ROE.

Conclusions: Outlook Improving But Stock Already Up

Prior to the Q2 result we had modeled no EPS increase in 2006 relative to 2005. We had seen a modest decrease in pipeline and gas distribution ROEs offset by growth in Express earnings. Our view is largely unchanged except the Express earnings may be enough to more than offset the ROE reductions. Therefore, we are raising our target price by $1.

In recent weeks Terasen shares have already reflected the improved outlook. After lagging other utility stocks in the first half of the year the stock has caught up in a short period. As a result, it is again trading at a premium P/E multiple (20.3x 2006 vs. group at 18x). Our Sector Performer rating balances the improved outlook against recent share price appreciation.

Appendix: Summary of Q2'05 Results

We normalized Terasen's reported Q2'05 EPS to $0.23 by excluding a $3.9 million (after-tax) mark-to-market gain related to natural gas hedges at Clean Energy and tax benefits provided by the Express expansion attributable to Q1 (about $1 million impact).

Exhibit 1. Segmented Earnings for Terasen

(data in C$ millions, unless otherwise stated)

	Q2/05A	Q2/04A	2005E	2004A
Terasen Gas	$1.6	($1.2)	$71.0	$69.7
Terasen Gas (Vancouver Island)	$6.1	$6.3	$26.2	$26.2
Trans Mountain Pipeline	$9.8	$9.0	$40.1	$39.4
Express Pipeline System	$6.6	$3.2	$22.0	$15.9
Corridor Pipeline	$3.5	$4.0	$14.2	$15.6
Water and Utility Services	$3.8	$2.6	$10.0	$6.6
Other Activities	($6.8)	($6.6)	($25.4)	($26.9)
Operating Earnings for Common	**$24.6**	**$17.3**	**$158.1**	**$146.5**
Unusual Items	$3.9	$0.6	$6.6	$3.3
Reported Earnings	$28.5	$17.9	$164.7	$149.8
Average Shares Outstanding (mln)	105.5	104.7	105.5	104.7
Operating Earnings per Share	**$0.23**	**$0.17**	**$1.50**	**$1.40**
Reported Earnings per Share	$0.27	$0.17	$1.56	$1.43

Notes:
1. Unusual item in Q2/05 relates to $3.9 million after-tax gain from mark-to-market accounting on Terasen's share of Clean Energy's natural gas positions.
2. Unusual item in 2004 relates to $3.3 million gains from mark-to-market accounting on Terasen's share of Clean Energy's natural gas positions.

Source: Company reports and CIBC World Markets Inc.

Natural Gas Distribution

Earnings from the B.C. gas utilities improved by $1.6 million due in part to timing issues on capital maintenance spend and operational efficiencies.

Terasen filed two regulatory applications with the BCUC in Q2. The first requests an extension of the Terasen Gas Vancouver Island's PBR arrangement by another 2 years. The second application requests a review of the automatic ROE formula and allowed equity ratios. TER is seeking a 175 basis point improvement in allowed ROE and 5% increase in equity thickness. A procedural review of the application has been set for August 3.

Petroleum Transportation

Trans Mountain Pipeline's earnings rebounded from a weak Q1 as a result of strong throughput. Volume growth on the Canadian mainline was up a solid 8.3% y/y.

The normalized $3.4 million increase in **Express'** Q2 earnings contribution was driven by the 108,000 Bbls/d capacity expansion (about $2 million impact) completed in April and realization of additional tax benefits (estimated $1.3 million attributable to Q2).

A lower allowed formula ROE contributed to the $0.5 million decrease in **Corridor's** Q2 earnings.

Water and Utility Services

The $1.2 million increase in Water Utility earnings was attributable to solid organic growth and acquisitions. Management indicated on the call that growth opportunities in this sector are plentiful right now, particularly in Alberta and Alaska.

Other Activities

Excluding a $3.9 million mark-to-market gain from Clean Energy, Other Activities contributed a loss of $5.8 million in Q2'05, up from a $6.6 million loss last year. Effective Q2'05, Terasen changed its accounting for Clean Energy (from proportionate consolidation to equity) due to a less joint control (40.4%, down from 45% in 2004).

Price Target Calculation

Our $31 target price is based on a 20x multiple of our 2006 EPS forecast of $1.55. It also implies a 3% dividend yield. Given Terasen's superior long-term growth prospects and low risk profile, we are using a target P/E multiple at the higher end of the group average, but within the stock's historical trading range of 8x-20x earnings.

Key Risks to Price Target

Terasen could fall short of our 2006 earnings forecasts (and fail to meet our target price) for various reasons, including (but not limited to) the lower allowed ROEs on its regulated gas distribution business and a lower than forecast throughout on its oil pipelines. In addition, the stocks are sensitive to changes in Canadian long bond yields. If broader market risk dissipates and bond yields rise significantly, valuation in the sector could fall.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2004 Current	$0.63A	$0.16A	$0.08A	$0.52A	$1.40A
2005 Prior	$0.60A	$0.22E	$0.12E	$0.56E	$1.50E
2005 Current	$0.61A	$0.23A	$0.11E	$0.55E	$1.50E
2006 Prior	--	--	--	--	$1.50E
2006 Current	--	--	--	--	$1.55E

IMPORTANT DISCLOSURES:

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Potential Conflicts of Interest: Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department within the Corporate and Leveraged Finance Division. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

Important Disclosure Footnotes for Terasen Inc. (TER)

2a Terasen Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from Terasen Inc. in the past 12 months.

2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Terasen Inc. in the next 3 months.

7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Terasen Inc.

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 07/28/2005:

Enbridge Inc. (2a, 2c, 2e, 2g, 7) (ENB-TSX, $35.25, Sector Performer)

Shell Canada Limited (2a, 2e, 2g, 6a) (SHC-TSX, $35.55, Sector Performer)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

1 CIBC World Markets Corp. makes a market in the securities of this company.

2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.

2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.

2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.

2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.

3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.

3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.

4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.

4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.

4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.

5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.

5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.

6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.

6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.

7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.

8 A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.

9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.

10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.

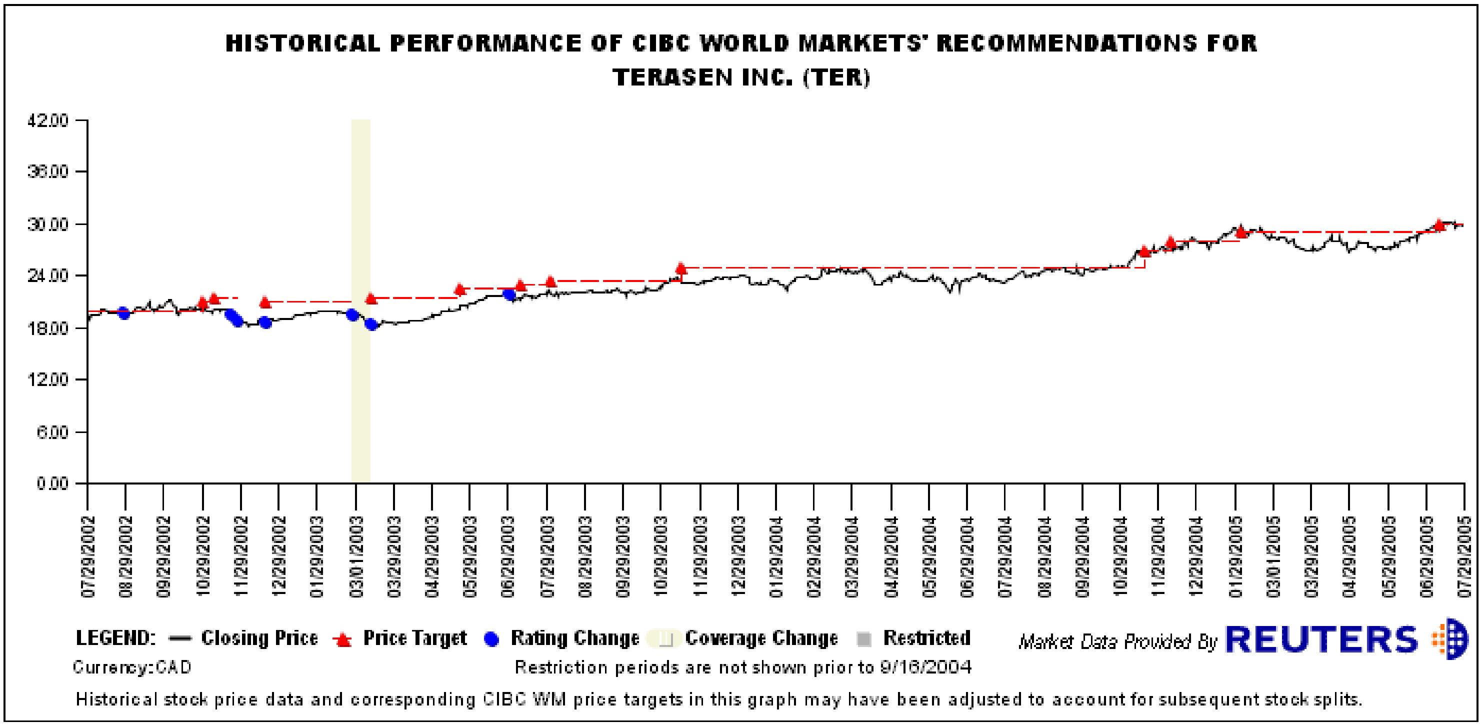
11 The equity securities of this company are restricted voting shares.

12 The equity securities of this company are subordinate voting shares.

13 The equity securities of this company are non-voting shares.

14 The equity securities of this company are limited voting shares.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR TERASEN INC. (TER)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/26/2002	●	19.66	SU	20.00	Peter Case
10/28/2002	▲	20.10	SU	21.00	Peter Case
11/07/2002	▲	20.13	SU	21.50	Peter Case
11/21/2002	●	19.48	SP	21.50	Peter Case
11/25/2002	▲●	18.85	NR	None	Peter Case
12/18/2002	▲●	18.63	SP	21.00	Peter Case
02/24/2003	▲●□	19.51	S	None	CIBC World Markets Corp.
03/12/2003	▲●□	18.41	SO	21.50	Matthew Akman
05/21/2003	▲	20.13	SO	22.50	Matthew Akman
06/30/2003	●	21.78	SP	22.50	Matthew Akman
07/08/2003	▲	21.30	SP	23.00	Matthew Akman
08/01/2003	▲	21.93	SP	23.50	Matthew Akman
11/13/2003	▲	23.58	SP	25.00	Matthew Akman
11/15/2004	▲	27.00	SP	27.00	Matthew Akman
12/06/2004	▲	27.00	SP	28.00	Matthew Akman
02/01/2005	▲	29.71	SP	29.00	Matthew Akman
07/08/2005	▲	29.90	SP	30.00	Matthew Akman

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Stock Ratings Prior To August 26, 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.
"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
***Restricted due to a potential conflict of interest.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 28 Jul 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	285	33.7%	Sector Outperformer (Buy)	162	56.8%
Sector Performer (Hold/Neutral)	399	47.2%	Sector Performer (Hold/Neutral)	229	57.4%
Sector Underperformer (Sell)	139	16.4%	Sector Underperformer (Sell)	72	51.8%
Restricted	16	1.9%	Restricted	15	93.8%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 28 Jul 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	27.3%	Sector Outperformer (Buy)	2	66.7%
Sector Performer (Hold/Neutral)	6	54.5%	Sector Performer (Hold/Neutral)	4	66.7%
Sector Underperformer (Sell)	2	18.2%	Sector Underperformer (Sell)	1	50.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.NV.X, CU.NV, DUK, EEP, EMA, ENB, FTS, RRI, TA, TER, TRP.

*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IDA Policy 11, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC on the web at http://research.cibcwm.com/res/Policies/Policies.html or by writing to CIBC World Markets Inc., BCE Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

Legal Disclaimer

This report is issued and approved for distribution by (i) in Canada, CIBC World Markets Inc., a member of the Investment Dealers Association ("IDA"), the Toronto Stock Exchange, the TSX Venture Exchange and CIPF, (ii) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (iii) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report is distributed in the Unites States by CIBC World Markets Inc. and has not been reviewed or approved by CIBC World Markets Corp., a member of the New York Stock Exchange ("NYSE"), NASD and SIPC. This report is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC 15a-6 and Section 15 of the Securities Act of 1934, as amended) and is not intended for the use of any person or entity that is not a major institutional investor. Major Institutional Investors receiving this report should effect transactions in securities discussed in the report through CIBC World Markets Corp. This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

CIBC World Markets

Corporate Debt Research
Credit Comment

research.cibcwm.com/res/Crp/CrpResearch.html

Friday, July 29, 2005

Pipelines & Utilities

CIBCWM Bond Rating:

Market Perform

Credit Ratings: Terasen Inc.

S&P: BBB-/Stable

Moody's: A3/Stable

DBRS: A (low)/Stable

Credit Ratings: Terasen Gas

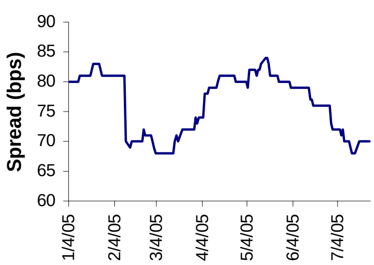
S&P: BBB/Stable

Moody's: A2/Stable

DBRS: A/Stable

Bond Spreads

TER 5.56% 9/15/2014



Source: CIBC World Markets

Kevin Yong

416-956-6273
kevin.yong@cibc.ca

Joanna Zapior

416-594-8498
joanna.zapior@cibc.ca

Terasen Inc.

Better 2Q05 financial results from all segments

CREDIT IMPACT: Neutral. Quarterly financial and operating results were neutral for credit and do not change our view on the credit of Terasen Inc. or Terasen Gas. Leverage ratios remain high, relative to peers such as Enbridge, but are stable to slightly improved on a year-over-year and quarter-over-quarter basis. As expected, year-over-year increases in quarterly earnings and cash flow were mostly attributed to improved earnings from the petroleum transportation segment, which was a result of increased throughput at Trans Mountain and Express expansion. Terasen Gas earnings also exhibited solid growth due to customer growth and lower operating expenses. We remain Market Perform on both Terasen Inc. and Terasen Gas.

Figure 1: Credit metrics are stable to slightly improved

Terasen Inc.	Net Debt to CF	Net Debt to Cap at book	EBITDA to Interest	FFO to Interest	LTM Realized ROE	LTM CF	LTM FCF
2Q05	9.9	67.2%	3.0	1.7	11.9%	297	-48
2Q04	10.0	67.9%	2.8	1.5	10.6%	287	78
1Q05	10.1	67.3%	2.9	1.6	11.1%	290	-18

Sources: Company reports, CIBC World Markets

- Credit metrics slightly improved – as shown in Figure 1, credit metrics are stable to slightly improved on a year-over-year and quarter-over-quarter comparison. Net debt to capitalization has been fairly stable over the last six quarters in and around the 68% level for five of the last six quarters; exception was 4Q04 when this ratio ticked up to 69.6%. Coverage ratios remain solid on a year-over-year and quarter-over-quarter comparison.
- Cash flow improved but free cash flow was negative – growth in cash flow before working capital (FFO) was mostly a result of higher quarterly earnings. Free cash flow was slightly negative due to lower cash from working capital and higher CAPEX.
- Trans Mountain's new incentive tolling settlement (ITS) – management said on the conference call that discussions with the shippers were going well and that it expects a new agreement by the end of 2005. Strong support from shippers for the first phase of TMX 1 is positive for ITS negotiation.
- Corridor expansion – this is estimated to cost about $800 million. The proposed expansion is two-fold. The first would be increasing pumping capacity on the existing line, with a second phase involving the construction of a new 42-inch pipeline. Current capacity of 258 mbbl/d should increase to 278 mbbl/d by April 2006. Addition of new pipeline is expected to increase capacity to about 480 mbbl/d by 2009. Terasen expects to have some third-party shippers on the expanded capacity.

Trevor Bateman, CFA, CA
(416) 594-7992
Banks, Non-bank financials, Autos, ABS

Phillip Armstrong
(416) 956-3272
Telecom, Cable, Insurance, Retail, Consumer Products

Kevin Yong, CFA
(416) 956-6273
Oil & Gas, Utilities, Aerospace

Joanna Zapior, CFA, CMC
(416) 594-8498
Strategy

Dina Giacomelli –Editor **(416) 956-6056**

CIBC World Markets Inc. PO Box 500, 161 Bay Street, BCE Place, Toronto, Canada M5J 2S8 Bloomberg@wgec1 **(416) 594-7000**
CIBC World Markets Corp. 300 Madison Avenue, New York, NY 10017 **(212) 856-4000, (800) 999-6726**

Figure 2: Earnings and FFO growing year-over-year

	Revenue	EBITDA	Net Interest Expense	Earnings	FFO	Free Cash Flow	Net borrowings (repayment) of debt	Share Issuance (repurchase)	Net Debt
year-over-year change	13%	9%	3%	65%	12%	-105%	-18%	25%	2%
quarter-over-quarter change	-38%	-37%	-3%	-56%	-39%	-131%	-143%	-63%	0%
2Q05	$412	$109	$44	$30	$61	-$1	-$49	$2	$2,927
2Q04	$365	$100	$43	$18	$54	$28	-$42	$1	$2,877
1Q05	$667	$172	$45	$66	$99	$5	$115	$4	$2,926

Sources: Company reports, CIBC World Markets

- **Year-over-year increase in earnings came from all segments.** Natural gas earnings improved by $2.6 million in 2Q05 compared to 2Q04. Petroleum transportation earnings improved by $4.7 million in 2Q05 relative to 2Q04. Water and utility services earnings grew by $1.2 million year-over-year in the quarter.

- **Terasen Gas grows steadily** – improvement in earnings was due to strong customer growth, which is a result of a healthy economic environment in B.C., and better operating efficiencies. Both of these positives more than offset the lower allowed ROE in 2005 versus 2004; therefore, 2Q05 earnings increased by $2.6 million over 2Q04 earnings. Improved efficiencies resulted in a year-over-year decline in quarterly operating and maintenance expense of $1.8 million in 2Q05.

- **Petroleum transportation earnings strengthened due to a rebound in volume on Trans Mountain and higher than expected earnings from Express expansion** – Trans Mountain earnings improved by $0.8 million in 2Q05 over 2Q04 earnings. The big lift in earnings came from the Express expansion, which surprised to the upside with earnings of $7.6 million in 2Q05 compared to $3.2 million in 2Q04. Realization of additional tax benefits helped to boost the earnings in the quarter.

- **Water and utility services continue to grow slowly and steadily** – 2Q05 earnings from this segment improved to $3.8 million in 2Q05 compared to $2.6 million in 2Q04. Improved earnings were a result of growth in the Waterworks business from Alberta and B.C. and contribution from Fairbanks Sewer and Water. Management indicated on the conference call that it will continue to grow this business through small projects that provide good steady growth opportunities.

Figure 3: Growing liquids pipeline throughput and natural gas customers

Operating Statistics:	2Q05	2Q04	1Q05	2004
Number of gas customers	879,647	862,752	878,560	875,166
Gas transportation volume (in petajoules)	15.8	16	21.6	72
Trans Mountain Canadian Mainline (bbl/d)	242,100	223,500	170,000	236,100
Trans Mountain US Mainline (bbl/d)	74,600	97,400	44,500	91,700
Express System (bbl/d)	226,500	176,200	166,900	175,300

Sources: Company reports

Please refer to Our Opinions table (below) to place this credit in its sector-relative-value context

26-Jul-05	Analyst	Senior unsecured DBRS	Moody's	S&P	Credit fundamentals (1-3 years)	Rating change probab. (1 year)	Valuation	YTD total return Shorter bond Bond	Return	Longer bond Bond	Return	YTD change in spread Shorter bond Curr Sprd	YTD Chng	Longer bond Curr Sprd	YTD Chng
Pipelines: *Solid, largely regulated fundamentals, though regulatory environment disadvantages those companies that have North American growth plans as Cdn leverage is higher and returns lower. Our investment thesis rests on two pillars: 1) operating excellence and cost management will be key in light of 2) regulators pressuring for cost control, including returns. Holding company risk has been increasing with expansion in non-regulated areas, equity market push for growth, and still elevated leverage.*															
Gas distribution: *Stable sector, with strong operating franchises and good fundamentals. However, no standalone credits left (exceptand credit quality is affected by parent activities. See also our comment on the pipeline sector.*															
Enbridge Inc	KY	A	A3	A-	May weaken (M&A, projects)	Medium	C	5.8% 2008	2.59%	8.2% 2024	8.73%	32	▼ 4	90	▼ 11
Enbridge Pipelines	KY	A(high)	NR	A-	Stable	Medium	R	5.621% 2007	1.86%	7.2% 2032	10.70%	29	▼ 1	116	▼ 9
Enbridge Gas Dist.	KY	A	NR	A-	Stable	Medium	R	11.15% 2009	2.96%	6.1% 2028	9.77%	55	▲ 4	95	▼ 6
Alliance Pipe	KY	A(low)	A3	BBB+	Strong	Very low	F	7.23% 2015	4.76%	7.217% 2025	5.82%	36	▼ 27	91	▼ 8
There are continued M&A and large project risks - lots of noise in the news as jockeying for positions continues. The market now prices its uncertainty about committment to "A" ratings. Pipe acquisition in the GoM has eroded current balance sheet to the lecontinued permissible under the S&P rating. Over time, we see balance sheet quality potentially weakening as more risky assets may be added while mature, stable assets end up in income trust. That it has historically been a defensive credit (low spread volatility) under the pause but history may not repeat itself. We view opcos as better credits in line with DBRS logic but not necessarily better value. Note EGD has a 2006 rate case. Regulatory stability has improved after a recent spate of decisions & PBR is possible. Mainline negotiated ITS is complete and is neutral to slightly positive from a credit perspective. For Alliance, we like the "structuring premium" of an amortizer and the simplicity of this credit; not affected by how the ownership is structured; valuation reflects the defensive nature of this credit. It continues to perform as expected. Mgt turnover has been signficant (CFO earlier and now CEO) but this has no credit impact either for this contractually structured credit															
TransCanada	KY	A	A2	A- Neg	Stable but event risk	Medium	F	6.05% 2007	1.94%	6.5% 2030	9.36%	30	▼ 6	115	↔ 0
Negative outlook will take a long time to hatch, if at all - unless an acquisition forces S&P's hand. We think that short-term acquisition risk is reduced with the announced sale of TransCanada Power LP interests to EPCOR, which should improve TRP's cash outlook w and balance sheet capacity when the transaction closes. Management's commitment to maintain TRP's "A" rating also mitigates short-term risks associated with acquisitions. We read this to mean that TRP will likely make acquisitions in a conservative way (ce sheet not be a detriment to bondholders). The improved balance sheet and renewed commitment to its "A" rating gives us more comfort that TRP's credit quality may not deteriorate if it were to make a large acquisition in the near-term.															
Duke (Westcoast)	KY	A(low) UR-Dev	NR	BBB CW-Neg	Improving	Low	R	5.7% 2008	2.74%	7.15% 2031	8.29%	38	▼ 8	131	▲ 8
Duke (Union Gas)	KY	A UR-Dev	NR	BBB CW-Neg	Standalone stbl + DUK effect	Low	R	5.7% 2008	2.67%	8.65% 2025	7.85%	36	▼ 5	118	▲ 4
MNEP	KY	A	A1 UR-PD	A	Strong	Very low	F	NA	NA	6.9% 2019	6.57%	NA	NA	63	▼ 17
The announced merger with Cinergy should take some of the growth pressures off management, which is good for bondholders. Also good for bondholders in that this is an all stock deal and Cinergy's merchant assets (which is mostly coal) should diversify thenounce risks. Although S&P agrees with us that the transaction in itself is not a detriment to credit, it nevertheless put Duke on credit watch negative because of the uncertainty with regards to what Duke mgmt may do post merger - namely possibility of separatiS&P agrees with and unregulated utilities. We believe the separation of the regulated and unregulated businesses may actually be good for credit ratings of Westcoast and Union Gas. However, in the event that nothing happens post merger and Duke remains whole, as it is nunre ratings of Westcoast and Union Gas should remain unchanged. Of greater concern should be the talk of spinning out the Westcoast assets into an income trust, which we believe could be a mild negative (depending on how the trust is structured) for Westcoasta bondholders. Union Gas for now is not expected to be put into an income trust. For MNEP, we like structural protection and simplicity; valuation reflects the defensive nature of this credit.															
Terasen	KY	A(low)	A3	BBB-	Stable but some event risk	Low	F	6.3% 2008	3.13%	NA	NA	46	▼ 12	NA	NA
Terasen Gas	KY	A	A2	BBB	Stable	Low	F	NA	NA	6.95% 2029	10.74%	NA	NA	118	▼ 11
Business fundamentals are a strong combination of a regulated gas distribution and pipelines, with aggressive financial profile. Although to be fair, we note that most of TER's consolidated debt resides at INL, which is a regulated utility that is restricts are a strong combi equity it can have in its capital structure by the BCUC. BCUC's allowed equity cushion for gas utilities is among the lowest in Canada. We also like the relatively conservative near-term growth of TER, with most of the growth focused on adding to regulatn have in it With ENB getting a new ITS, attention now is on Trans Mountain's ITS. We think that Trans Mountain's ROE will fall but not back to the allowed ROE. Producers will likely give Trans Mountain chances to make up most of the rebased earnings with incentives.B getti new ITS will have greater impact on TER's consolidated cash flow and credit metrics because all of Trans Mountain is under the current ITS.															
Integrated electric: *A mixed bag of companies, ranging from trasnmission dominated, through fully integrated but in a regulated setting, to a mix of regulated T&D and non-regualated generation, and even E&P. Hence risk profiles vary and the companies in this group are not direct comparables.*															
Emera	KY	BBB(high)	Baa2	BBB+ Neg	May weaken	Medium	R	NA	NA	NA	NA	NA	NA	NA	NA
Nova Scotia Power	KY	A(low)	Baa1	BBB+ Neg	May weaken	Medium	R	5.55% 2009	3.46%	8.85% 2025	8.78%	43	▼ 5	130	▲ 1
The negative regulatory decision for NSP that disallowed fuel adjustment clause and granted lower allowed ROE than anticipated is a negative for credit and may lead to increase rating risk. The potential negative cash flow impact of this decision means th regulatory increased risk that Emera will not be able to hit the credit metric targets that S&P has set for the company. Furthermore, the negative decision underscores the fact that NSP's relationship with its regulator has taken a step backwards rather than our expthat Emera will this relationship would improve. NSP recently filed 2006 rate case seeking 15% increase in rates in order to recover significant increase in fuel expense. We don't think that they will get the full amount, which puts NSP's cash flow and credit metrics atuld improve. NSP issuer here is really NSP, but even it has scarcity value.															
EPCOR	KY	A(low)	NR	BBB+	Stable	Low	R	6.2% 2008	2.96%	6.8% 2029	11.11%	37	▼ 10	118	▼ 9
Credit fundamentals (i.e. credit metrics and tighter management) and lack of liquidity in the bond are positive for spreads. EPCOR's strong credit fundamentals is founded on its relatively low-risk business profile and a very strong balance sheet (end of 1s (i.e. credit met these positives are continued soft electricity market in Alberta, increased merchant exposure, and event risk related to renewed focus on growth. We see EPCOR's recent acquisiton of TransCanada's interest in TransCanada Power LP as neutral for bondholderse po these assets are bondholder-friendly and this acquisition was small enough to not have a material negative impact on EPCOR's balance sheet in 2005. The risk here is that management may not be done with growth yet.															

Legal Disclaimers and Important Disclosure Footnotes

Important disclosures, including potential conflict of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC on the web at

http://research.cibcwm.com/res/Policies/Policies.html

or write to CIBC World Markets Inc. BCE Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

Our Ratings

Market Perform	The issuer's bonds are expected to perform in line with our universe of bonds over the next 12 months
Outperform	The issuer's bonds are expected to outperform our universe of bonds over the next 12 months.
Underperform	The issuer's bonds are expected to underperform our universe of bonds over the next 12 months

Rating Category	CIBC WM - CDR Universe (equally weighted)
Outperform	38%
Market Perform	46%
Underperform	15%

CIBC World Markets

Corporate Debt Research
Credit Comment

research.cibcwm.com/res/Crp/CrpResearch.html

Tuesday, August 02, 2005

CIBCWM Bond Rating:

Market Perform

Credit Ratings: Terasen Inc.

S&P: BBB-/Stable

Moody's: A3/Stable

DBRS: A (low)/Stable

Credit Ratings: Terasen Gas

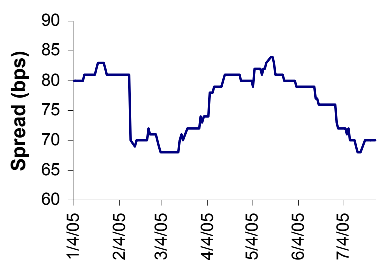
S&P: BBB/Stable

Moody's: A2/Stable

DBRS: A/Stable

Bond Spreads

TER 5.56% 9/15/2014



Source: CIBC World Markets

Kevin Yong

416-956-6273
kevin.yong@cibc.ca

Joanna Zapior

416-594-8498
joanna.zapior@cibc.ca

Pipelines & Utilities

Terasen Inc.

Kinder Morgan to acquire Terasen Inc.

CREDIT IMPACT: Neutral. **From a credit perspective we continue to think that this transaction should be neutral for Terasen bondholders** since most of the Terasen operating company (opco) bonds will likely remain at the opcos and the opcos will likely retain the current operating autonomy that they now enjoy. So in effect other than a change of parent ownership, there should be no fundamental changes to the bonds of Terasen opcos. **There may be some rating volatility due to the transaction and given the difference between Terasen opco ratings and Kinder Morgan Inc. (BBB rated with one positive outlook) ratings. We think that it is reasonable to assume that Terasen Inc. and Terasen opco ratings in the "A" category may be at risk.** As we go to print, Moody's placed Terasen Inc and Terasen Gas senior unsecured ratings under review for possible downgrade. If Terasen Inc and Terasen Gas ratings were to get downgraded (Moody's and DBRS), then we should expect to see some softness in spreads. At this point though, **given the scarcity value of Terasen bonds, strong demand for utility bonds, and the fact that nothing fundamentally has changed, we will maintain our Market Perform rating on Terasen Inc. and Terasen Gas bonds.** Terasen Inc. and Terasen Gas bond spreads have been resilient today with spreads unchanged to a touch wider this morning.

Conference call highlights:

- **All current opco level debt will remain at the opco level** – this means that all bonds of Terasen Gas, Terasen Gas Vancouver Island, Terasen Pipelines (Trans Mountain), and Terasen Pipelines (Corridor) will remain at the opco level. See previous comment for Terasen corporate structure and capital structure.

- **Opcos will retain current operating autonomy according to Kinder Morgan Inc. (KMI) management on the conference call** – KMI management specifically mentioned that Terasen Gas is a stand-alone operating company and will continue to operate that way post acquisition.

- **Current Terasen holdco may be replaced with a new wholly owned Canadian subsidiary of KMI** – management said on the conference call that KMI will establish a wholly owned Canadian subsidiary to hold all of Terasen's opcos. On a follow-up call to KMI, we confirmed that current plan is for this new Canadian subsidiary of KMI to replace the existing Terasen Inc. holdco. **What is uncertain is whether or not the three bond issues currently at Terasen Inc. (i.e. 6.3% 2008, 4.85% 2006, and 5.56% 2014) will be held by the new subsidiary or will be consolidated as KMI bonds.** At the time of our telephone conversation, KMI's investor relations were not able to give us a definitive answer to this question.

Trevor Bateman, CFA, CA	Phillip Armstrong	Kevin Yong, CFA	Joanna Zapior, CFA, CMC
(416) 594-7992	(416) 956-3272	(416) 956-6273	(416) 594-8498
Banks, Non-bank financials, Autos, ABS	Telecom, Cable, Insurance, Retail, Consumer Products	Oil & Gas, Utilities, Aerospace	Strategy

Dina Giacomelli –Editor **(416) 956-6056**

CIBC World Markets Inc. PO Box 500, 161 Bay Street, BCE Place, Toronto, Canada M5J 2S8 Bloomberg@wgec1 **(416) 594-7000**
CIBC World Markets Corp. 300 Madison Avenue, New York, NY 10017 **(212) 856-4000, (800) 999-6726**

- **KMI will have to finance this acquisition with about US$2 billion in debt –** which KMI expects to financed with a bridge facility and then terming this facility out with a long-term bond issue. Management said that the **current plan calls for the new Canadian subsidiary to issue public bonds to repay the bridge facility upon closing of the transaction.** The uncertainty (again KMI investor relations could not shed any light on this on the phone) is in what market KMI will issue the new bonds. It may be a C$ bond issue, or a US$ bond issue, or it may be a combination of both. Additionally, future debt financing for growth projects of the Canadian assets will be issued from this new subsidiary. If the entire amount is issued in Canada at once, then we may see spread weakness.
- **Ratings may be at risk –** both KMI and Terasen have talked to the rating agencies about the transaction. Terasen said that the rating agencies have all the details of the transaction, including the plan to maintain debt at the opco level and operating autonomy of the opcos. Given the big difference in ratings between KMI and Terasen, it would not be a surprise to see a rating agency like Moody's downgrading the ratings of Terasen opco bonds in order to close the ratings gap between KMI and Terasen.
- **KMI likes gas LDC business and cannot roll these assets down to its MLP** – KMI management said that it likes Terasen's gas LDCs (Terasen Gas and Terasen Gas Vancouver Island) and expects to keep these natural gas LDCs rather than selling them. KMI is also legally not able to roll these assets down into its MLP (Kinder Morgan Energy Partners, which BBB+ rated, is a publicly traded master limited partnership), as gas distribution businesses are excluded from MLP qualified business activities.
- **Canadian pipeline assets not tax efficient for MLP roll-down –** management said that it would not be tax efficient for KMI to roll-down Terasen's Canadian pipeline assets into its MLP. The reason is that these Canadian assets still have to pay Canadian taxes even if they were in a U.S. MLP. That said though, management did not rule out putting the U.S. portion of Express and Platte into KMI's MLP. Also, management said that income trust for the Canadian pipeline assets is another option but that it was too early to say definitively what their plans will be for the Canadian pipeline assets.
- **Future growth plans in Canada** – KMI's growth plans in Canada will likely be focused on pipeline expansions, terminal expansions in Alberta, and potential growth of a CO_2 pipeline in Alberta. Management said that outside of steady organic growth, it does not have big growth plans for Terasen's gas distribution businesses.

Please refer to Our Opinions table (below) to place this credit in its sector-relative-value context

26-Jul-05	Analyst	Senior unsecured DBRS	Senior unsecured Moody's	Senior unsecured S&P	Credit fundamentals (1-3 years)	Rating change probab. (1 year)	Valuation	YTD total return: Shorter bond Bond	Shorter bond Return	Longer bond Bond	Longer bond Return	YTD change in spread: Shorter bond Curr Sprd	Shorter bond YTD Chng	Longer bond Curr Sprd	Longer bond YTD Chng

Pipelines: *Solid, largely regulated fundamentals, though regulatory environment disadvantages those companies that have North American growth plans as Cdn leverage is higher and returns lower. Our investment thesis rests on two pillars: 1) operating excellence and cost management will be key in light of 2) regulators pressuring for cost control, including returns. Holding company risk has been increasing with expansion in non-regulated areas, equity market push for growth, and still elevated leverage.*

Gas distribution: *Stable sector, with strong operating franchises and good fundamentals. However, no standalone credits left (exceptand credit quality is affected by parent activities. See also our comment on the pipeline sector.*

Issuer	Analyst	DBRS	Moody's	S&P	Credit fundamentals	Rating change probab.	Valuation	Shorter Bond	Return	Longer Bond	Return	Shorter Curr Sprd	YTD Chng	Longer Curr Sprd	YTD Chng
Enbridge Inc	**KY**	A	A3	A-	May weaken (M&A, projects)	Medium	C	5.8% 2008	2.59%	8.2% 2024	8.73%	32	▼ 4	90	▼ 11
Enbridge Pipelines	**KY**	A(high)	NR	A-	Stable	Medium	R	5.621% 2007	1.86%	7.2% 2032	10.70%	29	▼ 1	116	▼ 9
Enbridge Gas Dist.	**KY**	A	NR	A-	Stable	Medium	R	11.15% 2009	2.96%	6.1% 2028	9.77%	55	▲ 4	95	▼ 6
Alliance Pipe	**KY**	A(low)	A3	BBB+	Strong	Very low	F	7.23% 2015	4.76%	7.217% 2025	5.82%	36	▼ 27	91	▼ 8

There are continued M&A and large project risks - lots of noise in the news as jockeying for positions continues. The market now prices its uncertainty about committment to "A" ratings. Pipe acquisition in the GoM has eroded current balance sheet to the lecontinued permissible under the S&P rating. Over time, we see balance sheet quality potentially weakening as more risky assets may be added while mature, stable assets end up in income trust. That it has historically been a defensive credit (low spread volatility) under the pause but history may not repeat itself. We view **opcos** as better credits in line with DBRS logic but not necessarily better value. Note **EGD** has a 2006 rate case. Regulatory stability has improved after a recent spate of decisions & PBR is possible. Mainline negotiated ITS is complete and is neutral to slightly positive from a credit perspective. For **Alliance,** we like the "structuring premium" of an amortizer and the simplicity of this credit; not affected by how the ownership is structured; valuation reflects the defensive nature of this credit. It continues to perform as expected. Mgt turnover has been signficant (CFO earlier and now CEO) but this has no credit impact either for this contractually structured credit

Issuer	Analyst	DBRS	Moody's	S&P	Credit fundamentals	Rating change probab.	Valuation	Shorter Bond	Return	Longer Bond	Return	Shorter Curr Sprd	YTD Chng	Longer Curr Sprd	YTD Chng
TransCanada	**KY**	A	A2	A- Neg	Stable but event risk	Medium	F	6.05% 2007	1.94%	6.5% 2030	9.36%	30	▼ 6	115	↔ 0

Negative outlook will take a long time to hatch, if at all - unless an acquisition forces S&P's hand. We think that short-term acquisition risk is reduced with the announced sale of TransCanada Power LP interests to EPCOR, which should improve TRP's cash outlook w and balance sheet capacity when the transaction closes. Management's commitment to maintain TRP's "A" rating also mitigates short-term risks associated with acquisitions. We read this to mean that TRP will likely make acquisitions in a conservative way (ce sheet not be a detriment to bondholders). The improved balance sheet and renewed commitment to its "A" rating gives us more comfort that TRP's credit quality may not deteriorate if it were to make a large acquisition in the near-term.

Issuer	Analyst	DBRS	Moody's	S&P	Credit fundamentals	Rating change probab.	Valuation	Shorter Bond	Return	Longer Bond	Return	Shorter Curr Sprd	YTD Chng	Longer Curr Sprd	YTD Chng
Duke (Westcoast)	**KY**	A(low) UR-Dev	NR	BBB CW-Neg	Improving	Low	R	5.7% 2008	2.74%	7.15% 2031	8.29%	38	▼ 8	131	▲ 8
Duke (Union Gas)	**KY**	A UR-Dev	NR	BBB CW-Neg	Standalone stbl + DUK effect	Low	R	5.7% 2008	2.67%	8.65% 2025	7.85%	36	▼ 5	118	▲ 4
MNEP	**KY**	A	A1 UR-PD	A	Strong	Very low	F	NA	NA	6.9% 2019	6.57%	NA	NA	63	▼ 17

The announced merger with Cinergy should take some of the growth pressures off management, which is good for bondholders. Also good for bondholders in that this is an all stock deal and Cinergy's merchant assets (which is mostly coal) should diversify thenounce risks. Although S&P agrees with us that the transaction in itself is not a detriment to credit, it nevertheless put Duke on credit watch negative because of the uncertainty with regards to what Duke mgmt may do post merger - namely possibility of separatiS&P agrees with and unregulated utilities. We believe the separation of the regulated and unregulated businesses may actually be good for credit ratings of Westcoast and Union Gas. However, in the event that nothing happens post merger and Duke remains whole, as it is nunre ratings of Westcoast and Union Gas should remain unchanged. Of greater concern should be the talk of spinning out the Westcoast assets into an income trust, which we believe could be a mild negative (depending on how the trust is structured) for Westcoasta bondholders. Union Gas for now is not expected to be put into an income trust. For **MNEP**, we like structural protection and simplicity; valuation reflects the defensive nature of this credit.

Issuer	Analyst	DBRS	Moody's	S&P	Credit fundamentals	Rating change probab.	Valuation	Shorter Bond	Return	Longer Bond	Return	Shorter Curr Sprd	YTD Chng	Longer Curr Sprd	YTD Chng
Terasen	**KY**	A(low)	A3	BBB-	Stable but some event risk	Low	F	6.3% 2008	3.13%	NA	NA	46	▼ 12	NA	NA
Terasen Gas	**KY**	A	A2	BBB	Stable	Low	F	NA	NA	6.95% 2029	10.74%	NA	NA	118	▼ 11

Business fundamentals are a strong combination of a regulated gas distribution and pipelines, with aggressive financial profile. Although to be fair, we note that most of TER's consolidated debt resides at INL, which is a regulated utility that is restricts are a strong combi equity it can have in its capital structure by the BCUC. BCUC's allowed equity cushion for gas utilities is among the lowest in Canada. We also like the relatively conservative near-term growth of TER, with most of the growth focused on adding to regulatn have in it With ENB getting a new ITS, attention now is on Trans Mountain's ITS. We think that Trans Mountain's ROE will fall but not back to the allowed ROE. Producers will likely give Trans Mountain chances to make up most of the rebased earnings with incentives.B getti new ITS will have greater impact on TER's consolidated cash flow and credit metrics because all of Trans Mountain is under the current ITS.

Integrated electric: *A mixed bag of companies, ranging from trasnmission dominated, through fully integrated but in a regulated setting, to a mix of regulated T&D and non-regualated generation, and even E&P. Hence risk profiles vary and the companies in this group are not direct comparables.*

Issuer	Analyst	DBRS	Moody's	S&P	Credit fundamentals	Rating change probab.	Valuation	Shorter Bond	Return	Longer Bond	Return	Shorter Curr Sprd	YTD Chng	Longer Curr Sprd	YTD Chng
Emera	**KY**	BBB(high)	Baa2	BBB+ Neg	May weaken	Medium	R	NA	NA	NA	NA	NA	NA	NA	NA
Nova Scotia Power	**KY**	A(low)	Baa1	BBB+ Neg	May weaken	Medium	R	5.55% 2009	3.46%	8.85% 2025	8.78%	43	▼ 5	130	▲ 1

The negative regulatory decision for NSP that disallowed fuel adjustment clause and granted lower allowed ROE than anticipated is a negative for credit and may lead to increase rating risk. The potential negative cash flow impact of this decision means th regulatory increased risk that Emera will not be able to hit the credit metric targets that S&P has set for the company. Furthermore, the negative decision underscores the fact that NSP's relationship with its regulator has taken a step backwards rather than our expthat Emera will this relationship would improve. NSP recently filed 2006 rate case seeking 15% increase in rates in order to recover significant increase in fuel expense. We don't think that they will get the full amount, which puts NSP's cash flow and credit metrics atuld improve. NSP issuer here is really NSP, but even it has scarcity value.

Issuer	Analyst	DBRS	Moody's	S&P	Credit fundamentals	Rating change probab.	Valuation	Shorter Bond	Return	Longer Bond	Return	Shorter Curr Sprd	YTD Chng	Longer Curr Sprd	YTD Chng
EPCOR	**KY**	A(low)	NR	BBB+	Stable	Low	R	6.2% 2008	2.96%	6.8% 2029	11.11%	37	▼ 10	118	▼ 9

Credit fundamentals (i.e. credit metrics and tighter management) and lack of liquidity in the bond are positive for spreads. EPCOR's strong credit fundamentals is founded on its relatively low-risk business profile and a very strong balance sheet (end of 1s (i.e. credit met these positives are continued soft electricity market in Alberta, increased merchant exposure, and event risk related to renewed focus on growth. We see EPCOR's recent acquisiton of TransCanada's interest in TransCanada Power LP as neutral for bondholderse po these assets are bondholder-friendly and this acquisition was small enough to not have a material negative impact on EPCOR's balance sheet in 2005. The risk here is that management may not be done with growth yet.

Our Ratings

Market Perform The issuer's bonds are expected to perform in line with our universe of bonds over the next 12 months

Outperform The issuer's bonds are expected to outperform our universe of bonds over the next 12 months.

Underperform The issuer's bonds are expected to underperform our universe of bonds over the next 12 months

Rating Category	CIBC WM - CDR Universe (equally weighted)
Outperform	38%
Market Perform	46%
Underperform	15%

CIBC World Markets

Corporate Debt Research
Credit Comment

research.cibcwm.com/res/Crp/CrpResearch.html

Tuesday, August 02, 2005

Pipelines & Utilities

CIBCWM Bond Rating:

Market Perform

Credit Ratings: Terasen Inc.

S&P: BBB-/Stable

Moody's: A3/Stable

DBRS: A (low)/Stable

Credit Ratings: Terasen Gas

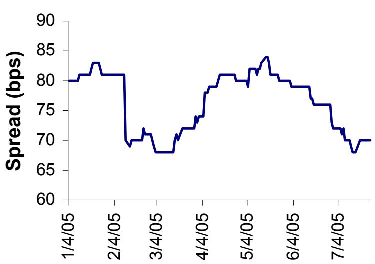
S&P: BBB/Stable

Moody's: A2/Stable

DBRS: A/Stable

Bond Spreads

TER 5.56% 9/15/2014



Source: CIBC World Markets

Kevin Yong

416-956-6273
kevin.yong@cibc.ca

Joanna Zapior

416-594-8498
joanna.zapior@cibc.ca

Terasen Inc.

Kinder Morgan to acquire Terasen Inc.

OUR INITIAL TAKE: Negative from a ratings perspective but neutral from a credit perspective. Kinder Morgan (KMI) is rated BBB/stable by S&P, Moody's, and DBRS, and Fitch rates KMI BBB/Positive. From a credit perspective, KMI has lower leverage and higher coverage ratios than Terasen. Although, KMI has a better financial profile than Terasen, its business risk profile is higher risk than Terasen's. As such, we think that the better financial risk profile is offset by the higher risk profile of KMI and this transaction should be credit neutral.

- **KMI has a better financial profile than Terasen** – KMI ended 2004 with a debt to capital of about 43%, total debt to cash flow of 5x, and EBIT coverage of about 5.6x. By comparison, Terasen ended 2004 with a debt to capital of 68%, total debt to cash flow of almost 10x, and EBIT coverage of 2.4x.
- **KMI has a higher risk business profile than Terasen** – KMI operates predominantly regulated and fee-based energy infrastructure businesses in the U.S. Rocky Mountains and mid-continent regions of the U.S. KMI's assets consists of Natural Gas Pipeline Company of America (which is the largest transporter of natural gas in the Chicago area), small retail natural gas distribution, power assets, and ownership in Kinder Morgan Energy Partners, L.P. (a publicly traded master limited partnership that owns and operates a diverse portfolio of largely fee-based pipelines and midstream energy assets.
- **KMI has high management ownership** – KMI is 23% owned by management.

Details of the transaction:

- KMI proposes to acquire all common shares and assume all debt of Terasen Inc.
- Annual dividend of KMI is expected to rise US$3.50 in 2006 from a current dividend of US$3.00. This is significant as KMI's high payout ratio is a credit concern.
- Upon closing of the transaction the total debt to capital ratio of KMI is expected by management to increase to about 56%. Management expects that KMI will be able to retain its BBB rating upon closing of the transaction.
- Transaction will require the approval of 75% of Terasen shareholders, who will vote at a special meeting to be held on or before October 31, 2005.
- KMI is offering to acquire Terasen for C$35.91 per share, which represents a 14% premium on Friday's closing price. The offer is for a combination of shares and cash (65% cash and 35% shares).
- Terasen has an agreed to a break-fee of C$75 million.
- Terasen conference call at 10 AM at 1-877-375-5688. KMI has a conference call at 8 AM (web cast at www.kindermorgan.com).

Trevor Bateman, CFA, CA
(416) 594-7992
Banks, Non-bank financials, Autos, ABS

Phillip Armstrong
(416) 956-3272
Telecom, Cable, Insurance, Retail, Consumer Products

Kevin Yong, CFA
(416) 956-6273
Oil & Gas, Utilities, Aerospace

Joanna Zapior, CFA, CMC
(416) 594-8498
Strategy

Dina Giacomelli –Editor
(416) 956-6056

CIBC World Markets Inc. PO Box 500, 161 Bay Street, BCE Place, Toronto, Canada M5J 2S8 Bloomberg@wgec1 **(416) 594-7000**
CIBC World Markets Corp. 300 Madison Avenue, New York, NY 10017 **(212) 856-4000, (800) 999-6726**

Please refer to Our Opinions table (below) to place this credit in its sector-relative-value context

26-Jul-05	Analyst	Senior unsecured DBRS	Moody's	S&P	Credit fundamentals (1-3 years)	Rating change probab. (1 year)	Valuation	YTD total return Shorter bond Bond	Return	Longer bond Bond	Return	YTD change in spread Shorter bond Curr Sprd	YTD Chng	Longer bond Curr Sprd	YTD Chng

Pipelines: *Solid, largely regulated fundamentals, though regulatory environment disadvantages those companies that have North American growth plans as Cdn leverage is higher and returns lower. Our investment thesis rests on two pillars: 1) operating excellence and cost management will be key in light of 2) regulators pressuring for cost control, including returns. Holding company risk has been increasing with expansion in non-regulated areas, equity market push for growth, and still elevated leverage.*

Gas distribution: *Stable sector, with strong operating franchises and good fundamentals. However, no standalone credits left (exceptand credit quality is affected by parent activities. See also our comment on the pipeline sector.*

Issuer	Analyst	DBRS	Moody's	S&P	Credit fundamentals	Rating change probab.	Valuation	Shorter Bond	Return	Longer Bond	Return	Curr Sprd	YTD Chng	Curr Sprd	YTD Chng
Enbridge Inc	KY	A	A3	A-	May weaken (M&A, projects)	Medium	C	5.8% 2008	2.59%	8.2% 2024	8.73%	32	▼ 4	90	▼ 11
Enbridge Pipelines	KY	A(high)	NR	A-	Stable	Medium	R	5.621% 2007	1.86%	7.2% 2032	10.70%	29	▼ 1	116	▼ 9
Enbridge Gas Dist.	KY	A	NR	A-	Stable	Medium	R	11.15% 2009	2.96%	6.1% 2028	9.77%	55	▲ 4	95	▼ 6
Alliance Pipe	KY	A(low)	A3	BBB+	Strong	Very low	F	7.23% 2015	4.76%	7.217% 2025	5.82%	36	▼ 27	91	▼ 8

There are continued M&A and large project risks - lots of noise in the news as jockeying for positions continues. The market now prices its uncertainty about committment to "A" ratings. Pipe acquisition in the GoM has eroded current balance sheet to the lecontinued permissible under the S&P rating. Over time, we see balance sheet quality potentially weakening as more risky assets may be added while mature, stable assets end up in income trust. That it has historically been a defensive credit (low spread volatility) under the pause but history may not repeat itself. We view **opcos** as better credits in line with DBRS logic but not necessarily better value. Note **EGD** has a 2006 rate case. Regulatory stability has improved after a recent spate of decisions & PBR is possible. Mainline negotiated ITS is complete and is neutral to slightly positive from a credit perspective. For **Alliance,** we like the "structuring premium" of an amortizer and the simplicity of this credit; not affected by how the ownership is structured; valuation reflects the defensive nature of this credit. It continues to perform as expected. Mgt turnover has been signficant (CFO earlier and now CEO) but this has no credit impact either for this contractually structured credit

Issuer	Analyst	DBRS	Moody's	S&P	Credit fundamentals	Rating change probab.	Valuation	Shorter Bond	Return	Longer Bond	Return	Curr Sprd	YTD Chng	Curr Sprd	YTD Chng
TransCanada	KY	A	A2	A- Neg	Stable but event risk	Medium	F	6.05% 2007	1.94%	6.5% 2030	9.36%	30	▼ 6	115	↔ 0

Negative outlook will take a long time to hatch, if at all - unless an acquisition forces S&P's hand. We think that short-term acquisition risk is reduced with the announced sale of TransCanada Power LP interests to EPCOR, which should improve TRP's cash outlook w and balance sheet capacity when the transaction closes. Management's commitment to maintain TRP's "A" rating also mitigates short-term risks associated with acquisitions. We read this to mean that TRP will likely make acquisitions in a conservative way (ce sheet not be a detriment to bondholders). The improved balance sheet and renewed commitment to its "A" rating gives us more comfort that TRP's credit quality may not deteriorate if it were to make a large acquisition in the near-term.

Issuer	Analyst	DBRS	Moody's	S&P	Credit fundamentals	Rating change probab.	Valuation	Shorter Bond	Return	Longer Bond	Return	Curr Sprd	YTD Chng	Curr Sprd	YTD Chng
Duke (Westcoast)	KY	A(low) UR-Dev	NR	BBB CW-Neg	Improving	Low	R	5.7% 2008	2.74%	7.15% 2031	8.29%	38	▼ 8	131	▲ 8
Duke (Union Gas)	KY	A UR-Dev	NR	BBB CW-Neg	Standalone stbl + DUK effect	Low	R	5.7% 2008	2.67%	8.65% 2025	7.85%	36	▼ 5	118	▲ 4
MNEP	KY	A	A1 UR-PD	A	Strong	Very low	F	NA	NA	6.9% 2019	6.57%	NA	NA	63	▼ 17

The announced merger with Cinergy should take some of the growth pressures off management, which is good for bondholders. Also good for bondholders in that this is an all stock deal and Cinergy's merchant assets (which is mostly coal) should diversify thenounce risks. Although S&P agrees with us that the transaction in itself is not a detriment to credit, it nevertheless put Duke on credit watch negative because of the uncertainty with regards to what Duke mgmt may do post merger - namely possibility of separatiS&P agrees with and unregulated utilities. We believe the separation of the regulated and unregulated businesses may actually be good for credit ratings of Westcoast and Union Gas. However, in the event that nothing happens post merger and Duke remains whole, as it is nunre ratings of Westcoast and Union Gas should remain unchanged. Of greater concern should be the talk of spinning out the Westcoast assets into an income trust, which we believe could be a mild negative (depending on how the trust is structured) for Westcoasta bondholders. Union Gas for now is not expected to be put into an income trust. For **MNEP**, we like structural protection and simplicity; valuation reflects the defensive nature of this credit.

Issuer	Analyst	DBRS	Moody's	S&P	Credit fundamentals	Rating change probab.	Valuation	Shorter Bond	Return	Longer Bond	Return	Curr Sprd	YTD Chng	Curr Sprd	YTD Chng
Terasen	KY	A(low)	A3	BBB-	Stable but some event risk	Low	F	6.3% 2008	3.13%	NA	NA	46	▼ 12	NA	NA
Terasen Gas	KY	A	A2	BBB	Stable	Low	F	NA	NA	6.95% 2029	10.74%	NA	NA	118	▼ 11

Business fundamentals are a strong combination of a regulated gas distribution and pipelines, with aggressive financial profile. Although to be fair, we note that most of TER's consolidated debt resides at INL, which is a regulated utility that is restricts are a strong combi equity it can have in its capital structure by the BCUC. BCUC's allowed equity cushion for gas utilities is among the lowest in Canada. We also like the relatively conservative near-term growth of TER, with most of the growth focused on adding to regulatn have in it With ENB getting a new ITS, attention now is on Trans Mountain's ITS. We think that Trans Mountain's ROE will fall but not back to the allowed ROE. Producers will likely give Trans Mountain chances to make up most of the rebased earnings with incentives.B getti new ITS will have greater impact on TER's consolidated cash flow and credit metrics because all of Trans Mountain is under the current ITS.

Integrated electric: *A mixed bag of companies, ranging from trasnmission dominated, through fully integrated but in a regulated setting, to a mix of regulated T&D and non-regualated generation, and even E&P. Hence risk profiles vary and the companies in this group are not direct comparables.*

Issuer	Analyst	DBRS	Moody's	S&P	Credit fundamentals	Rating change probab.	Valuation	Shorter Bond	Return	Longer Bond	Return	Curr Sprd	YTD Chng	Curr Sprd	YTD Chng
Emera	KY	BBB(high)	Baa2	BBB+ Neg	May weaken	Medium	R	NA	NA	NA	NA	NA	NA	NA	NA
Nova Scotia Power	KY	A(low)	Baa1	BBB+ Neg	May weaken	Medium	R	5.55% 2009	3.46%	8.85% 2025	8.78%	43	▼ 5	130	▲ 1

The negative regulatory decision for NSP that disallowed fuel adjustment clause and granted lower allowed ROE than anticipated is a negative for credit and may lead to increase rating risk. The potential negative cash flow impact of this decision means th regulatory increased risk that Emera will not be able to hit the credit metric targets that S&P has set for the company. Furthermore, the negative decision underscores the fact that NSP's relationship with its regulator has taken a step backwards rather than our expthat Emera will this relationship would improve. NSP recently filed 2006 rate case seeking 15% increase in rates in order to recover significant increase in fuel expense. We don't think that they will get the full amount, which puts NSP's cash flow and credit metrics atuld improve. NSP issuer here is really NSP, but even it has scarcity value.

Issuer	Analyst	DBRS	Moody's	S&P	Credit fundamentals	Rating change probab.	Valuation	Shorter Bond	Return	Longer Bond	Return	Curr Sprd	YTD Chng	Curr Sprd	YTD Chng
EPCOR	KY	A(low)	NR	BBB+	Stable	Low	R	6.2% 2008	2.96%	6.8% 2029	11.11%	37	▼ 10	118	▼ 9

Credit fundamentals (i.e. credit metrics and tighter management) and lack of liquidity in the bond are positive for spreads. EPCOR's strong credit fundamentals is founded on its relatively low-risk business profile and a very strong balance sheet (end of 1s (i.e. credit met these positives are continued soft electricity market in Alberta, increased merchant exposure, and event risk related to renewed focus on growth. We see EPCOR's recent acquisiton of TransCanada's interest in TransCanada Power LP as neutral for bondholderse po these assets are bondholder-friendly and this acquisition was small enough to not have a material negative impact on EPCOR's balance sheet in 2005. The risk here is that management may not be done with growth yet.

Our Ratings

Market Perform The issuer's bonds are expected to perform in line with our universe of bonds over the next 12 months

Outperform The issuer's bonds are expected to outperform our universe of bonds over the next 12 months.

Underperform The issuer's bonds are expected to underperform our universe of bonds over the next 12 months

Rating Category	CIBC WM - CDR Universe (equally weighted)
Outperform	38%
Market Perform	46%
Underperform	15%

August 02, 2005

Pipelines, Utilities, & Power

Sector Weighting:
Market Weight

TER Takeout Valuation Would Boost Other Pipes & Utes

Biggest Potential Upside in TRP, FTS, TA

- Kinder Morgan's acquisition of Terasen establishes utility valuation metrics that are higher than we have seen in the past. Most other Canadian pipelines and utilities are still trading at significant discounts to the Terasen acquisition multiple.

- We have analyzed potential share price appreciation in several of the Canadian stocks based on the 24x P/E and 11.5x EBITDA multiple KMI is paying for TER.

- We find the most upside potential in TransCanada, Fortis and TransAlta. Emera and Canadian Utilities would have some upside but we see ownership restrictions in both that would likely prevent a takeover.

- Canadian pipeline and utility companies could just as easily be buyers as sellers. In the current investing environment both buyers and sellers are moving up on deal announcements. Either way, we believe shareholders are winning as consolidation takes hold.

All figures in Canadian dollars, unless otherwise stated.

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, or at the end of each section hereof, where applicable.

Matthew Akman
1 (416) 956-6169
Matthew.Akman@cibc.ca

Alda Pavao, CFA
1 (416) 956-3229
Alda.Pavao@cibc.ca

Investment Summary

Kinder Morgan's (KMI-NYSE, Not Rated) acquisition of Terasen (TER-TSX, Sector Performer) establishes utility valuation metrics that are higher than we have seen in the past. In yesterday's research note we compared the valuation to other recent utility transactions. Most other Canadian pipelines and utilities are still trading at significant discounts to the Terasen acquisition multiple. We have quantified the gap between current valuations and potential takeout valuations for several of the stocks in our coverage universe.

We have analyzed potential share price appreciation in several of the Canadian stocks based on the 24x P/E and 11.5x EBITDA multiple KMI is paying for TER. Currently, the Canadian pipelines and utilities are trading at the much lower metrics of about 19x earnings and 9x EBITDA.

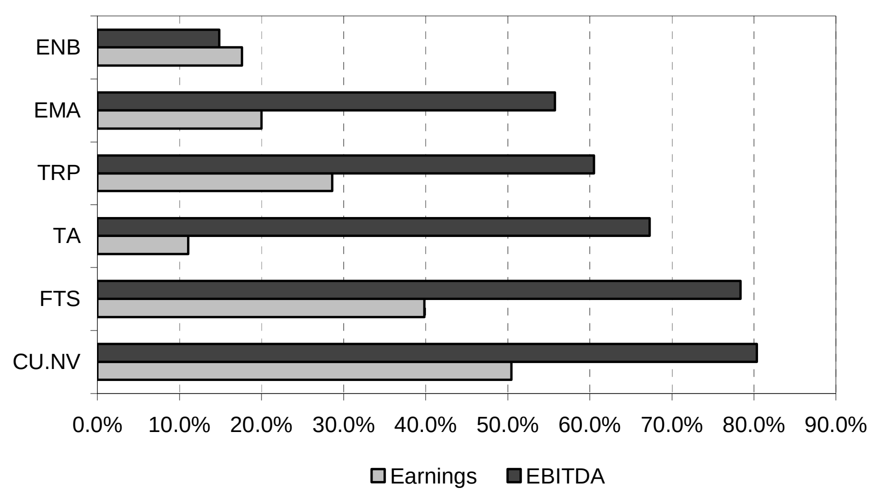
Exhibit 1. Comparative Valuation of Canadian Pipeline, Power and Utility Companies

			Share Price		Earnings per Share		P/E (x)		Cash Flow per Share		P/CF (x)		Book	EV/
Company Name	Ticker	Rating	2-Aug-05	Yield	2005E	2006E	2005E	2006E	2005E	2006E	2005E	2006E	Value	2006E EBITDA
Enbridge Inc.	ENB	SP	$35.99	2.8%	$1.63	$1.73	22.1	20.8	$3.30	$3.37	10.9	10.7	3.0	10.6
TransCanada Corp.	TRP	SO	$33.50	3.6%	$1.65	$1.80	20.3	18.6	$3.85	$3.97	8.7	8.4	2.4	8.6
TransAlta Corp.	TA	SP	$21.93	4.6%	$0.75	$1.00	29.2	21.9	$3.25	$3.48	6.7	6.3	1.7	8.4
Fortis	FTS	SO	$84.45	2.7%	$4.55	$4.80	18.6	17.6	$12.08	$11.86	7.0	7.1	1.9	8.5
Emera	EMA	SU	$17.94	5.0%	$0.80	$0.90	22.4	19.9	$2.45	$2.60	7.3	6.9	1.4	9.0
Canadian Utilities	CU.NV	SP	$73.55	3.0%	$4.20	$4.55	17.5	16.2	$9.19	$9.49	8.0	7.8	2.1	7.9
Average							***21.7***	***19.2***			***8.1***	***7.9***	***2.1***	***8.9***

Source: Company reports and CIBC World Markets Inc.

Valuation expansion to the Terasen takeout multiples would drive significant share price appreciation for the Canadian pipelines and utilities. Moving up to the 24x P/E multiple would require anywhere from a 18% to 50% increase in share prices. Moving up to the 11.5x EBITDA multiple would require anywhere from about 15% to 80% increase in share prices.

Exhibit 2. Hypothetical Upside Potential to Current Share Prices



Note: We applied Terasen's takeout earnings and EBITDA multiples to our 2006 estimates.

Source: Company reports and CIBC World Markets Inc.

CIBC World Markets

Several general and specific observations flow from our calculations:

- Most of the stocks show more upside to the acquisition EBITDA multiple than the acquisition P/E multiple. The ability to pay 11.5x EBITDA for a utility stock was unique and probably relates to the stability of cash flows from Terasen's 100% regulated pipeline and utility business.
- Enbridge (ENB-TSX, Sector Performer) shows the least upside to the Terasen acquisition multiple because it trades at a premium to the group. The market has appropriately already recognized much of the strategic value in the Enbridge asset base.
- TransAlta (TA-TSX, Sector Performer) has little upside to the 24x earnings multiple because its earnings are currently depressed while it operates under legacy contracts to sell power below market prices. We see upside to earnings in the 2007–2009 timeframe that would tend to reduce the stock's P/E multiple.

In summary, TransCanada (TRP-TSX, Sector Outperformer), Fortis (FTS-TSX, Sector Outperformer) and TransAlta show the biggest gaps between current valuation metrics and the Terasen takeout multiple. Emera (EMA-TSX, Sector Underperformer) and Canadian Utilities (CU.NV-TSX, Sector Performer) would have some upside but we see ownership restrictions in both that would likely prevent a takeover. Canadian Utilities is family controlled. Emera still has provisions that prevent concentration in voting shares of more than 15% and concentration of foreign holding of more than 25%.

Predicting M&A activity is difficult and the Terasen deal may be a one off. In fact, Canadian pipeline and utility companies could just as easily be buyers as sellers. However, in the current investing environment, the shares of both buyers and sellers are moving up on deal announcements. Either way, we believe shareholders are winning as consolidation takes hold.

Price Target Calculations

Our price targets for the pipeline and utility companies are derived from P/E multiples and dividend yields (relative to bond yields) primarily based on our 2006 earnings and dividend forecasts. We also consider our outlooks for the stocks beyond 2006. Our target dividend yields range from 3.1%–6.2% (based on a forecast 10-year Canada bond yield of about 4%).

Our target P/E multiples range from 16.4x–23x. This range is at the high end of the historical norm due to historically low bond yields. In the past 15 years, the stocks have tended to peak at no more than 17x–18x earnings, but have traded through those levels recently. The differences in target multiples between stocks under our coverage reflect different organic growth rates, potential acquisition activity, and current regulatory environment.

Key Risks To Price Targets

The main risk to our target prices is unanticipated changes in long bond yields. The correlation between bond yields and utility valuations has been high in recent years. If bond yields rise significantly, valuations across the group are likely to compress. Our target prices are based on 10-Year Canada Bond yield of about 4.0%.

For individual companies, risks to target prices relate primarily to negative regulatory decisions that reduce returns on regulated assets, low acquisition activity, and unanticipated weakness in power prices.

IMPORTANT DISCLOSURES:

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Potential Conflicts of Interest: Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department within the Corporate and Leveraged Finance Division. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 08/02/2005:
Canadian Utilities Ltd. (7, 13) (CU.NV-TSX, C$73.55, Sector Performer)
Emera Inc. (2g, 7) (EMA-TSX, C$17.94, Sector Underperformer)
Enbridge Inc. (2a, 2c, 2e, 2g, 7) (ENB-TSX, C$35.99, Sector Performer)
Fortis Inc. (2a, 2c, 2e, 7) (FTS-TSX, C$84.45, Sector Outperformer)
Terasen Inc. (2a, 2c, 2e, 2g, 7) (TER-TSX, C$36.00, Sector Performer)
TransAlta Corporation (2a, 2e, 2g, 7, 9) (TA-TSX, C$21.93, Sector Performer)
TransCanada Corp. (7) (TRP-TSX, C$33.50, Sector Outperformer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Stock Prices as of 08/02/2005:
Kinder Morgan, Inc. (KMI-NYSE, US$94.73, Not Rated)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

1	CIBC World Markets Corp. makes a market in the securities of this company.
2a	This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
2b	CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
2c	CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
2d	CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
2e	CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
2f	CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
2g	CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3a	This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
3b	CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
3c	CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
4a	This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
4b	CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
4c	CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
5a	The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
5b	A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
6a	The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
6b	A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
7	CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
8	A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
9	A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
10	Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
11	The equity securities of this company are restricted voting shares.
12	The equity securities of this company are subordinate voting shares.
13	The equity securities of this company are non-voting shares.
14	The equity securities of this company are limited voting shares.

CIBC World Markets Price Chart

For price and performance information charts required under NYSE and NASD rules, please visit CIBC on the web at http://www.cibcwm.com/research/sec2711 or write to CIBC World Markets Corp., 300 Madison Avenue, 7th Floor, New York, NY 10017-6204, Attn: Research Disclosure Chart Request.

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Stock Ratings Prior To August 26, 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.
"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
***Restricted due to a potential conflict of interest.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 02 Aug 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	282	33.6%	Sector Outperformer (Buy)	161	57.1%
Sector Performer (Hold/Neutral)	403	48.0%	Sector Performer (Hold/Neutral)	232	57.6%
Sector Underperformer (Sell)	134	16.0%	Sector Underperformer (Sell)	73	54.5%
Restricted	14	1.7%	Restricted	13	92.9%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 02 Aug 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	27.3%	Sector Outperformer (Buy)	2	66.7%
Sector Performer (Hold/Neutral)	6	54.5%	Sector Performer (Hold/Neutral)	4	66.7%
Sector Underperformer (Sell)	2	18.2%	Sector Underperformer (Sell)	1	50.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.NV.X, CU.NV, DUK, EEP, EMA, ENB, FTS, RRI, TA, TER, TRP.

*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

CIBC World Markets

Legal Disclaimer

This report is issued and approved for distribution by (i) in the United States, CIBC World Markets Corp., a member of the New York Stock Exchange ("NYSE"), NASD and SIPC, (ii) in Canada, CIBC World Markets Inc., a member of the Investment Dealers Association ("IDA"), the Toronto Stock Exchange, the TSX Venture Exchange and CIPF, (iii) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (iv) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report is provided, for informational purposes only, to institutional investor clients of CIBC World Markets in the United States and Canada and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

CIBC World Markets

Equity Research
Industry Update

August 19, 2005

Pipelines, Utilities, & Power

Sector Weighting:

Market Weight

Kinder Just "Trusted" Terasen: Who's Next?

- Kinder Morgan is using an income trust type structure and paying an income trust premium for Terasen. The other Canadian pipeline and utility corporations must now seek similar valuations if they are available.

- If Kinder Morgan can pay over 11x EBITDA for Terasen, then other industry players or financial buyers may be willing to pay similar multiples for other Canadian companies.

- The Terasen acquisition involves the issuance of debt that significantly reduces income tax liability in both Canada and the U.S. As a result, Canadian regulators will be hard-pressed to block or inhibit the conversion of utility assets into income trust structures.

- In this context, Canadian pipeline and utility companies must explore mergers or further trust conversion to create shareholder value. Given upside to the Terasen takeout multiple, it would be almost irresponsible not to.

All figures in Canadian dollars, unless otherwise stated.

Matthew Akman
1 (416) 956-6169
Matthew.Akman@cibc.ca

Alda Pavao, CFA
1 (416) 956-3229
Alda.Pavao@cibc.ca

Investment Summary

On August 1, Kinder Morgan (KMI–NYSE, Not Rated) announced the acquisition of Terasen (TER–TSX, Sector Performer) for approximately $35.90 per share. The acquisition price implies an approximately 20% premium and valuation multiples that are much higher than in other recent pipeline and utility transactions. Canadian pipeline and utility share prices have not moved significantly since the acquisition was announced. Yet, the Terasen deal highlights opportunities to unlock value in several of the other Canadian pipeline and utility companies.

How Kinder Morgan, a normally disciplined pipeline company, is going to create shareholder value by paying 23x earnings and 11.8x EBITDA for Terasen is the question most investors and industry observers are now asking. Our take is that Kinder Morgan is effectively turning Terasen into an income trust and realizing the value escalation that normally goes along with a trust conversion. Whether it is through interest deductions or asset transfer into a Master Limited Partnership (MLP), Terasen will pay less income tax and the resulting value will be transferred to shareholders.

Special interest deductions will go a long way to reducing taxable income. Kinder Morgan announced it would issue new debt on the order of US$2.0 billion, funding 53% of the acquired equity value. Interest on this debt will be deductible in Canada and the U.S., reducing the effective cost of debt to about 2% after tax. Kinder Morgan may also transfer some of the Terasen assets into its U.S. MLP — a company that attracts no income tax by design.

Other U.S. companies seeking growth opportunities in Canada have taken notice of Kinder Morgan's methodology and may follow suit. It is always difficult predicting mergers and acquisitions, but large U.S. pipeline and utility companies have often looked toward Canada for growth. The abundance of fossil fuel resources in Alberta and the Arctic will underpin Canadian energy infrastructure growth rates that will likely far exceed growth in the U.S.

If cross-border mergers are not used for reducing tax liability and unlocking value, income trust conversions might be. In the past, regulators have inhibited the conversion of pipeline and utility companies into income trusts. Regulators threatened to offset the benefit of conversion by reducing utility rates when income taxes fell. We now see that threat potentially diminishing.

In the context of the Terasen deal that reduced tax liability via a cross-border structure, Canadian regulators will be hard-pressed to block or inhibit the conversion of utility assets into income trust structures. The Kinder Morgan deal accomplishes the tax arbitrate that a trust would, and leaves the assets in the hands of a U.S. corporation. A Canadian regulatory policy with a bias toward foreign ownership of domestic infrastructure makes no sense. Yet, in preventing trust conversion, Canadian regulators may be unintentionally promoting this exact bias.

Terasen achieved maximum value for its Canadian shareholders. Now the other Canadian pipeline and utility corporations are obligated to seek similar valuations if they are available. Maximizing shareholder value may call for mergers or income trust conversions. The potential valuation upside is significant and has not yet been reflected in the stocks. We count especially TransCanada (TRP–TSX, Sector Outperformer) and Fortis (FTS–TSX, Sector Outperformer) as undervalued on trust/merger multiples. To a lesser extent, we also see upside in Enbridge (ENB–TSX, Sector Performer) and TransAlta (TA–TSX, Sector Performer).

Kinder Is Paying "Trust" Valuation For Terasen

We viewed the takeout valuations on Terasen as expensive based on either trailing or forward financial parameters. When the acquisition was announced, Terasen calculated its takeout valuation metrics of 23.8x earnings and 11.5x EBITDA based on 2005 financial forecasts. Our view is that Terasen has excellent long-term growth prospects but few prospects in 2006. Therefore, our estimated valuation metrics on 2006 financial parameters are similar to the ones Terasen presented based on 2005 parameters.

Terasen's earnings and cash flows will likely not improve much in 2006 because its regulated returns are falling in both the oil pipeline and gas utility business. The lucrative Trans Mountain tolling agreement comes due at the end of this year and the ROE on the gas utilities is reviewed annually. Our 2006 EPS estimate is $1.55, up only $0.05 from our $1.50 forecast in 2005. Similarly, our 2006 EBITDA forecast for Terasen is $585 million, up only $15 million from our $570 million forecast in 2005. Based on these forecasts, we calculate the acquisition multiples as 23x 2006 earnings and 11.8x 2006 EBITDA.

Exhibit 1. TER Takeout Multiples

			CIBC Forecasts For TER	
Deal Parameters			**2005E**	**2006E**
Pro-rata Share Offer Price (C$)	**$35.91**	EPS	$1.50	$1.55
(Based On US$88.86 KMI Share Price)		**Takeout P/E (x)**	**23.9**	**23.2**
Equity Value (C$ mlns.)	$3,790			
Assumption Of Debt And Capital Securities	$3,144	EBITDA (C$ mlns.)	$570	$585
Purchase Price (C$ mlns.)	$6,934	**Takeout EV/EBITDA (x)**	**12.2**	**11.8**

Source: Company reports and CIBC World Markets Inc.

The valuation parameters of the Terasen deal far exceed valuations on the other Canadian pipeline and utility corporations. They are in line or even higher than multiples ascribed to comparable Canadian income trusts. Most of the corporations trade at 8x–9x EBITDA, although some of the pipeline trusts, namely Pembina (PIF.UN–TSX, Sector Performer) and IPL (IPL.UN–TSX, Sector Performer), already attract 11x–12x EBITDA multiples.

Exhibit 2. Comparative Valuation Of Canadian Pipeline, Power And Utility Companies And Trusts

			Price		EPS		P/ E (x)		Cash Flow Per Share		P/ CF (x)		Book	EV/ 2006E
Company Name	**Ticker**	**Rating**	**08/17/05**	**Yield**	**2005E**	**2006E**	**2005E**	**2006E**	**2005E**	**2006E**	**2005E**	**2006E**	**Value**	**EBITDA**
Enbridge Inc.	ENB	SP	$34.60	2.9%	$1.63	$1.73	21.3	20.1	$3.30	$3.37	10.5	10.3	2.9	10.6
TransCanada Corp.	TRP	SO	$32.15	3.8%	$1.65	$1.80	19.5	17.9	$3.85	$3.97	8.4	8.1	2.3	8.6
TransAlta Corp.	TA	SP	$21.93	4.6%	$0.75	$1.00	29.2	21.9	$3.25	$3.48	6.7	6.3	1.7	8.4
Fortis	FTS	SO	$82.10	2.8%	$4.55	$4.80	18.0	17.1	$12.33	$11.84	6.7	6.9	1.8	8.5
Emera	EMA	SU	$18.21	4.9%	$0.80	$0.90	22.8	20.2	$2.45	$2.60	7.4	7.0	1.5	9.0
Canadian Utilities	CU.NV	SP	$72.65	3.0%	$4.20	$4.45	17.3	16.3	$9.19	$9.49	7.9	7.7	2.1	7.9
Average				**3.7%**			**21.4**	**18.9**			**7.9**	**7.7**	**2.1**	**8.8**

			Price		EPU		P/ E (x)		Distributable Cash Flow / Unit		P/ CF (x)		Book	EV/ 2006E
Company Name	**Ticker**	**Rating**	**08/17/05**	**Yield**	**2005E**	**2006E**	**2005E**	**2006E**	**2005E**	**2006E**	**2005E**	**2006E**	**Value**	**EBITDA**
Enbridge Income Fund	ENF.UN	SP	$13.43	6.8%	$0.43	$0.39	31.2	34.4	$0.98	$0.96	13.7	14.0	1.7	10.1
Fort Chicago Energy Partners	FCE.UN	SO	$13.10	7.3%	$0.66	$0.60	19.8	21.7	$1.10	$1.09	11.9	12.0	2.0	10.9
Inter Pipeline Fund (LP)	IPL.UN	SP	$9.75	7.7%	$0.40	$0.40	24.4	24.5	$0.86	$0.89	11.4	11.0	1.7	11.3
Pembina Pipeline Income Fund	PIF.UN	SP	$14.95	7.0%	$0.60	$0.64	25.1	23.5	$1.08	$1.12	13.9	13.3	2.4	12.0
Average				**7.2%**			**25.1**	**26.0**			**12.7**	**12.6**	**1.9**	**11.1**

Note: Earnings per unit forecasts for FCE.UN, IPL.UN and PIF.UN are IBES estimates.

Source: Company reports, IBES and CIBC World Markets Inc.

The Terasen takeout valuation also far exceeds valuations on other recent pipeline and utility transactions. Most of the companies have been acquired at EBITDA multiples of 8x–9x and earnings multiples of 15x–18x.

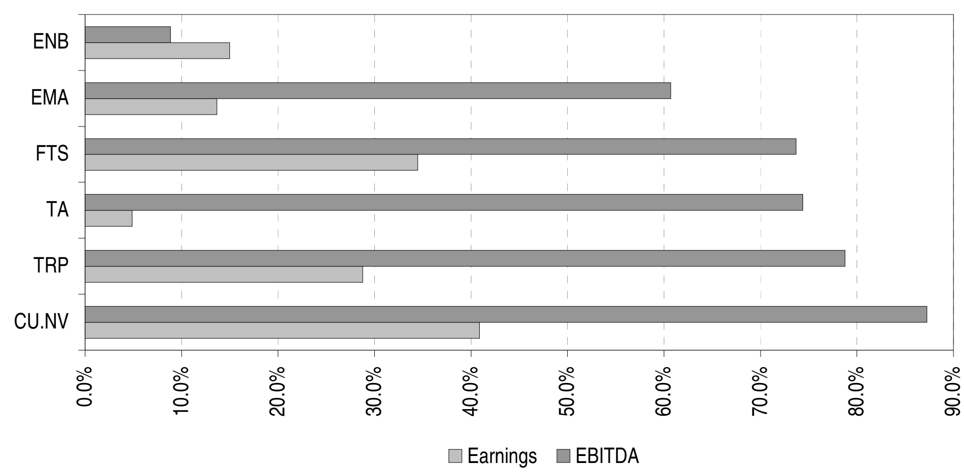
Exhibit 3. Valuation Parameters On Canadian And U.S. Utility Acquisitions

Date				Transaction Multiples		
Announced	Buyer	Acquired Company	Purchase Price	Earnings (x)	Book Value (x)	EBITDA (x)
21-Sep-01	Duke Energy	Westcoast Energy	US$8 billion	15.6	1.9	8.2
15-Aug-03	Fortis	Aquila's Western Canadian utilities	C$1.36 billion	18.3	1.8	8.3
20-Dec-04	Exelon Corp.	Public Service Enterprise Group	US$13.3 billion	16.2	2.3	NA
9-May-05	Duke Energy	Cinergy	US$9.0 billion	15.0	2.0	7.5
24-May-05	MidAmerican Energy	PacifiCorp	US$9.4 billion	19.4	1.5	8.6
1-Aug-05	**Kinder Morgan**	**Terasen**	**C$6.9 billion**	**23.2**	**2.7**	**11.8**

Source: Company reports and CIBC World Markets Inc.

We have analyzed potential share price appreciation in several of the Canadian stocks based on the 23x P/E and 11.8x EBITDA multiple Kinder Morgan is paying for Terasen. Valuation expansion to the Terasen takeout multiples would drive significant share price appreciation for the Canadian pipelines and utilities. Moving up to the 23x P/E multiple would require anywhere from a 10% to 40% increase in share prices. Moving up to the 11.8x EBITDA multiple would require anywhere from about 10% to 85% increase in share prices.

Exhibit 4. Potential Upside To Share Prices



Note: We applied Terasen's takeout earnings and EBITDA multiples to our 2006 estimates, with upside derived from closing prices on August 17.

Source: Company reports and CIBC World Markets Inc.

Several general and specific observations flow from our calculations:

- Most of the stocks show more upside to the acquisition EBITDA multiple than the acquisition P/E multiple. The ability to pay 11.8x EBITDA for a utility stock was unique and probably relates to the stability of cash flows from Terasen's 100% regulated pipeline and utility business. But achieving 10x–11x multiples is not at all out of the question.

- Enbridge shows the least upside to the Terasen acquisition multiple because it trades at a premium to the group. The market has appropriately already recognized much of the strategic value in the Enbridge asset base.

- TransAlta has little upside to the 23x earnings multiple because its earnings are currently depressed while it operates under legacy contracts to sell power below market prices. We see upside to earnings in the 2007–2009 timeframe that would tend to reduce the stock's P/E multiple.

In summary, TransCanada, Fortis and TransAlta show the biggest gaps between current valuation metrics and the Terasen takeout multiple. Emera (EMA–TSX, Sector Underperformer) and Canadian Utilities (CU.NV–TSX, Sector Performer) would have some upside but we see ownership restrictions in both that would likely prevent a takeover. Canadian Utilities is family controlled. Emera still has provisions that prevent concentration in voting shares of more than 15% and concentration of foreign holding of more than 25%.

Kinder Structure Accomplishes Much Of What An Income Trust Does

We believe that using a beneficial financing structure was key to supporting the abnormally high valuation Kinder Morgan is paying for Terasen. The structure involves issuing new debt and deducting interest expense for income tax purposes in both Canada and the U.S. In this sense, the structure is similar to an income trust that eliminates taxable income by creating inter-company loans and tax-deductible interest.

In the Kinder Morgan example, we estimate Canadian income tax liability could be significantly reduced with the double-dip interest structure. Kinder Morgan has stated it intends to issue about US$2.0 billion in new debt. Kinder's 10-year paper is trading at a premium to U.S. Treasuries of around 105 basis points. Assuming Kinder Morgan's credit rating is unchanged, and based on current 10-Year Treasury yields of 4.4%, Kinder could probably issue the new debt at around 5.45%. The pre-tax interest expense would then amount to about US$109 million.

The table below shows Terasen's taxable income and income tax paid in 2004 and then our estimates for 2005 and 2006. The 2006 numbers include the new interest expense from the Kinder Morgan acquisition. In 2004, Terasen paid about $78 million in cash income tax. We estimate that by 2006, despite achieving significant growth off of the 2004 base, the Terasen companies will only pay about $30 million in income tax.

Exhibit 5. Terasen's Income Tax Expense

	2004	2005E	2006E
Gas Distribution EBIT	$272.4	$279.9	$267.0
Petroleum Transportation EBIT	$99.3	$102.1	$104.3
Water Services EBIT	$11.4	$21.3	$24.6
Other EBIT	($11.7)	($15.2)	($12.5)
Express Pipeline Contribution	$15.0	$19.0	$22.0
Total EBIT	$386.4	$407.0	$405.4
Financing Expense (TER)	($166.6)	($180.0)	($190.0)
Financing Expense (KMI)	$0.0	$0.0	($130.8)
Pre-tax Income	$219.8	$227.0	$84.6
Tax Rate	35.5%	35.0%	35.0%
Income Tax	**$78.1**	**$79.5**	**$29.6**

1. Petroleum Transportation reflects expiry of Trans Mountain tolling agreement at the end of 2005.

2. Gas Distribution reflects lower allowed ROE resulting from drop in bond yields.

3. Express EBIT reflects expansion in service April 2005.

4. Taxes reflect cash taxes paid in 2004 and forecast cash taxes in 2005/6.

Source: Company reports and CIBC World Markets Inc.

Using the double-dip financing structure, we estimate Kinder will reduce the income taxes paid by about $50 million. This reduction equates to about 63% of Terasen's otherwise taxable income. And our models conservatively assume none of the Terasen assets are transferred to Kinder Morgan's MLP. The tax reduction would be even larger if that occurs. Income trust structures can eliminate up to 100% of taxable income, but we see the Kinder deal as a reasonable proxy for an income trust structure.

Canadian Regulators May Have To Liberalize Bias Against Utility Trust Conversions

Canadian regulators have recently expressed concerns about utility companies collecting taxes in rates but not paying them. Recent precedents suggest regulators may force a rate reduction if a utility converts to a trust structure. In the context of the Terasen deal, we think Canadian regulators may consider lifting some current restrictions and penalties involved in converting Canadian pipeline and utility assets into trust structures:

- If Canadian pipelines and utilities do not convert to income trusts, U.S. companies may eventually acquire them using a double-dip financing structure. This outcome raises several issues for Canadian governments and their regulatory agencies:
    - Canada could lose most of the corporate income tax revenue it collects from Canadian pipelines and utilities.
    - If Canadian companies are acquired, most of the future income from the assets will be taxed in the U.S. because the vast majority of shareholders will be American.
    - In the case of the U.S. company takeover, Canada also stands to lose head office jobs and some control over key energy infrastructure assets.
- Canadian companies can realize takeover valuations by instead converting all or a portion of their assets into Canadian income trusts.
    - If Canadian pipelines and utilities convert to income trusts in Canada, most of the income may eventually be taxed in Canada under personal income taxes.
    - In a trust conversion, Canadian utility customers are unharmed because utility bills remain unchanged and tax revenues remain in Canada.
- Therefore, Canadian regulators blocking income trust conversions in Canada may create the unintended consequences of delivering tax benefits to the U.S. at the expense of Canada and increasing foreign ownership of Canadian infrastructure assets.

We are not arguing against U.S. takeovers of Canadian companies, but we are suggesting it is illogical maintaining regulatory policies biased in their favour. Canadian regulators may have to reevaluate their stance to date against the creation of income trusts in the pipeline and utility sector. This stance has been founded on two issues: first, that taxes should not be collected in rates if they might not be paid; and second, that the debt within income trust structures may financially destabilize utilities and jeopardize their operations.

The National Energy Board has not tested the income trust conversion issue since it has not received an application for conversion of major pipeline assets. The Alliance Pipeline was converted to a trust but was governed by negotiated tolls, not cost of service rates with annual review.

However, provincial regulators have so far deterred the creation of income trusts. The Alberta Energy and Utilities Board (EUB) has placed the biggest obstacle in front of potential income trusts. In the AltaLink case, the EUB reduced the electric transmission company's rates because one of the owners, Ontario Teachers Pension Plan (OTPPB), was deemed a non-taxable entity. In its Review and Variance response from February 2005 the EUB stated:

> "…..the Board was not convinced that there was a reasonable expectation that OTPPB would incur and pay income taxes. In the Board's view, such a result would not be in keeping with the Board's belief that in a cost of service jurisdiction where revenue and costs are forecast on a prospective basis, a cost should only be recoverable in customer rates if there is a reasonable expectation that it will be incurred."

The EUB's position on AltaLink has negative implications for conversion of Alberta's utility assets into income trusts. In Alberta, if an income trust, like a pension fund, is viewed as having little probability of paying taxes, it may be forced to reduce regulated rates upon conversion.

AltaGas (ALA.UN–TSX, Not Rated) must have faced similar resistance to holding regulated Alberta utilities in a trust structure. Having converted from a corporation to a trust structure in 2004, AltaGas on May 25, 2005, announced the spin out of its regulated gas distribution business. On a recent conference call, AltaGas management stated the spin out would be "neutral to the company on an operating cash flow basis". What likely motivated AltaGas on the spin out, then, was not an improvement in the company's cash flow, but the threat the EUB would disallow the collection of taxes in gas distribution rates.

The British Columbia Utilities Commission (BCUC), like the EUB, has expressed tax and other concerns regarding income trust conversions. On July 29, 2004, the BCUC rejected the Pacific Northern Gas (PNG–TSX, Not Rated) request for trust conversion. Tax issues were central to the BCUC's concerns but so were capitalization issues. In an income trust structure, leverage tends to exceed regulated debt capitalization levels and actual equity ratios are thinner than regulated equity. These divergences were central to the BCUC decision:

> …the Commission panel concludes that deeming a capital structure at such wide variance with the underlying reality of the actual capital structure would be a material departure from the Commission's past regulatory practice…deeming a component of the cost of service equivalent to income taxes otherwise previously payable by a taxable corporation that had put in place a financial structure to minimize those taxes would establish a regulatory precedent with unknown implications…"

Though Canadian regulators have so far expressed a bias against trust conversions, they have not definitively rejected the concept. In British Columbia, the regulator seemed to indicate that it may approve the Pacific Northern Gas conversion if the company could show how such action would be in the public interest. In Alberta, the regulator seemed to indicate that it may allow for tax collection in rates as long as there was some potential for the utility owner to pay tax.

In the U.S., the Federal Energy Regulatory Commission (FERC) has taken a similar but perhaps more liberal and realistic approach to the tax issue. Until May of this year, the FERC maintained the so-called "Lakehead Policy" that held a limited partnership would be permitted to include an income tax allowance in its rates equal only to the proportion of its limited partnership interests owned by corporate partners. In a recent policy statement (dated May 4, 2005) FERC expanded the tax inclusion policy:

> "Under the [new] policy, all entities or individuals owning public utility assets would be permitted an income tax allowance on the income from those assets, provided that they have an actual <u>or potential</u> (emphasis added) income tax liability on that public utility income. Thus, a tax-paying

> corporation, partnership, limited liability corporation, or other pass-through entity would be permitted an income tax allowance on the income imputed to the corporation, or to the partners or the members of pass-through entities, provided that the corporation or the partners or the members have an actual or potential income tax liability on that income."

We believe the new FERC policy, applied to MLPs in the U.S., suggests the MLPs can collect taxes in rates even if the MLP itself does not pay income taxes. It would be collecting taxes on behalf of its members or partners that have a potential tax liability. Allowing utilities converting to income trusts to continue collecting taxes in rates on behalf of the individual income trust unit holders would be the analogous policy for a Canadian regulator.

Whether the Kinder Morgan acquisition of Terasen sparks a wave of Canadian pipeline and utility trust conversions remains to be seen. Two new regulatory precedents will likely be established in the coming months:

- Pacific Northern Gas is still applying to the BCUC for income trust conversion and may find success in its second attempt.
- Duke (DUK–NYSE, Sector Performer) has discussed the potential for creating a Canadian income trust that is bound to include gas-processing assets and may also include pipeline assets regulated by the NEB.

In light of the Kinder Morgan deal, there is an argument that regulators should be more lenient in these applications than they have with other income trust applications. A more positive outcome in the Pacific Northern Gas and Duke cases may bode well for the creation of more Canadian utility income trusts in the future.

Conclusion: More Value Creating Deals Likely On The Horizon

Canadian pipeline and utility companies must be considering strategic options to achieve the valuation Terasen did. Turning assets into income trusts is one way to surface value in the pipelines and utilities sector. Regulators should be more responsive to that alternative or U.S. companies may wind up owning more Canadian infrastructure with even fewer domestic tax benefits.

The future growth plans of the corporations should not deter them from turning assets into income trusts. The pipeline and utility companies could still maintain corporate parents as vehicles for growth. In fact, Kinder Morgan has already established this business model. It uses the MLP as its primary acquisition vehicle and pays cash bonuses for growth targets to the corporate parent.

TransCanada has perhaps the most to gain from turning assets into income trusts, yet has come less distance than Enbridge in using the trust vehicle. Enbridge already has an MLP and a Canadian income trust and trades at a relatively high EBITDA multiple. TransCanada hardly uses the structure and trades at a relatively low EBITDA multiple.

TransAlta may have upside to a trust structure in the medium term but not short term. The timing may not be right for conversion to a trust because the company is paying little in the way of cash taxes (about $5 million in 2004) and is making significant capital expenditures to improve the Alberta coal plants. Yet later this decade, cash taxes are bound to increase with profitability and spending will subside. At that time, upside from an income trust structure could materialize. In a report dated August 9, 2004, we calculated the shares were worth around $26.00 on a non-taxable basis.

The potential conversion of assets to income trusts is the focus of this report but is only one of the many strategic issues arising from the Kinder Morgan acquisition of Terasen. We believe Kinder Morgan has the size, expertise and relationships to undertake a much larger share of energy infrastructure growth opportunities than Terasen did on its own. Enbridge and TransCanada may have to seek more of their growth opportunities outside of Canada now. Apart from creating more trusts, potential strategic responses to the Kinder deal include acquiring more U.S. assets or acquiring U.S. corporations.

We see the acquisition of U.S. corporations more as potential upside than downside for Canadian companies. Lately, mergers have caused share price appreciation in both the buyer and target. Kinder Morgan was no exception. A similarly favourable response would likely greet Enbridge or TransCanada were they to acquire a solid U.S. company.

Terasen achieved valuations for its shareholders significantly beyond the current market valuation on most other Canadian pipeline and utility stocks. Now the other Canadian pipeline and utility corporations are obligated to seek similar valuations if they are available. TransCanada faces the biggest valuation gap, trading at a 6–7 point P/E discount and a 3-point EBITDA discount to the Terasen takeout valuation. Maximizing shareholder value may call for income trust conversions and/or mergers. Either way, given upside to the Terasen takeout multiple, it would be almost irresponsible not to seriously explore these options now.

Price Target Calculations

Our price targets for the pipeline and utility companies are derived from P/E multiples and dividend yields (relative to bond yields) primarily based on our 2006 earnings and dividend forecasts. We also consider our outlooks for the stocks beyond 2006. Our target dividend yields range from 2.8%–6.2% (based on a forecast 10-year Canada bond yield of about 4%).

Our target P/E multiples range from 16.4x–23x. This range is at the high end of the historical norm due to historically low bond yields. In the past 15 years, the stocks have tended to peak at no more than 17x–18x earnings, but have traded through those levels recently. The differences in target multiples between stocks under our coverage reflect different organic growth rates, potential acquisition activity, and current regulatory environment.

Key Risks To Price Targets

The main risk to our price targets is unanticipated changes in long bond yields. The correlation between bond yields and utility valuations has been high in recent years. If bond yields rise significantly, valuations across the group are likely to compress. Our price targets are based on 10-year Canada Bond yield of about 4.0%.

For individual companies, risks to price targets relate primarily to negative regulatory decisions that reduce returns on regulated assets, low acquisition activity, and unanticipated weakness in power prices.

Exhibit 6. Comparative Valuation Of Selected Canadian And U.S. Pipeline, Utility, And Power Generation Companies

		Rating /		52-Week Range		EPS				P/E Ratios				05E P/E Rel.	Dividend		Payout	Price	Total
Company	Ticker	Analyst	Price	High	Low	2003	2004	2005E	2006E	2003	2004	2005E	2006E	To Group	Rate	Yield	2005E	Target	Return
Canadian Pipelines																			
Enbridge Inc.	ENB	SP / MA	$34.60	$36.60	$25.09	$1.41	$1.51	$1.63	$1.73	24.6	22.9	21.3	20.1	1.0	$1.00	2.9%	61.5%	$38.00	12.7%
Terasen Inc.	TER	SP / MA	$35.37	$36.95	$23.48	$1.33	$1.40	$1.50	$1.55	26.6	25.3	23.6	22.8	1.1	$0.90	2.5%	60.0%	$35.00	1.5%
TransCanada Corp.	TRP	SO / MA	$32.15	$34.16	$26.64	$1.59	$1.53	$1.65	$1.80	20.2	21.0	19.5	17.9	0.9	$1.22	3.8%	73.9%	$37.00	18.9%
Canadian Pipelines Average										**23.8**	**23.1**	**21.5**	**20.2**			**3.1%**	**65.2%**		
U.S. Pipelines																			
Duke Energy	DUK	SP / MA	$27.92	$30.55	$21.75	$1.28	$1.28	$1.65	$1.80	21.8	21.8	16.9	15.5	0.9	$1.24	4.4%	75.2%	$32.00	19.1%
El Paso	EP	NR	$11.45	$13.10	$7.51	($0.87)	($1.37)	$0.70	$0.86	NM	NM	16.4	13.3	0.9	$0.16	1.4%	22.9%	-	-
Kinder Morgan Inc.	KMI	NR	$91.57	$98.45	$59.14	$3.33	$3.81	$4.29	$4.88	27.5	24.0	21.3	18.8	1.2	$3.00	3.3%	69.9%	-	-
National Fuel Gas	NFG	NR	$28.09	$30.40	$25.91	$1.89	$1.98	$1.90	$2.04	14.9	14.2	14.8	13.8	0.8	$1.16	4.1%	61.1%	-	-
NiSource	NI	NR	$23.02	$25.50	$20.53	$1.64	$1.63	$1.50	$1.66	14.0	14.1	15.3	13.9	0.8	$0.92	4.0%	61.3%	-	-
Williams	WMB	NR	$20.73	$22.40	$11.36	($0.03)	$0.49	$0.86	$1.06	NM	42.3	24.1	19.6	1.3	$0.30	1.4%	34.9%	-	-
U.S. Pipelines Average										**19.6**	**23.3**	**18.1**	**15.8**			**3.4%**	**58.1%**		
Canadian Utilities																			
ATCO	ACO.NV.X	SU / MA	$77.25	$78.40	$48.75	$4.25	$4.62	$4.90	$5.25	18.2	16.7	15.8	14.7	0.8	$1.52	2.0%	31.0%	$64.00	(15.2%)
Canadian Utilities	CU.NV	SP / MA	$72.65	$74.45	$53.00	$3.95	$4.01	$4.20	$4.45	18.4	18.1	17.3	16.3	0.8	$2.20	3.0%	52.4%	$73.00	3.5%
Caribbean Utilities (US$)	CUP.U	NR	$11.40	$12.74	$9.75	$0.77	$0.13	$0.88	$0.96	14.8	NM	13.0	11.9	0.6	$0.66	5.8%	75.0%	-	-
Emera Inc.	EMA	SU / MA	$18.21	$19.97	$17.30	$1.26	$1.22	$0.80	$0.90	14.5	14.9	22.8	20.2	1.1	$0.89	4.9%	111.3%	$17.00	(1.8%)
Fortis	FTS	SO / MA	$82.10	$84.89	$59.10	$4.25	$4.29	$4.55	$4.80	19.3	19.1	18.0	17.1	0.9	$2.28	2.8%	50.1%	$90.00	12.4%
Gaz Metro L.P.	GZM.UN	SP / AP	$21.63	$23.67	$20.50	$1.39	$1.40	$1.31	$1.30	15.6	15.5	16.5	16.6	0.8	$1.36	6.3%	103.8%	$22.00	8.0%
TransAlta Corp.	TA	SP / MA	$21.93	$22.44	$15.65	$0.73	$0.66	$0.75	$1.00	30.0	33.2	29.2	21.9	1.4	$1.00	4.6%	133.3%	$23.00	9.4%
Canadian Utilities Average										**18.7**	**19.6**	**18.9**	**17.0**			**4.2%**	**79.6%**		
U.S. Utilities																			
Consolidated Edison	ED	NR	$45.93	$49.23	$40.75	$2.95	$2.67	$2.89	$2.99	15.6	17.2	15.9	15.4	1.1	$2.28	5.0%	78.9%	-	-
Dominion Resources	D	NR	$73.50	$79.18	$62.97	$4.50	$4.61	$5.05	$5.20	16.3	15.9	14.6	14.1	1.0	$2.68	3.6%	53.1%	-	-
DTE Energy	DTE	NR	$44.62	$48.22	$39.61	$2.97	$2.46	$3.48	$3.89	15.0	18.1	12.8	11.5	0.8	$2.06	4.6%	59.2%	-	-
Exelon	EXC	NR	$50.87	$54.88	$35.89	$2.61	$2.79	$3.09	$3.31	19.5	18.2	16.5	15.4	1.1	$1.60	3.1%	51.8%	-	-
FPL Group	FPL	NR	$40.73	$44.59	$33.55	$2.45	$2.63	$2.52	$2.72	16.7	15.5	16.2	15.0	1.1	$1.42	3.5%	54.4%	-	-
PPL Corp.	PPL	NR	$61.20	$65.12	$46.17	$3.71	$3.71	$4.13	$4.48	16.5	16.5	14.8	13.7	1.0	$2.00	3.3%	48.4%	-	-
U.S. Utilities Average										**16.6**	**16.9**	**15.1**	**14.2**			**3.9%**	**57.6%**		
Merchant Generation																			
AES Corporation	AES	NR	$15.25	$17.96	$9.47	$0.56	$0.58	$0.84	$0.99	27.2	26.3	18.2	15.4	0.8	$0.00	0.0%	0.0%	-	-
Calpine Corp.	CPN	NR	$3.33	$4.07	$1.33	$0.21	($0.97)	($0.95)	($0.54)	15.9	NM	NM	NM	-	$0.00	0.0%	0.0%	-	-
NRG Energy	NRG	NR	$37.55	$41.90	$25.59	($0.70)	$1.80	$1.37	$2.21	NM	20.9	27.4	17.0	1.2	$0.00	0.0%	0.0%	-	-
Reliant Energy	RRI	SO / MA	$12.38	$13.92	$9.08	$0.66	$0.07	$0.20	$0.45	18.8	NM	NM	27.5	-	$0.00	0.0%	0.0%	$16.00	29.2%
Merchant Generation Average										**20.6**	**23.6**	**22.8**	**20.0**			**0.0%**	**0.0%**		

Estimates are from CIBC World Markets with the exception of those companies that are not rated (sources: company reports, First Call and IBES).

Figures for Canadian companies in C$; figures for U.S. companies in US$.

EPS estimates for Caribbean Utilities are for the period ending April 30 the following year.

EPS estimates for GZM.UN, and NFG are for the period ending September 30.

SO = Sector Outperformer; SP = Sector Performer; SU = Sector Underperformer and NR = Not Rated.

Source: Company reports and CIBC World Markets Inc.

Exhibit 7. Comparative Valuation Of Selected Canadian And U.S. Pipeline, Utility, And Power Generation Companies

Company	Shares O/S (mlns.)	Mkt. Cap. ($ blns.)	Inst. Owners	52-Week % Change High	52-Week % Change Low	Cash Flow Per Share 2003	Cash Flow Per Share 2004	Cash Flow Per Share 2005E	Cash Flow Per Share 2006E	P/CF Ratios 2003	P/CF Ratios 2004	P/CF Ratios 2005E	P/CF Ratios 2006E	Book Value	Price/ Book	ROE 2005E	Debt To Cap	% Unreg. 05E EBIT	EV/05E EBITDA
Canadian Pipelines																			
Enbridge Inc.	348.3	$12.1	50%	(5%)	38%	$2.92	$3.08	$3.30	$3.37	11.9	11.3	10.5	10.3	$11.86	2.9	13.7%	62.1%	10.0%	10.5
Terasen Inc.	105.5	$3.7	15%	(4%)	51%	$2.82	$2.83	$3.01	$3.05	12.6	12.5	11.8	10.5	$13.53	2.6	11.2%	68.0%	5.0%	11.9
TransCanada Corp.	485.6	$15.6	45%	(6%)	21%	$3.96	$3.52	$3.85	$3.97	8.1	9.1	8.4	8.1	$13.86	2.3	12.0%	61.0%	16.0%	8.7
Canadian Pipelines Average										**10.9**	**11.0**	**10.2**	**9.6**		**2.6**	**12.3%**	**63.7%**	**10.3%**	**10.4**
U.S. Pipelines																			
Duke Energy	926.4	$25.9	67%	(9%)	28%	$4.35	$4.44	$2.98	$3.65	6.4	6.3	9.4	7.6	$17.58	1.6	9.5%	50.0%	25.0%	9.1
El Paso	645.7	$7.4	79%	(13%)	52%	$2.06	$2.43			5.6	4.7			$6.93	1.7	-	82.0%		7.5
Kinder Morgan Inc.	122.5	$11.2	82%	(7%)	55%	$4.89	$5.26			18.7	17.4			$22.55	4.1	17.0%	44.1%		13.1
National Fuel Gas	83.5	$2.3	46%	(8%)	8%	$4.95	$4.93			5.7	6.2			$15.86	1.8	13.6%	47.7%		6.5
NiSource	272.3	$6.3	73%	(10%)	12%	$2.34	$3.90			9.8	6.5			$17.97	1.3	9.5%	54.9%		7.6
Williams	571.5	$11.8	60%	(7%)	82%	$1.56	$2.36			13.3	9.5			$9.37	2.2	5.8%	59.1%		8.1
U.S. Pipelines Average										**9.9**	**8.4**				**2.1**	**12.4%**	**56.3%**		**8.7**
Canadian Utilities																			
ATCO Ltd.	30.0	$2.3	35%	(1%)	58%	$9.35	$9.95	$10.75	$11.26	8.3	7.8	7.2	6.9	$43.06	1.8	11.7%	51.0%	20.0%	7.2
Canadian Utilities	63.5	$4.6	15%	(2%)	37%	$8.30	$8.50	$9.19	$9.49	8.8	8.5	7.9	7.7	$34.26	2.1	12.6%	52.0%	36.5%	8.2
Caribbean Utilities (US$)	25.0	$0.3	2%	(11%)	17%	$1.32	$1.07			8.6	10.7			$5.02	2.3	2.6%	53.0%	0.0%	10.6
Emera Inc.	109.6	$2.0	18%	(9%)	5%	$2.22	$2.80	$2.45	$2.60	8.2	6.5	7.4	7.0	$12.49	1.5	6.5%	54.1%	5.0%	9.1
Fortis Inc.	25.7	$2.1	32%	(3%)	39%	$9.28	$12.81	$12.33	$11.84	8.8	6.4	6.7	6.9	$45.88	1.8	9.3%	58.6%	21.0%	8.9
Gaz Metro L.P.	117.5	$2.5	25%	(9%)	6%	$3.16	$3.06	$3.15	$3.35	6.8	7.1	6.9	6.5	$8.87	2.4	17.2%	53.3%	2.0%	10.0
TransAlta Corp.	196.4	$4.3	55%	(2%)	40%	$2.86	$3.02	$3.25	$3.48	7.7	7.3	6.7	6.3	$12.61	1.7	6.0%	51.9%	100.0%	8.9
Canadian Utilities Average										**8.2**	**7.7**	**7.1**	**6.9**		**1.9**	**9.4%**	**53.4%**	**26.4%**	**9.0**
U.S. Utilities																			
Consolidated Edison	243.4	$11.2	44%	(7%)	13%	$6.31	$6.54			7.3	7.5			$29.36	1.6	9.3%	51.6%		9.3
Dominion Resources	341.0	$25.1	61%	(7%)	17%	$7.25	$8.58			10.1	9.2			$31.61	2.3	14.1%	61.9%		8.5
DTE Energy	174.2	$7.8	61%	(7%)	13%	$5.63	$5.75			7.9	8.4			$31.26	1.4	7.8%	60.6%		8.1
Exelon	670.6	$34.1	68%	(7%)	42%	$5.20	$6.65			9.8	8.3			$14.97	3.4	20.6%	58.2%		9.0
FPL Group	392.0	$16.0	68%	(9%)	21%	$6.12	$7.39			6.7	6.0			$21.06	1.9	13.4%	54.4%		8.9
PPL Corp.	190.0	$11.6	59%	(6%)	33%	$7.87	$8.13			7.8	7.5			$22.67	2.7	18.2%	62.1%		8.4
U.S. Utilities Average										**8.3**	**7.8**				**2.2**	**13.9%**	**58.1%**		**8.7**
Merchant Generation																			
AES Corporation	653.2	$10.0	82%	(15%)	61%	$2.52	$2.43			6.1	6.3			$2.68	-	NM	84.3%	100.0%	7.7
Calpine Corp.	568.0	$1.9	62%	(18%)	150%	$0.73	$0.02			4.6	-			$7.15	0.5	0.9%	80.8%	100.0%	16.4
NRG Energy	87.0	$3.3	81%	(10%)	47%	-	$5.78			-	6.5			$25.21	1.5	NM	55.2%	100.0%	11.5
Reliant Energy	301.0	$3.7	72%	(11%)	36%	$2.76	$0.96	$1.64	$1.94	4.5	12.9	7.5	6.4	$14.40	0.9	0.5%	54.9%	100.0%	9.6
Merchant Generation Average										**5.0**	**8.6**				**0.9**	**0.7%**	**68.8%**	**100.0%**	**11.3**

Estimates are from CIBC World Markets with the exception of those companies that are not rated (sources: company reports, First Call and IBES).

Figures for Canadian companies in C$; figures for U.S. companies in US$.

For those companies not rated, ROE figures are actuals for the most recent fiscal year.

EPS estimates for Caribbean Utilities are for the period ending April 30 the following year.

EPS estimates for GZM.UN, and NFG are for the period ending September 30.

Source: Company reports and CIBC World Markets Inc.

IMPORTANT DISCLOSURES:

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Potential Conflicts of Interest: Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department within the Corporate and Leveraged Finance Division. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 08/19/2005:
Atco Ltd. (7, 13) (ACO.NV.X-TSX, C$76.55, Sector Underperformer)
Canadian Utilities Ltd. (7, 13) (CU.NV-TSX, C$69.30, Sector Performer)
Duke Energy (2a, 2d, 2g, 7) (DUK-NYSE, US$28.14, Sector Performer)
Emera Inc. (2g, 7) (EMA-TSX, C$18.37, Sector Underperformer)
Enbridge Inc. (2a, 2c, 2e, 2g, 7) (ENB-TSX, C$34.25, Sector Performer)
Enbridge Income Fund (2a, 2c, 2e, 7) (ENF.UN-TSX, C$13.20, Sector Performer)
Fort Chicago Energy Partners, L.P. (2g, 7) (FCE.UN-TSX, C$12.83, Sector Outperformer)
Fortis Inc. (2a, 2c, 2e, 7) (FTS-TSX, C$81.86, Sector Outperformer)
Gaz Métro Limited Partnership (2a, 2c, 2e) (GZM.UN-TSX, C$21.70, Sector Performer)
Inter Pipeline Fund, L.P. (2a, 2e, 2g, 7) (IPL.UN-TSX, C$9.75, Sector Performer)
Pembina Pipeline Income Fund (2a, 2e, 2g, 7) (PIF.UN-TSX, C$15.00, Sector Performer)
Reliant Energy Inc. (RRI-NYSE, US$12.35, Sector Outperformer)
Terasen Inc. (2a, 2c, 2e, 7) (TER-TSX, C$35.55, Sector Performer)
TransAlta Corporation (2a, 2e, 2g, 7, 9) (TA-TSX, C$21.56, Sector Performer)
TransCanada Corp. (7) (TRP-TSX, C$31.49, Sector Outperformer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Stock Prices as of 08/19/2005:
AES Corp (AES-NYSE, US$15.31, Not Rated)
AltaGas Income Trust (ALA.UN-TSX, C$26.65, Not Rated)
Aquila, Inc. (ILA-NYSE, US$3.82, Not Rated)
Berkshire Hathaway (BRK-NYSE, US$90050.00, Not Rated)
Calpine Corporation (CPN-NYSE, US$2.93, Not Rated)
Caribbean Utilities Company Ltd. (CUP.U-TSX, C$11.21, Not Rated)
Cinergy Corp (CIN-NYSE, US$42.20, Not Rated)
Consolidated Edison (ED-NYSE, US$46.08, Not Rated)
Dominion Resources (D-NYSE, US$74.50, Not Rated)
DTE Energy Company (DTE-NYSE, US$45.00, Not Rated)
El Paso Corp. (EP-NYSE, US$11.39, Not Rated)
Exelon (EXC-NYSE, US$50.89, Not Rated)
FPL Group Inc. (FPL-NYSE, US$40.90, Not Rated)
Kinder Morgan Energy Partners (KMP-NYSE, US$50.24, Not Rated)
Kinder Morgan, Inc. (KMI-NYSE, US$91.63, Not Rated)
National Fuel Gas (NFG-NYSE, US$28.20, Not Rated)
Nisource (NI-NYSE, US$23.17, Not Rated)
NRG Energy (NRG-NYSE, US$37.45, Not Rated)
Pacific Northern Gas Ltd. (PNG-TSX, C$19.40, Not Rated)
PPL Corporation (PPL-NYSE, US$61.35, Not Rated)
Public Service Enterprise Group (PEG-NYSE, US$60.69, Not Rated)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets: (Continued)

Stock Prices as of 08/19/2005:

Scottish Power PLC (SPI-NYSE, US$35.13, Not Rated)

Williams Cos Inc. (WMB-NYSE, US$20.73, Not Rated)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

1	CIBC World Markets Corp. makes a market in the securities of this company.
2a	This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
2b	CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
2c	CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
2d	CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
2e	CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
2f	CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
2g	CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3a	This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
3b	CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
3c	CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
4a	This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
4b	CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
4c	CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
5a	The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
5b	A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
6a	The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
6b	A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
7	CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
8	A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
9	A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.

Key to Important Disclosure Footnotes: (Continued)

10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.

11 The equity securities of this company are restricted voting shares.

12 The equity securities of this company are subordinate voting shares.

13 The equity securities of this company are non-voting shares.

14 The equity securities of this company are limited voting shares.

CIBC World Markets Price Chart

For price and performance information charts required under NYSE and NASD rules, please visit CIBC on the web at http://www.cibcwm.com/research/sec2711 or write to CIBC World Markets Corp., 300 Madison Avenue, 7th Floor, New York, NY 10017-6204, Attn: Research Disclosure Chart Request.

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Stock Ratings Prior To August 26, 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
UR	Under Review	Under Review
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.
"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
***Restricted due to a potential conflict of interest.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 19 Aug 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	275	32.8%	Sector Outperformer (Buy)	154	56.0%
Sector Performer (Hold/Neutral)	415	49.5%	Sector Performer (Hold/Neutral)	246	59.3%
Sector Underperformer (Sell)	134	16.0%	Sector Underperformer (Sell)	71	53.0%
Restricted	7	0.8%	Restricted	7	100.0%

Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 19 Aug 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	27.3%	Sector Outperformer (Buy)	1	33.3%
Sector Performer (Hold/Neutral)	6	54.5%	Sector Performer (Hold/Neutral)	4	66.7%
Sector Underperformer (Sell)	2	18.2%	Sector Underperformer (Sell)	1	50.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: ACO.NV.X, CU.NV, DUK, EEP, EMA, ENB, FTS, RRI, TA, TER, TRP.

*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Legal Disclaimer

This report is issued and approved for distribution by (i) in Canada, CIBC World Markets Inc., a member of the Investment Dealers Association ("IDA"), the Toronto Stock Exchange, the TSX Venture Exchange and CIPF, (ii) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (iii) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report is distributed in the Unites States by CIBC World Markets Inc. and has not been reviewed or approved by CIBC World Markets Corp., a member of the New York Stock Exchange ("NYSE"), NASD and SIPC. This report is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC 15a-6 and Section 15 of the Securities Act of 1934, as amended) and is not intended for the use of any person or entity that is not a major institutional investor. Major Institutional Investors receiving this report should effect transactions in securities discussed in the report through CIBC World Markets Corp. This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

FLASH FLASH FLASH FLASH FLASH FL

PRE RESULTS COMMENT

CREDIT SUISSE | FIRST BOSTON
Equity Research Canada

Terasen Inc

TER.TO

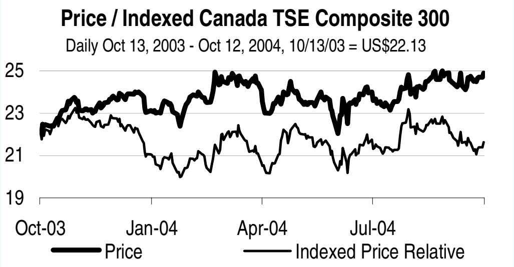
TER: Q3 Quick Preview

- **We are lowering our 2004E EPS estimates slightly from $1.41 to $1.40.**
- **Please refer to our sector report "Q3 Quick Preview" for details.**

Terasen is a diversified utility with oil pipelines, local gas distribution assets and water utilities.

Rating	**OUTPERFORM***
Price (13 Oct 04)	**24.76 (C$)**
Target price (12 months)	**25.00 (C$)**
52 week high - low	**25.00 - 22.05**
Market cap. (C$m)	**1 289.44**
Enterprise value (C$m)	**4 166.54**
Region / Country	**Americas / Canada**
Sector	**Pipelines**
Analyst's Coverage Universe	**Pipelines and Utilities**
Weighting (vs. broad market)	**MARKET WEIGHT**
Date	**14 October 2004**

**** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.***



On 10/12/04 the Canada TSE Composite 300 index closed at 8 785.86

Year	12/03A	12/04E	12/05E
EPS (CSFB adj., C$)	**1.31**	**1.40**	**1.49**
Prev. EPS (C$)		**1.41**	
P/E (x)	**18.9**	**17.7**	**16.6**
P/E rel. (%)	**91.3**	**111.9**	**120.4**
Q1 EPS	**0.71**	**0.76**	**0.81**
Q2	**0.08**	**0.09**	**0.10**
Q3	**-0.07**	**-0.08**	**-0.08**
Q4	**0.59**	**0.63**	**0.66**

Number of shares (m)	**52.08**	IC (Current, C$m)	**—**
BV/Share (Current, C$)	**14.13**	EV/IC (x)	**—**
Net Debt (Current, C$m)	**2 877.1**	Dividend (Current, C$m)	**0.84**
Net debt/Total cap. (Current)	**65.9%**	Dividend yield	**3.4%**

Year	12/03A	12/04E	12/05E
Revenues (C$m)	**986.9**	**1 029.3**	**1 046.8**
EBITDA (C$m)	**569.7**	**617.3**	**634.8**
OCFPS (C$)	**5.63**	**2.78**	**2.70**
P/OCF (x)	**4.4**	**8.9**	**9.2**
EV/EBITDA (x)	**7.3**	**6.7**	**6.6**
ROIC	**—**	**10.8%**	**—**

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

research team

Dominique Barker
416 352 4594
dominique.barker@csfb.com

Peter Best
416 352 4585
peter.best@csfb.com

Richelle Embree
416 352 4584
richelle.embree@csfb.com

Companies Mentioned *(Price as of 13 Oct 04)*

Terasen Inc (TER.TO, C$24.76, OUTPERFORM, TP C$25.00, MARKET WEIGHT)

Disclosure Appendix

Important Global Disclosures

I, Dominique Barker, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TER.TO

Current: O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated
Prior to 9-Sep-02: SB=Strong Buy; B=Buy; H=Hold; S=Sell; R=Restricted; NR=Not Rated

TER.TO Date	Closing Price (CAD)	Target Price (CAD)	Rating	Initiation/ Assumption
12/01/2004	23.125	25	OUTPERFORM	X

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including CSFB's total revenues, a portion of which are generated by CSFB's investment banking activities.

Analysts' stock ratings are defined as follows:

Outperform: The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral: The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and CSFB HOLT Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional CSFB HOLT Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

Restricted: In certain circumstances, CSFB policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of CSFB's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward. All CSFB HOLT Small and Mid-Cap Advisor stocks are automatically rated volatile. All IPO stocks are automatically rated volatile within the first 12 months of trading.

Analysts' coverage universe weightings are defined as follows*:

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.
***CSFB HOLT Small and Mid-Cap Advisor stocks do not have coverage universe weightings.*

CSFB's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Outperform/Buy*	39%	(56% banking clients)
Neutral/Hold*	43%	(55% banking clients)
Underperform/Sell*	16%	(49% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

See the Companies Mentioned section for full company names.
Price Target: (12 months) for (TER.TO)
Method: Dividend yield versus the 10 year government of Canada forecast bond yield.
Risks: Rapid rise in the 10-year government of Canada bond yield.

See the Companies Mentioned section for full company names.
CSFB and/or its affiliates expect to receive or intend to seek investment banking related compensation from the subject company (TER.TO) within the next 3 months.

Important Canadian Disclosures

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.
Individuals receiving this report from a Canadian investment dealer that is not affiliated with CSFB should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.
For Credit Suisse First Boston Canada Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.
The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (TER.TO) within the past 12 months.

For disclosure information on other companies mentioned in this report, please visit the website at www.csfb.com/researchdisclosures or call +1 (877) 291-2683.
Disclaimers continue on next page.

CREDIT SUISSE | FIRST BOSTON

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse First Boston or its subsidiaries or affiliates (collectively "CSFB") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CSFB. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CSFB. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CSFB.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CSFB may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CSFB will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CSFB does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CSFB believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CSFB believes are reliable, but CSFB makes no representations as to their accuracy or completeness. Additional information is available upon request. CSFB accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CSFB. This report is not to be relied upon in substitution for the exercise of independent judgment. CSFB may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CSFB may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CSFB is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CSFB and its affiliate companies are involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading. CSFB may, to the extent permitted by law, act upon or use the information or opinions presented herein, or the research or analysis on which they are based, before the material is published.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CSFB and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to CSFB's own website material, CSFB has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CSFB's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CSFB's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse First Boston (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in the United States by Credit Suisse First Boston LLC; in Switzerland by Credit Suisse First Boston; in Canada by Credit Suisse First Boston Canada Inc.; in Brazil by Banco de Investimentos Credit Suisse Boston S.A.; in Japan by Credit Suisse First Boston Securities (Japan) Limited; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse First Boston (Hong Kong) Limited, Credit Suisse First Boston Australia Equities Limited, Credit Suisse First Boston (Thailand) Limited, CSFB Research (Malaysia) Sdn Bhd, Credit Suisse First Boston Singapore Branch and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse First Boston, Taipei Branch has been prepared by a registered Senior Business Person.

In jurisdictions where CSFB is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CSFB entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse First Boston LLC in the U.S.

Please note that this report was originally prepared and issued by CSFB for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CSFB should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

ASIA/PACIFIC: +852 2101-6000 **EUROPE: +44 (20) 7888-8888** **UNITED STATES OF AMERICA: +1 (212) 325-2000**

DOWNGRADE RATING

CREDIT SUISSE | FIRST BOSTON

Equity Research Canada

Terasen Inc.

TER.TO

Downgrade Based on Valuation

- **We are downgrading Terasen from Outperform to Neutral, based solely on valuation. We continue to like the fundamental story from a growth and risk perspective but find the stock expensive. For current investors in the stock, we recommend continuing to hold the shares.**

- **Terasen is up 28% in the past 12 months, handsomely outperforming peers. It currently trades at a premium multiple of 9.5x 05E EV/EBITDA, 10.9x 05E price to cash flow and 18.9x 05E price to earnings. We estimate earnings to grow 11% for 2005.**

- **We believe Terasen deserves to trade at a premium versus its peers. We judge the risks at Terasen to be the lowest in our coverage universe, with good prospects for growth from expansions and new pipelines in the oil sands area of Alberta.**

- **We believe Terasen's proposed TMX expansion is best positioned versus competitor Enbridge, owing to its staged development. A staged project can match new oil sands projects more closely versus the alternative mega-project proposal by Enbridge (400 kbpd in 2009). Terasen's proposal is a pipeline-twinning project, avoiding potential land claim issues we believe Enbridge could face in northern British Columbia. The $2.5 billion proposed pipeline would commence operations as early as 2007, with completion by 2009.**

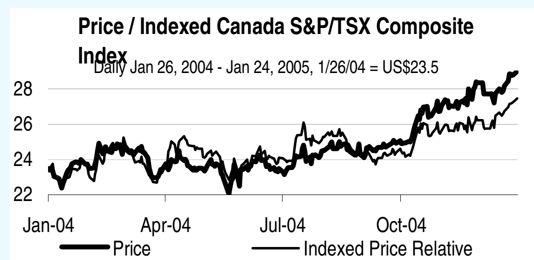
- **If Terasen is successful, we estimate the TMX expansion could add approximately $2-4 to NAV. With our 12-month target of $26.50, we feel the shares are priced to perfection at this time.**

- **Our preferred name at present is TransCanada, based on valuation, news flow on Alaska pipeline, news flow on Mackenzie pipeline and Bruce Power in Ontario.**

Terasen is a diversified utility with oil pipelines, local gas distribution assets and water utilities.

Rating	**NEUTRAL***
Price (25 Jan 05)	**29.50 (C$)**
Target price (12 months)	**26.50 (C$)**
52 week high - low	**28.99 - 22.05**
Market cap. (C$m)	**3,091.90**
Enterprise value (C$m)	**6,144.60**
Region / Country	**Americas / Canada**
Sector	**Pipelines**
Analyst's Coverage Universe	**Pipelines and Utilities**
Weighting (vs. broad market)	**MARKET WEIGHT**
Date	**26 January 2005**

**** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.***



On 01/24/05 the Canada S&P/TSX Composite Index index closed at 9,078.20

Year	12/03A	12/04E	12/05E
EPS (CSFB adj., C$)	1.31	1.40	1.56
Prev. EPS (C$)			
P/E (x)	22.5	21.1	18.9
P/E rel. (%)	102.9	126.8	129.6
Q1 EPS	0.71	0.76	0.84
Q2	0.08	0.09	0.10
Q3	-0.07	-0.03	-0.04
Q4	1.15	0.59	0.65

Number of shares (m)	104.81	IC (Current, C$m)	—
BV/Share (Current, C$)	14.13	EV/IC (x)	—
Net Debt (Current, C$m)	3,052.7	Dividend (Current, C$m)	0.84
Net debt/Total cap. (Current)	67.5%	Dividend yield	2.8%

Year	12/03A	12/04E	12/05E
Revenues (C$m)	986.9	1,030.7	1,059.9
EBITDA (C$m)	569.7	618.7	647.9
OCFPS (C$)	5.63	2.88	2.71
P/OCF (x)	5.2	10.2	10.9
EV/EBITDA (x)	10.8	9.9	9.5
ROIC	—	10.8%	—

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

research team

Dominique Barker, CA, CFA
416 352 4594
dominique.barker@csfb.com

Peter Best
416 352 4585
peter.best@csfb.com

Richelle Embree
416 352 4584
richelle.embree@csfb.com

Alternative Analysis of Valuations and Yields

We see from the following table that Terasen (TER.TO, C$29.50, NEUTRAL, TP C$26.50, MW) is trading at a premium valuation versus its historical average (the lower the %, the higher the valuation). As we discussed in our initiation (January 2004), we believe a premium valuation is deserved owing to growth prospects, lower risk, and relationship with financial players (OMERS and Ontario Teachers).

Exhibit 1: Historical Range of Dividend Yield, as a Percent of 10Y GOC

	TRP	ENB	TER	FTS	TA	EMA
TODAY – January 25	91%	73%	69%	75%	125%	107%
10-year average	**92%**	**70%**	**72%**	**83%**	**96%**	**94%**
5-year average	93%	68%	73%	83%	104%	100%
3-year average	89%	71%	73%	77%	114%	104%
1-year average	92%	76%	73%	77%	128%	106%
Ex-1999-2002 avg	**88%**	**74%**	**72%**	**80%**	**99%**	**93%**

Source: Factset

TransCanada (TRP.TO, C$30, OUTPERFORM, TP C$29.00, MW) is trading near its historical average, which we believe unfairly penalizes the company in its "post-dividend-cut" years. Excluding the rocky period 1999-2002, TransCanada traded at an average dividend yield of 88% of the Canada 10-year bond yield. We think it should trade at these levels at a minimum, and possibly lower (higher valuation), owing to good future prospects for the company.

Our preferred name at this time is TransCanada, based on valuation, news flow on Alaska pipeline, news flow on Mackenzie pipeline and Bruce Power in Ontario.

Using our estimates of 2005 dividends (expected to be announced when Q4 earnings are released), a 10-year Government of Canada bond yield of 4.75%, and the 10-year average of the historical yield as a % of 10Y GOC (per above table), we calculate the following valuations:

Exhibit 2: Using the 10-year historical average % of today's GOC (4.17%)

	TRP	ENB	TER
04 dividend	1.16	1.83	0.84
% Of GOC 10 Year	**92%**	**70%**	**72%**
Implied value	28.05	57.73	25.86
05E dividend	**1.24**	**1.96**	**0.93**
Implied value	**29.99**	**61.83**	**28.63**

Source: Factset, CSFB estimates

However, we argue that Enbridge (ENB.TO, C$59.29, NEUTRAL, TP C$55.00, MW) should be valued at a higher (lower value) rate than historical, owing to its limited growth opportunities and higher risk. We also believe Terasen is coming into the spotlight, and deserves a higher valuation, as discussed previously. Finally, we think using a 10-year average for TransCanada skews the value downward, because of the dividend cut in 1999. Using 88% for TRP and 74% for ENB (the 10-year average excluding 1999 to 2002), and using 70% for Terasen yields the following valuations:

Exhibit 3: Adjusting the % Of 10 Year, TRP is preferred name

	TRP	ENB	TER
Relative spread	**88%**	**74%**	**70%**
05E dividend	**1.24**	**1.96**	**0.93**
Implied value	**29.67**	**55.76**	**27.97**

Source: Company data, CSFB estimates

Exhibit 4: Pipeline Comps

Company	Ticker	Rating	Target Price	Target Upside	Price 1/24/2005	MC	EV	EV/EBITDA 2004E	EV/EBITDA 2005E	P/CF 2004E	P/CF 2005E	P/E 2004E	P/E 2005E
Canada					*C$*	*C$ bil*	*C$ bil*						
TransCanada Corp.	TRP.TO	O	29.00	-4%	30.10	14.6	25.4	8.8x	8.6x	9.3x	9.1x	19.2x	17.3x
Enbridge Inc.	ENB.TO	N	55.00	-7%	59.25	10.2	15.2	10.4x	9.1x	9.9x	9.4x	19.5x	18.3x
Terasen Inc	TER.TO	N	26.50	-9%	28.99	3.0	6.3	10.1x	9.6x	10.1x	10.7x	20.8x	18.6x
Canadian Pipeline average								**9.8x**	**9.1x**	**9.7x**	**9.7x**	**19.8x**	**18.1x**
US					*US$*	*US$ bil*	*US$ bil*						
CenterPoint Energy, Inc.	CNP	O	12.00	8%	11.10	3.4	14.1	8.0x	10.8x	4.1x	5.4x	32.6x	18.5x
Dynegy Inc.	DYN	R	R	R	R	R	R	R	R	R	R	R	R
El Paso Corp.	EP	R	R	R	R	R	R	R	R	R	R	R	R
Equitable Resources	EQT	N	54.00	-5%	56.79	3.5	4.3	10.1x	9.3x	11.4x	10.0x	18.9x	16.5x
Keyspan Corp	KSE	N	37.00	-5%	38.96	6.3	11.5	7.0x	na	na	na	15.0x	16.7x
Kinder Morgan, Inc.	KMI	O	76.00	2%	74.86	9.3	12.5	11.7x	na	na	na	19.6x	17.6x
National Fuel Gas Co.	NFG	U	25.00	-9%	27.57	2.3	3.7	7.7x	na	na	na	13.9x	15.3x
NiSource Inc	NI	N	21.00	-8%	22.71	6.0	12.8	8.1x	na	na	na	14.2x	14.7x
ONEOK, Inc.	OKE	N	25.00	-8%	27.32	2.8	5.0	8.3x	na	na	na	12.1x	11.9x
Questar	STR	N	42.00	-18%	51.08	4.3	5.1	7.0x	6.4x	8.1x	7.6x	20.0x	17.9x
Sempra Energy	SRE	N	36.00	-1%	36.22	8.5	12.7	6.7x	na	na	na	11.0x	12.8x
Western Gas Resources, Inc	WGR	N	27.50	-5%	29.06	2.1	2.4	7.0x	6.3x	8.7x	7.8x	18.2x	15.7x
Williams Companies	WMB	N	15.00	-5%	15.79	8.8	16.3	9.4x	7.9x	11.0x	7.7x	79.0x	18.8x
US Pipeline average								**8.3x**	**8.1x**	**8.6x**	**7.7x**	**23.2x**	**16.0x**

Source: Company data, CSFB estimates

Companies Mentioned *(Price as of 25 Jan 05)*

Terasen Inc (TER.TO, C$29.50, NEUTRAL, TP C$26.50, MARKET WEIGHT)
TransCanada Corp. (TRP.TO, C$30, OUTPERFORM, TP C$29.00, MARKET WEIGHT)
Enbridge Inc. (ENB.TO, C$59.29, NEUTRAL, TP C$55.00, MARKET WEIGHT)
TransAlta Corporation (TA.TO, C$19.19, UNDERPERFORM, TP C$12.00, MARKET WEIGHT)
Fortis Inc. (FTS.TO, C$73.24, OUTPERFORM, TP C$70.00, MARKET WEIGHT)
Emera (EMA.TO, C$19.87, NEUTRAL, TP C$19.00, MARKET WEIGHT)

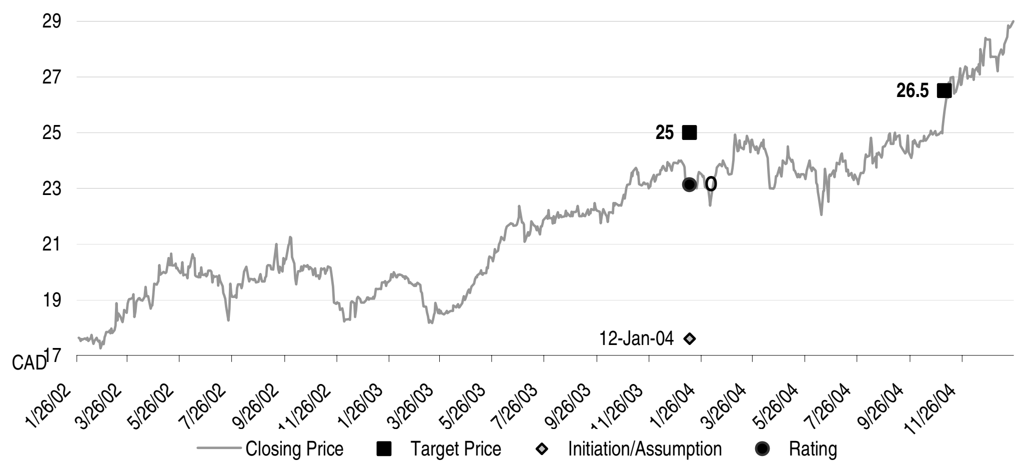
Disclosure Appendix

Important Global Disclosures

I, Dominique Barker, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TER.TO



Current: O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated
Prior to 9-Sep-02: SB=Strong Buy; B=Buy; H=Hold; S=Sell; R=Restricted; NR=Not Rated

TER.TO Date	Closing Price (CAD)	Target Price (CAD)	Rating	Initiation/ Assumption
1/12/04	23.13	25	OUTPERFORM	X
11/5/04	25.8	26.5		

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including CSFB's total revenues, a portion of which are generated by CSFB's investment banking activities.

Analysts’ stock ratings are defined as follows*:**

Outperform: The stock’s total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral: The stock’s total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform:** The stock’s total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and CSFB HOLT Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional CSFB HOLT Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions.*

Restricted: In certain circumstances, CSFB policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of CSFB's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward. All CSFB HOLT Small and Mid-Cap Advisor stocks are automatically rated volatile. All IPO stocks are automatically rated volatile within the first 12 months of trading.

Analysts’ coverage universe weightings* are distinct from analysts’ stock ratings and are based on the expected performance of an analyst’s coverage universe versus the relevant broad market benchmark***:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

CSFB HOLT Small and Mid-Cap Advisor stocks do not have coverage universe weightings.

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

****The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

CSFB's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Outperform/Buy*	37%	(56% banking clients)
Neutral/Hold*	43%	(58% banking clients)
Underperform/Sell*	17%	(45% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (TER.TO)

Method: Dividend yield versus the 10 year government of Canada forecast bond yield.

Risks: Rapid rise in the 10-year government of Canada bond yield.

See the Companies Mentioned section for full company names.

CSFB and/or its affiliates expect to receive or intend to seek investment banking related compensation from the subject company (TER.TO) within the next 3 months.

Important Australian and Canadian Disclosures

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with CSFB should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (TER.TO) within the past 12 months.

For Credit Suisse First Boston Canada Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

For disclosure information on other companies mentioned in this report, please visit the website at www.csfb.com/researchdisclosures or call +1 (877) 291-2683.

Disclaimers continue on next page.

CREDIT SUISSE | FIRST BOSTON

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse First Boston or its subsidiaries or affiliates (collectively "CSFB") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CSFB. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CSFB. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CSFB.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CSFB may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CSFB will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CSFB does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CSFB believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CSFB believes are reliable, but CSFB makes no representations as to their accuracy or completeness. Additional information is available upon request. CSFB accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CSFB. This report is not to be relied upon in substitution for the exercise of independent judgment. CSFB may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CSFB may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CSFB is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CSFB and its affiliate companies are involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading. CSFB may, to the extent permitted by law, act upon or use the information or opinions presented herein, or the research or analysis on which they are based, before the material is published.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CSFB and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to CSFB's own website material, CSFB has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CSFB's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CSFB's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse First Boston (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in the United States by Credit Suisse First Boston LLC; in Switzerland by Credit Suisse First Boston; in Canada by Credit Suisse First Boston Canada Inc.; in Brazil by Banco de Investimentos Credit Suisse Boston S.A.; in Japan by Credit Suisse First Boston Securities (Japan) Limited; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse First Boston (Hong Kong) Limited, Credit Suisse First Boston Australia Equities Limited, Credit Suisse First Boston (Thailand) Limited, CSFB Research (Malaysia) Sdn Bhd, Credit Suisse First Boston Singapore Branch and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse First Boston, Taipei Branch has been prepared by a registered Senior Business Person.

In jurisdictions where CSFB is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CSFB entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse First Boston LLC in the U.S.

Please note that this report was originally prepared and issued by CSFB for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CSFB should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

FLASH FLASH FLASH FLASH FLASH FLASH FL

EARNINGS

CREDIT SUISSE | FIRST BOSTON

Equity Research Canada

Terasen Inc

TER.TO

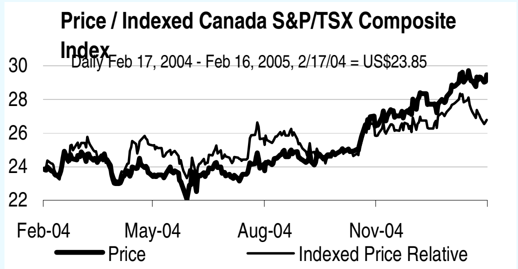
Q4/04 In Line

- **Terasen reported Q4/04 EPS of $0.58, which is in line with consensus and our estimate of $0.59.**
- **We are lowering our 2005 EPS from $1.56 to $1.49 due to anticipated weaker volumes and throughput at Trans Mountain in Q1/05, driven by production outages in the Alberta oil sands and refinery turnarounds on the west coast.**
- **Projected 2005 capital expenditures of $350 million were higher than our estimate of $165 million. The capex will be financed with a combination of long-term debt, short-term debt and internally generated funds.**
- **With higher 2005 capex, we believe that leverage is getting high. We estimate that 2005 debt/cap will increase to 67% from current levels of 66%. While this is within the company's target range, it continues to be high relative to its peers.**
- **We continue to like the fundamental story from a growth perspective but find the stock expensive at these levels. We maintain our Neutral rating and 12-month target price of $26.50, which implies 17.8xP/E, 9.4xP/CF and 3.4% yield.**

Terasen is a diversified utility with oil pipelines, local gas distribution assets and water utilities.

Rating	**NEUTRAL***
Price (17 Feb 05)	**29.34 (C$)**
Target price (12 months)	**26.50 (C$)**
52 week high - low	**29.71 - 22.05**
Market cap. (C$m)	**3,078.53**
Enterprise value (C$m)	**6,042.43**
Region / Country	**Americas / Canada**
Sector	**Pipelines**
Analyst's Coverage Universe	**Pipelines and Utilities**
Weighting (vs. broad market)	**MARKET WEIGHT**
Date	**17 February 2005**

**** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.***



On 02/16/05 the Canada S&P/TSX Composite Index index closed at 9,619.26

Year	12/03A	12/04E	12/05E
EPS (CSFB adj., C$)	1.31	1.39	1.49
Prev. EPS (C$)			1.56
P/E (x)	22.4	21.1	19.8
P/E rel. (%)	—	—	—
Q1 EPS	0.71	0.76	0.77
Q2	0.08	0.09	0.10
Q3	-0.07	-0.03	-0.04
Q4	1.15	0.58	0.65

Number of shares (m)	104.93	IC (Current, C$m)	—
BV/Share (Current, C$)	14.34	EV/IC (x)	—
Net Debt (Current, C$m)	2,963.9	Dividend (Current, C$m)	0.90
Net debt/Total cap. (Current)	66.3%	Dividend yield	3.1%

Year	12/03A	12/04E	12/05E
Revenues (C$m)	986.9	1,075.4	1,014.5
EBITDA (C$m)	569.7	803.4	635.1
OCFPS (C$)	5.63	2.83	2.82
P/OCF (x)	5.2	10.4	10.4
EV/EBITDA (x)	10.6	7.5	9.5
ROIC	—	10.8%	—

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

research team

Dominique Barker, CA, CFA
416 352 4594
dominique.barker@csfb.com

Peter Best
416 352 4585
peter.best@csfb.com

Richelle Embree
416 352 4584
richelle.embree@csfb.com

Companies Mentioned *(Price as of 17 Feb 05)*

Terasen Inc (TER.TO, C$29.34, NEUTRAL, TP C$26.50, MARKET WEIGHT)

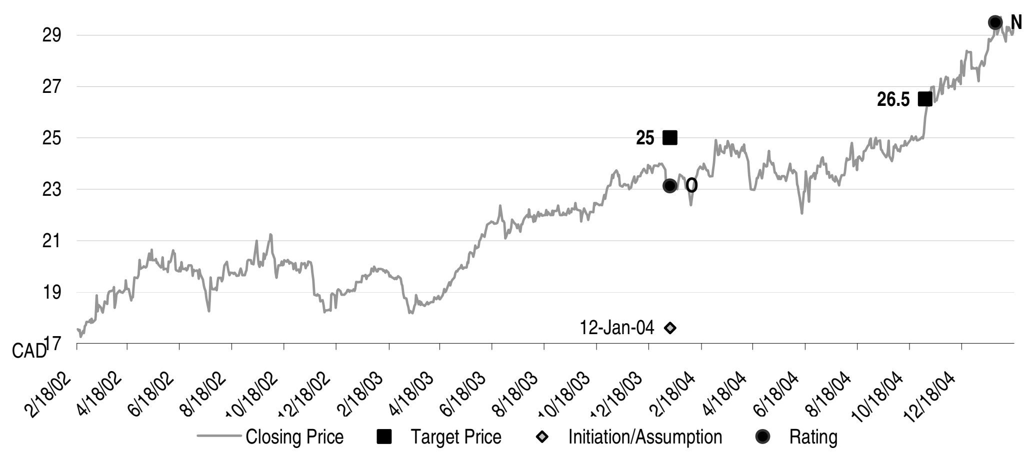
Disclosure Appendix

Important Global Disclosures

I, Dominique Barker, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TER.TO



Current: O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated
Prior to 9-Sep-02: SB=Strong Buy; B=Buy; H=Hold; S=Sell; R=Restricted; NR=Not Rated

TER.TO Date	Closing Price (CAD)	Target Price (CAD)	Rating	Initiation/ Assumption
1/12/04	23.13	25	OUTPERFORM	X
11/5/04	25.8	26.5		
1/26/05	29.48		NEUTRAL	

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including CSFB's total revenues, a portion of which are generated by CSFB's investment banking activities.

Analysts' stock ratings are defined as follows***:

Outperform: The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral: The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and CSFB HOLT Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional CSFB HOLT Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions.*

Restricted: In certain circumstances, CSFB policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of CSFB's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward. All CSFB HOLT Small and Mid-Cap Advisor stocks are automatically rated volatile. All IPO stocks are automatically rated volatile within the first 12 months of trading.

Analysts' coverage universe weightings* are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe versus the relevant broad market benchmark***:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**CSFB HOLT Small and Mid-Cap Advisor stocks do not have coverage universe weightings.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

****The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

CSFB's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Outperform/Buy*	37%	(55% banking clients)
Neutral/Hold*	43%	(56% banking clients)
Underperform/Sell*	17%	(43% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (TER.TO)

Method: Dividend yield versus the 10 year government of Canada forecast bond yield.

Risks: Rapid rise in the 10-year government of Canada bond yield.

See the Companies Mentioned section for full company names.

CSFB and/or its affiliates expect to receive or intend to seek investment banking related compensation from the subject company (TER.TO) within the next 3 months.

Important Australian and Canadian Disclosures

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with CSFB should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (TER.TO) within the past 12 months.

For Credit Suisse First Boston Canada Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

For disclosure information on other companies mentioned in this report, please visit the website at www.csfb.com/researchdisclosures or call +1 (877) 291-2683.

Disclaimers continue on next page.

CREDIT SUISSE | FIRST BOSTON

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse First Boston or its subsidiaries or affiliates (collectively "CSFB") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CSFB. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CSFB. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CSFB.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CSFB may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CSFB will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CSFB does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CSFB believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CSFB believes are reliable, but CSFB makes no representations as to their accuracy or completeness. Additional information is available upon request. CSFB accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CSFB. This report is not to be relied upon in substitution for the exercise of independent judgment. CSFB may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CSFB may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CSFB is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CSFB and its affiliate companies are involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading. CSFB may, to the extent permitted by law, act upon or use the information or opinions presented herein, or the research or analysis on which they are based, before the material is published.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CSFB and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to CSFB's own website material, CSFB has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CSFB's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CSFB's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse First Boston (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in the United States by Credit Suisse First Boston LLC; in Switzerland by Credit Suisse First Boston; in Canada by Credit Suisse First Boston Canada Inc.; in Brazil by Banco de Investimentos Credit Suisse Boston S.A.; in Japan by Credit Suisse First Boston Securities (Japan) Limited; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse First Boston (Hong Kong) Limited, Credit Suisse First Boston Australia Equities Limited, Credit Suisse First Boston (Thailand) Limited, CSFB Research (Malaysia) Sdn Bhd, Credit Suisse First Boston Singapore Branch and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse First Boston, Taipei Branch has been prepared by a registered Senior Business Person.

In jurisdictions where CSFB is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CSFB entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse First Boston LLC in the U.S.

Please note that this report was originally prepared and issued by CSFB for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CSFB should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

ASIA/PACIFIC: +852 2101-6000 **EUROPE: +44 (20) 7888-8888** **UNITED STATES OF AMERICA: +1 (212) 325-2000**

COMPANY UPDATE

CREDIT SUISSE | FIRST BOSTON

Equity Research Canada

Terasen Inc

TER.TO

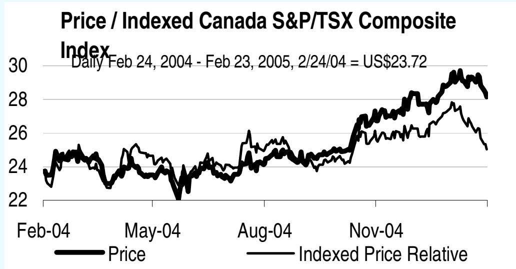
TER Update

- **We are introducing our 2006E EPS of $1.59 for Terasen, and maintaining our 2005E EPS of $1.49.**
- **We reiterate our Neutral rating and $26.50 target price.**

Terasen is a diversified utility with oil pipelines, local gas distribution assets and water utilities.

Rating	**NEUTRAL***
Price (23 Feb 05)	**28.15 (C$)**
Target price (12 months)	**26.50 (C$)**
52 week high - low	**29.71 - 22.05**
Market cap. (C$m)	**2,953.67**
Enterprise value (C$m)	**6,163.37**
Region / Country	**Americas / Canada**
Sector	**Pipelines**
Analyst's Coverage Universe	**Pipelines and Utilities**
Weighting (vs. broad market)	**MARKET WEIGHT**
Date	**24 February 2005**

**** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.***



On 02/23/05 the Canada S&P/TSX Composite Index index closed at 9,675.69

Year	12/04A	12/05E	12/06E
EPS (CSFB adj., C$)	**1.39**	**1.49**	**1.59**
Prev. EPS (C$)			
P/E (x)	**20.2**	**18.9**	**17.7**
P/E rel. (%)	**NM**	**NM**	**NM**
Q1 EPS	**0.76**	**0.77**	
Q2	**0.09**	**0.10**	
Q3	**-0.03**	**-0.04**	
Q4	**0.58**	**0.65**	

Number of shares (m)	**104.93**	IC (Current, C$m)	**—**
BV/Share (Current, C$)	**14.34**	EV/IC (x)	
Net Debt (Current, C$m)	**2,963.9**	Dividend (Current, C$m)	**0.90**
Net debt/Total cap. (Current)	**66.3%**	Dividend yield	**3.2%**

Year	12/04A	12/05E	12/06E
Revenues (C$m)	**1,075.4**	**1,015.3**	**1,037.4**
EBITDA (C$m)	**803.4**	**635.9**	**625.4**
OCFPS (C$)	**2.83**	**2.82**	**2.63**
P/OCF (x)	**9.9**	**10.0**	**10.7**
EV/EBITDA (x)	**7.7**	**9.7**	**9.9**
ROIC	**10.8%**	**—**	**—**

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

research team

Dominique Barker, CA, CFA
416 352 4594
dominique.barker@csfb.com

Peter Best
416 352 4585
peter.best@csfb.com

Richelle Embree
416 352 4584
richelle.embree@csfb.com

FLASH FLASH FLASH FLASH FLASH FL

Companies Mentioned *(Price as of 23 Feb 05)*

Terasen Inc (TER.TO, C$28.15, NEUTRAL, TP C$26.50, MARKET WEIGHT)

Disclosure Appendix

Important Global Disclosures

I, Dominique Barker, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TER.TO

Current: O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated

Prior to 9-Sep-02: SB=Strong Buy; B=Buy; H=Hold; S=Sell; R=Restricted; NR=Not Rated

TER.TO Date	Closing Price (CAD)	Target Price (CAD)	Rating	Initiation/ Assumption
1/12/04	23.13	25	OUTPERFORM	X
11/5/04	25.8	26.5		
1/26/05	29.48		NEUTRAL	

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including CSFB's total revenues, a portion of which are generated by CSFB's investment banking activities.

Analysts' stock ratings are defined as follows***:

Outperform: The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral: The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

> **The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and CSFB HOLT Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional CSFB HOLT Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions.*

Restricted: In certain circumstances, CSFB policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of CSFB's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward. All CSFB HOLT Small and Mid-Cap Advisor stocks are automatically rated volatile. All IPO stocks are automatically rated volatile within the first 12 months of trading.

Analysts' coverage universe weightings* are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe versus the relevant broad market benchmark***:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

******CSFB HOLT Small and Mid-Cap Advisor stocks do not have coverage universe weightings.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

****The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

CSFB's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Outperform/Buy*	37%	(56% banking clients)
Neutral/Hold*	44%	(56% banking clients)
Underperform/Sell*	17%	(43% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (TER.TO)

Method: Dividend yield versus the 10 year government of Canada forecast bond yield.

Risks: Rapid rise in the 10-year government of Canada bond yield.

See the Companies Mentioned section for full company names.

CSFB and/or its affiliates expect to receive or intend to seek investment banking related compensation from the subject company (TER.TO) within the next 3 months.

Important Australian and Canadian Disclosures

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with CSFB should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (TER.TO) within the past 12 months.

For Credit Suisse First Boston Canada Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

For disclosure information on other companies mentioned in this report, please visit the website at www.csfb.com/researchdisclosures or call +1 (877) 291-2683.

Disclaimers continue on next page.

CREDIT SUISSE | FIRST BOSTON

Disclaimers

CREDIT SUISSE | FIRST BOSTON

Equity Research Canada

COMPANY UPDATE

Terasen Inc

TER.TO

TER: Adjustment to Tax Timing, No Impact on Full Year EPS Estimates

- **We are revising our 2005E quarterly EPS estimates to reflect the change in the timing of quarterly accounting of Terasen Gas income tax. The change has *no impact on company fundamentals and annual earnings*, only on the timing of its recognition.**

  Q1/05E EPS – from $0.77 to $0.67

  Q2/05E EPS – from $0.10 to $0.18

  Q3/05E EPS – from -$0.04 to $0.10

  Q4/05E EPS – from $0.65 to $0.53

- **We are maintaining our annual 2005E and 2006E EPS estimates of $1.49 and $1.59.**

- **For comparability purposes, we are also restating our quarterly 2004A EPS to reflect the timing of tax expense recognition. Our annual 2004A EPS stays the same at $1.39.**

  Q1/04A EPS – from $0.76 to $0.63

  Q2/04A EPS – from $0.09 to $0.16

  Q3/04A EPS – from -$0.03 to $0.08

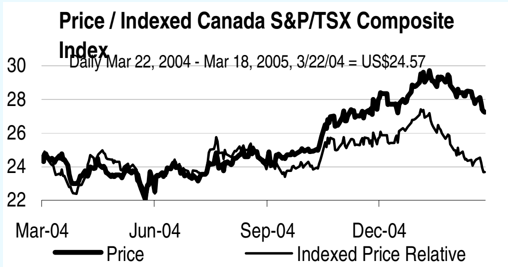
  Q4/04A EPS – from $0.58 to $0.52

- **We maintain our Neutral rating and $26.50 target price.**

Terasen is a diversified utility with oil pipelines, local gas distribution assets and water utilities.

Rating	**NEUTRAL***
Price (18 Mar 05)	**27.24 (C$)**
Target price (12 months)	**26.50 (C$)**
52 week high - low	**29.71 - 22.05**
Market cap. (C$m)	**2,861.51**
Enterprise value (C$m)	**6,071.21**
Region / Country	**Americas / Canada**
Sector	**Pipelines**
Analyst's Coverage Universe	**Pipelines and Utilities**
Weighting (vs. broad market)	**MARKET WEIGHT**
Date	**21 March 2005**

**** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.***



On 03/18/05 the Canada S&P/TSX Composite Index index closed at 9,754.69

Year	12/04A	12/05E	12/06E
EPS (CSFB adj., C$)	1.39	1.49	1.59
Prev. EPS (C$)			
P/E (x)	19.6	18.3	17.1
P/E rel. (%)	NM	NM	NM
Q1 EPS	0.63	0.67	
Q2	0.16	0.18	
Q3	0.08	0.10	
Q4	0.52	0.53	

Number of shares (m)	105.05	IC (Current, C$m)	—
BV/Share (Current, C$)	14.34	EV/IC (x)	
Net Debt (Current, C$m)	2,963.9	Dividend (Current, C$m)	0.90
Net debt/Total cap. (Current)	66.3%	Dividend yield	3.3%

Year	12/04A	12/05E	12/06E
Revenues (C$m)	1,075.4	1,015.3	1,037.4
EBITDA (C$m)	803.4	635.9	625.4
OCFPS (C$)	2.83	2.82	2.63
P/OCF (x)	9.6	9.7	10.4
EV/EBITDA (x)	7.6	9.5	9.7
ROIC	10.8%	—	—

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

research team

Dominique Barker, CA, CFA
416 352 4594
dominique.barker@csfb.com

Peter Best
416 352 4585
peter.best@csfb.com

Richelle Embree
416 352 4584
richelle.embree@csfb.com

Companies Mentioned *(Price as of 18 Mar 05)*

Terasen Inc (TER.TO, C$27.24, NEUTRAL, TP C$26.50, MARKET WEIGHT)

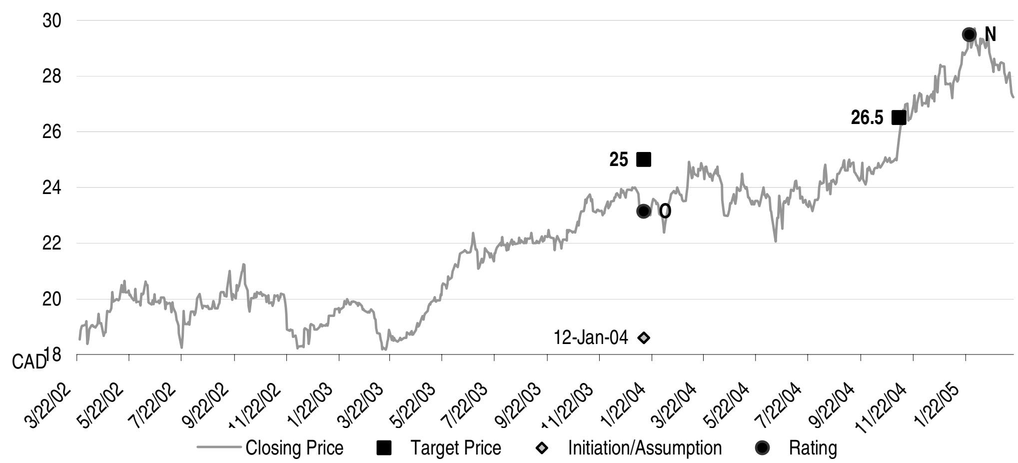
Disclosure Appendix

Important Global Disclosures

I, Dominique Barker, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TER.TO



Current: O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated
Prior to 9-Sep-02: SB=Strong Buy; B=Buy; H=Hold; S=Sell; R=Restricted; NR=Not Rated

TER.TO Date	Closing Price (CAD)	Target Price (CAD)	Rating	Initiation/ Assumption
1/12/04	23.13	25	OUTPERFORM	X
11/5/04	25.8	26.5		
1/26/05	29.48		NEUTRAL	

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including CSFB's total revenues, a portion of which are generated by CSFB's investment banking activities.

Analysts' stock ratings are defined as follows***:

Outperform: The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral: The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and CSFB HOLT Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional CSFB HOLT Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions.*

Restricted: In certain circumstances, CSFB policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of CSFB's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward. All CSFB HOLT Small and Mid-Cap Advisor stocks are automatically rated volatile. All IPO stocks are automatically rated volatile within the first 12 months of trading.

Analysts' coverage universe weightings* are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe versus the relevant broad market benchmark***:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

******CSFB HOLT Small and Mid-Cap Advisor stocks do not have coverage universe weightings.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

****The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

CSFB's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Outperform/Buy*	37%	(57% banking clients)
Neutral/Hold*	44%	(56% banking clients)
Underperform/Sell*	16%	(43% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (TER.TO)

Method: Dividend yield versus the 10 year government of Canada forecast bond yield.

Risks: Rapid rise in the 10-year government of Canada bond yield.

See the Companies Mentioned section for full company names.

CSFB and/or its affiliates expect to receive or intend to seek investment banking related compensation from the subject company (TER.TO) within the next 3 months.

Important Australian and Canadian Disclosures

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with CSFB should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (TER.TO) within the past 12 months.

For Credit Suisse First Boston Canada Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

For disclosure information on other companies mentioned in this report, please visit the website at www.csfb.com/researchdisclosures or call +1 (877) 291-2683.

Disclaimers continue on next page.

CREDIT SUISSE | FIRST BOSTON

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse First Boston or its subsidiaries or affiliates (collectively "CSFB") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CSFB. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CSFB. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CSFB.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CSFB may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CSFB will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CSFB does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CSFB believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CSFB believes are reliable, but CSFB makes no representations as to their accuracy or completeness. Additional information is available upon request. CSFB accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CSFB. This report is not to be relied upon in substitution for the exercise of independent judgment. CSFB may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CSFB may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CSFB is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CSFB and its affiliate companies are involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading. CSFB may, to the extent permitted by law, act upon or use the information or opinions presented herein, or the research or analysis on which they are based, before the material is published.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CSFB and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to CSFB's own website material, CSFB has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CSFB's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CSFB's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse First Boston (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in the United States by Credit Suisse First Boston LLC; in Switzerland by Credit Suisse First Boston; in Canada by Credit Suisse First Boston Canada Inc.; in Brazil by Banco de Investimentos Credit Suisse Boston S.A.; in Japan by Credit Suisse First Boston Securities (Japan) Limited; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse First Boston (Hong Kong) Limited, Credit Suisse First Boston Australia Equities Limited, Credit Suisse First Boston (Thailand) Limited, CSFB Research (Malaysia) Sdn Bhd, Credit Suisse First Boston Singapore Branch and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse First Boston, Taipei Branch has been prepared by a registered Senior Business Person.

In jurisdictions where CSFB is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CSFB entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse First Boston LLC in the U.S.

Please note that this report was originally prepared and issued by CSFB for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CSFB should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

ASIA/PACIFIC: +852 2101-6000 **EUROPE: +44 (20) 7888-8888** **UNITED STATES OF AMERICA: +1 (212) 325-2000**

CREDIT SUISSE | FIRST BOSTON

Equity Research Canada

COMPANY UPDATE

Terasen Inc

TER.TO

Terasen EPS Update

- **We are revising our quarterly 2005E EPS estimates for Terasen, but maintaining our annual 2005E and 2006E EPS estimates of $1.49 and $1.59, respectively.**

- **We previously estimated that the lower throughput volumes from Trans Mountain resulting from Alberta oil sands production outages would affect all four quarters of 2005, rather than impacting only Q1/05. The company clarified in its quarterly release that shipments on the Trans Mountain mainline system have returned to apportionment in April.**

- **Following are the quarterly estimate changes:**

  Q1/05A EPS – from $0.67E to $0.60A

  Q2/05E EPS – from $0.18 to $0.21

  Q3/05E EPS – from $0.10 to $0.13

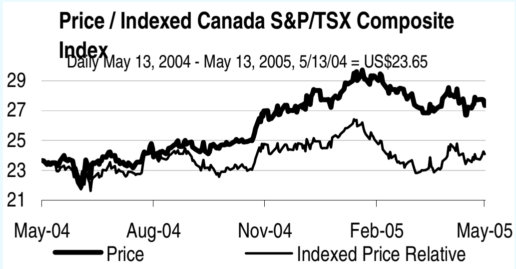
  Q4/05E EPS – from $0.53 to $0.55

- **We continue to like Terasen's fundamental story from a growth perspective but find the stock expensive at these levels. We maintain our Neutral rating and $26.50 target price, which implies 16.7x 2006 P/E and 9.7x 2006 P/CF.**

Terasen is a diversified utility with oil pipelines, local gas distribution assets and water utilities.

Rating	**NEUTRAL***
Price (13 May 05)	**27.33 (C$)**
Target price (12 months)	**26.50 (C$)**
52 week high - low	**29.71 - 22.05**
Market cap. (C$m)	**2,878.94**
Enterprise value (C$m)	**6,128.74**
Region / Country	**Americas / Canada**
Sector	**Pipelines**
Analyst's Coverage Universe	**Pipelines and Utilities**
Weighting (vs. broad market)	**MARKET WEIGHT**
Date	**16 May 2005**

**** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.***



On 05/13/05 the Canada S&P/TSX Composite Index index closed at 9,278.45

Year	12/04A	12/05E	12/06E
EPS (CSFB adj., C$)	**1.39**	**1.49**	**1.59**
Prev. EPS (C$)			
P/E (x)	**19.6**	**18.3**	**17.2**
P/E rel. (%)	**NM**	**NM**	**NM**
Q1 EPS	**0.63**	**0.60**	
Q2	**0.16**	**0.21**	
Q3	**0.08**	**0.13**	
Q4	**0.52**	**0.55**	

Number of shares (m) **105.34**	IC (Current, C$m) **—**
BV/Share (Current, C$) **13.47**	EV/IC (x)
Net Debt (Current, C$m) **2,969.9**	Dividend (Current, C$m) **0.90**
Net debt/Total cap. (Current) **67.5%**	Dividend yield **3.3%**

Year	12/04A	12/05E	12/06E
Revenues (C$m)	**1,075.4**	**909.7**	**918.7**
EBITDA (C$m)	**803.4**	**603.9**	**609.9**
OCFPS (C$)	**2.83**	**2.66**	**2.73**
P/OCF (x)	**9.8**	**10.3**	**10.0**
EV/EBITDA (x)	**7.6**	**10.1**	**10.0**
ROIC	**10.8%**	**—**	**—**

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

research team

Dominique Barker, CA, CFA
416 352 4594
dominique.barker@csfb.com

Richelle Embree
416 352 4584
richelle.embree@csfb.com

Companies Mentioned *(Price as of 13 May 05)*

Terasen Inc (TER.TO, C$27.33, NEUTRAL, TP C$26.50, MARKET WEIGHT)

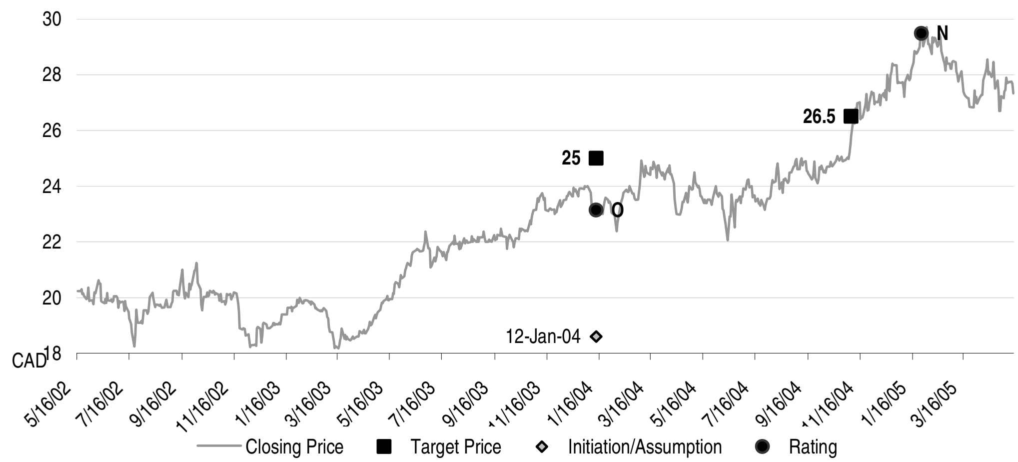
Disclosure Appendix

Important Global Disclosures

I, Dominique Barker, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TER.TO



Current: O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated

Prior to 9-Sep-02: SB=Strong Buy; B=Buy; H=Hold; S=Sell; R=Restricted; NR=Not Rated

TER.TO Date	Closing Price (CAD)	Target Price (CAD)	Rating	Initiation/ Assumption
1/12/04	23.13	25	OUTPERFORM	X
11/5/04	25.8	26.5		
1/26/05	29.48		NEUTRAL	

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including CSFB's total revenues, a portion of which are generated by CSFB's investment banking activities.

Analysts' stock ratings are defined as follows***:

Outperform: The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral: The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and CSFB HOLT Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional CSFB HOLT Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions.*

Restricted: In certain circumstances, CSFB policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of CSFB's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward. All CSFB HOLT Small and Mid-Cap Advisor stocks are automatically rated volatile. All IPO stocks are automatically rated volatile within the first 12 months of trading.

Analysts' coverage universe weightings* are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe versus the relevant broad market benchmark***:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

******CSFB HOLT Small and Mid-Cap Advisor stocks do not have coverage universe weightings.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

****The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

CSFB's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Outperform/Buy*	39%	(57% banking clients)
Neutral/Hold*	43%	(55% banking clients)
Underperform/Sell*	16%	(42% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (TER.TO)

Method: Dividend yield versus the 10 year government of Canada forecast bond yield.

Risks: Rapid rise in the 10-year government of Canada bond yield.

See the Companies Mentioned section for full company names.

CSFB and/or its affiliates expect to receive or intend to seek investment banking related compensation from the subject company (TER.TO) within the next 3 months.

Important Australian and Canadian Disclosures

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with CSFB should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (TER.TO) within the past 12 months.

For Credit Suisse First Boston Canada Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

For disclosure information on other companies mentioned in this report, please visit the website at www.csfb.com/researchdisclosures or call +1 (877) 291-2683.

Disclaimers continue on next page.

CREDIT SUISSE | FIRST BOSTON

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse First Boston or its subsidiaries or affiliates (collectively "CSFB") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CSFB. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CSFB. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CSFB.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CSFB may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CSFB will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CSFB does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CSFB believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CSFB believes are reliable, but CSFB makes no representations as to their accuracy or completeness. Additional information is available upon request. CSFB accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CSFB. This report is not to be relied upon in substitution for the exercise of independent judgment. CSFB may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CSFB may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CSFB is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CSFB and its affiliate companies are involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CSFB and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to CSFB's own website material, CSFB has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CSFB's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CSFB's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse First Boston (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in the United States by Credit Suisse First Boston LLC; in Switzerland by Credit Suisse First Boston; in Canada by Credit Suisse First Boston Canada Inc.; in Brazil by Banco de Investimentos Credit Suisse Boston S.A.; in Japan by Credit Suisse First Boston Securities (Japan) Limited; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse First Boston (Hong Kong) Limited, Credit Suisse First Boston Australia Equities Limited, Credit Suisse First Boston (Thailand) Limited, CSFB Research (Malaysia) Sdn Bhd, Credit Suisse First Boston Singapore Branch and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse First Boston, Taipei Branch has been prepared by a registered Senior Business Person.

In jurisdictions where CSFB is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CSFB entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse First Boston LLC in the U.S.

Please note that this report was originally prepared and issued by CSFB for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CSFB should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

FLASH FLASH FLASH FLASH FLASH FL

COMPANY UPDATE

CREDIT SUISSE | FIRST BOSTON

Equity Research Canada

Terasen Inc

TER.TO

Opportunities Abound

- We have recently returned from a roadtrip with Terasen management. As a result, we have increased confidence that there are real opportunities for stable growth in the short- and long-term. Growth will be driven from oil sands infrastructure needs. Terasen has a pipeline of approximately $4 billion worth of proposed projects for the next five years.

- Among the growth projects, the most material are 1) Corridor expansion (1 million bpd, $7 to 900 million investment) and 2) TransMountain expansion (75 kbpd expansion for $570 million with confidence, and possibly an additional 550 kbpd expansion for $1.7 to 2.0 billion, depending on the route taken). There are additional growth projects, but these are the most material. Refer to page 2 for a complete list of projects.

- We are increasing the probability of the TMX expansion winning over Enbridge's Gateway proposal from 50% to 75% because 1) it is staged, so matches oil sands production growth more closely; 2) we believe the market for incremental crude demand is the U.S., not Asia; 3) the southern route already exists, so we believe there will be less aboriginal land claim issues than any northern route proposals; 4) there is an incremental addition of 550 kbpd versus Gateway's 400 kbpd; 5) with a looped system, there is the possibility of having two separate quality pipelines (one crude, one refined product), a valuable proposition for the shippers. We do not eliminate the chances of Gateway proceeding, as we cannot ignore China's love of mega-projects.

- How will the growth be financed? We estimate Terasen will have a debt/cap level of 69% at year-end. The target level is 67 to 70%. Therefore, if the Corridor expansion proceeds (likely), we estimate Terasen will raise $200 million in equity to maintain 70% debt/cap.

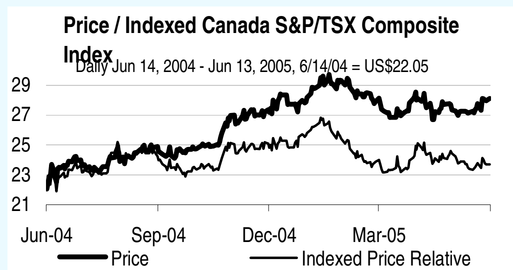
- Risks in the short-term: renegotiation of the incentive tolling agreement, expected before year-end.

- Valuation: our target of $26.50 implies 18x 05 EPS. We believe the stock will stay expensive, owing to its attractive risk/return and therefore advise long-term investors to buy on share price weakness.

Terasen is a diversified utility with oil pipelines, local gas distribution assets and water utilities.

Rating	NEUTRAL*
Price (13 Jun 05)	28.11 (C$)
Target price (12 months)	26.50 (C$)
52 week high - low	29.71 - 22.05
Market cap. (C$m)	2,961.11
Enterprise value (C$m)	6,210.91
Region / Country	Americas / Canada
Sector	Pipelines
Analyst's Coverage Universe	Pipelines and Utilities
Weighting (vs. broad market)	MARKET WEIGHT
Date	14 June 2005

** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*



On 06/13/05 the Canada S&P/TSX Composite Index index closed at 9,802.67

Year	12/04A	12/05E	12/06E
EPS (CSFB adj., C$)	1.39	1.49	1.59
Prev. EPS (C$)			
P/E (x)	20.2	18.9	17.7
P/E rel. (%)	NM	NM	NM
Q1 EPS	0.63	0.60	
Q2	0.16	0.21	
Q3	0.08	0.13	
Q4	0.52	0.55	

Number of shares (m)	105.34	IC (Current, C$m)	—
BV/Share (Current, C$)	13.47	EV/IC (x)	
Net Debt (Current, C$m)	2,969.9	Dividend (Current, C$m)	0.90
Net debt/Total cap. (Current)	67.5%	Dividend yield	3.2%

Year	12/04A	12/05E	12/06E
Revenues (C$m)	1,075.4	909.7	918.7
EBITDA (C$m)	803.4	603.9	609.9
OCFPS (C$)	2.83	2.66	2.73
P/OCF (x)	9.8	10.6	10.3
EV/EBITDA (x)	7.7	10.3	10.2
ROIC	10.8%	—	—

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

research team

Dominique Barker, CA, CFA
416 352 4594
dominique.barker@csfb.com

Richelle Embree
416 352 4584
richelle.embree@csfb.com

Growth Projects by Segment

We have summarized the list of projects in the following table, in order of our assessment of the probability of each proceeding.

Exhibit 1: Growth Project summary – total of approximately $4 billion in the pipeline

Segment	Project Description	Investment	Probability	Timing
Pipelines	Corridor expansion, 35 kbpd	$35 million	High	Fall 2005
Pipelines	Bison (42" pipeline), 1mm bpd	$700-900 million	High	In-service 2009
Pipelines	TransMountain expansion, 35 kbpd	$205 million	High	In-service 2006
Gas utility	LNG storage	$100 million	Medium/High	2005-6
Gas utility	Additional compression	$50 million	Medium/High	2005-7
Pipelines	TMX1, 40 kbpd	$365 million	Medium/High	In-service 2008
Gas utility	Whistler gas distribution	$35 million	Medium	For 2010 Olympics
Gas utility	Whistler ground source heat pump	$10 to 30 million	Medium	For 2010 Olympics
Pipelines	TMX2, 75 kbpd	$800-900 million	Medium	In-service 2009
Pipelines	TMX3, 475 kbpd	$0.9-1.1 billion	Medium	In-service 2009
Gas utility	Inland Pacific Connector	$300-500 million	Low	Long-term
Pipelines	Express buildout	?	Low	Long-term
Water	M&A	?	Medium	Ongoing

Source: Company data, CSFB estimates

In addition to these short- and medium-term growth projects, Terasen is interested in growing its water utilities business in the long-term. Terasen is looking to Aqua America (WTR, US$29.36, not rated) and California Water (CWT, US$36.84, not rated) as models for this segment, both of which trade at very high multiples (in the 25-30 P/E range). Terasen currently has approximately $200 million of capital committed to water utilities, and operates over 90 systems in over 50 communities. While we are cautious of management's foray into this relatively new area, we think the water segment will provide long-term growth for the company once pipeline expansion opportunities decline (in 5-7 years).

M&A

Terasen indicated it is interested in acquiring financially accretive assets that are

1) In the same geographic area as the rest of Terasen's operations (Pacific NorthWest, which Terasen describes as British Columbia, Washington, Oregon, Alberta);
2) Regulated utilities, including natural gas distribution, electric distribution, electric transmission, and water distribution.

We expect continued small acquisitions (<$50 million) on the water utilities side.

How Will Terasen Finance the Growth?

We estimate that Terasen produces approximately $350 million of free cash flow, after dividend payment. The debt/cap for Terasen is currently 68%.

Exhibit 2: Terasen Free Cash – Approximately $350 million per year

	1999	2000	2001	2002	2003	2004	2005	2006	2007
EBIT	308	309	356	403	436	447	457	463	468
Depreciation	83	86	95	116	133	147	150	150	150
Less: Maintenance Capex	-75	-75	-75	-75	-75	-75	-75	-75	-75
Less: Cash Tax	-46	-56	-46	-53	-50	-70	-76	-78	-79
Less: dividends	-45	-51	-56	-67	-86	-93	-100	-102	-102
Change in Working Capital	-50	108	-138	7	-73	15	30	0	0
Total Free Cash Flow	176	321	136	331	286	371	386	359	363

Source: Company data, CSFB estimates

Assuming the Corridor and the TransMountain expansions proceed (including TMX1), Terasen will need approximately $1.4 billion. Assuming Terasen maintains a 70% debt/cap ratio, we estimate Terasen will need to raise approximately $2-300 million.

Why not use financial partners for Greenfield?

The reason Terasen would not bring in its financial partners, Ontario Teachers and OMERS, on a Greenfield project such as Corridor or TransMountain, is because it is financially advantageous to equity shareholders to invest in new projects at book value, assuming the value of the project translates to a multiple of book (Terasen currently trades at approximately 2.0x); we estimate a valuation bump of 1.3 – 1.4x book value for projects such as Corridor and TMX. Terasen would invite its financial partners to participate in M&A situations where the cost of capital of the group is reduced, due to the non-taxable status of the pension funds.

Income Trusting the Gas Utility?

There is currently a case before the British Columbia Utilities Commission (BCUC) that proposes to put Pacific Northern Gas (PNG-UN.TO, not rated) into an income trust. This is a regulated gas utility in northern BC that has had financial difficulty since its largest customer, Methanex, shut down its methanol plant at Kitimat for 12 months in 2000. PNG has been financially challenged ever since, and believes a recapitalization to an income trust structure would improve its financial flexibility and access to capital markets.

The BCUC initially refused the income trust idea for PNG, but PNG has redrawn a slightly different proposal (one where rates charged to customers are based on actual rather than deemed capital structure) that is currently being considered by the BCUC. A decision is expected this summer; if the BCUC accepts the new income trust structure, it opens the door for Terasen Gas and Terasen Gas Vancouver Island to be placed in an income trust structure. It is our belief that the tax savings that would result from such conversion would have to be shared by investors and customers to be acceptable to the BCUC.

Using 10x 05E EBITDA and 30% equity gives an equity value to the gas utilities of $1.25 billion.

Uncertainty in TransMountain Incentive Tolling Settlement

The five-year agreement with shippers on TransMountain expires December 31, 2005. At the time of the original negotiation, Terasen took volume risk and therefore the tolls were higher than they otherwise would have been under a take-or-pay agreement. The TransMountain System has done very well since the original agreement, and currently runs at full capacity. Therefore, the returns on the capital invested are quite high (estimated ROE in the mid to high teens).

We believe Terasen will negotiate a settlement with producers; Terasen would like to come to a final agreement prior to year-end, but can only commence negotiations in a meaningful way with the Canadian Association of Petroleum Producers (CAPP) after Enbridge completes its negotiations with the Association, which is expected imminently. Enbridge has been without a settlement since the end of 2004.

The likely outcome is that TransMountain tolls will be negotiated downward, but the earnings stream will be less risky as the entire pipeline moves to firm service. In addition, there will likely be an expansion on the System.

Other Regulatory

Terasen is going back to the regulator to re-examine the capital structure of Terasen Gas in British Columbia. Currently, Terasen Gas has an equity thickness of 33%, with allowed ROE of 9.0%. The ROE is calculated annually using forecasted 10-year Government of Canada bond yields. Last year, the forecasted bond yield was 5.65%; using a bond yield of 4.5% implies an allowed ROE of only 8.5%. Therefore, Terasen would like to offset the potential loss of earnings due to the declining bond yields with an increase in equity thickness. Terasen believes it is in a good position to do so, given recent regulatory decisions in Alberta and nationally that have bumped up the equity thickness. An increase in equity thickness to 35% would offset the impact of the decline in ROE.

Overall View

We like Terasen for its fundamental growth story, geographic focus, low risk (excellent relationship with BC regulator on gas utilities) and ability to access lower cost capital with financial partners Ontario Teachers and OMERS. The one important takeaway we had from spending time with management was the long-term view on the business; as pipeline growth opportunities dissipate, the company is preparing itself to replace that growth with the water utilities segment.

Companies Mentioned *(Price as of 13 Jun 05)*

Aqua America Inc (WTR, $29.35)
California Water Service (CWT, $36.79)
Enbridge Inc. (ENB.TO, C$33.61, NEUTRAL, TP C$29.50, MARKET WEIGHT)
Terasen Inc (TER.TO, C$28.11, NEUTRAL, TP C$26.50, MARKET WEIGHT)

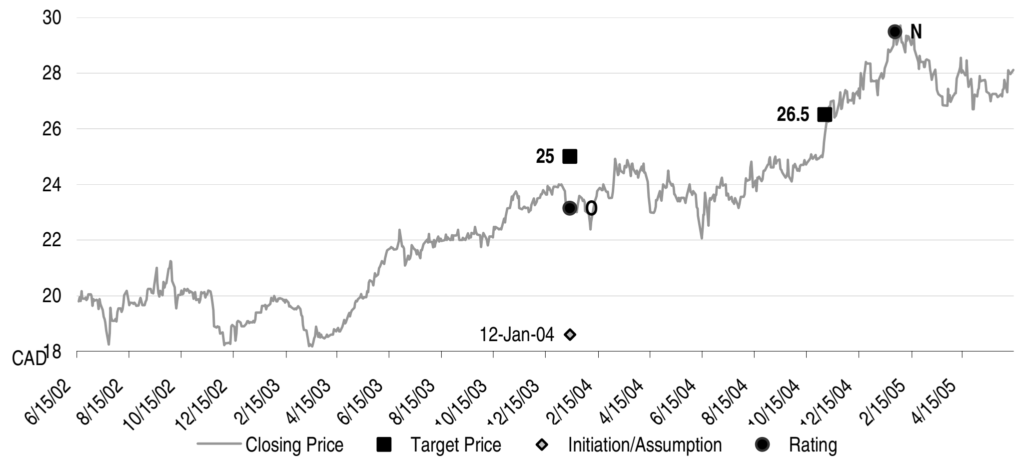
Disclosure Appendix

Important Global Disclosures

I, Dominique Barker, CA, CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TER.TO



Current: O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated
Prior to 9-Sep-02: SB=Strong Buy; B=Buy; H=Hold; S=Sell; R=Restricted; NR=Not Rated

TER.TO Date	Closing Price (CAD)	Target Price (CAD)	Rating	Initiation/ Assumption
1/12/04	23.13	25	OUTPERFORM	X
11/5/04	25.8	26.5		
1/26/05	29.48		NEUTRAL	

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including CSFB's total revenues, a portion of which are generated by CSFB's investment banking activities.

Analysts’ stock ratings are defined as follows***:

Outperform: The stock’s total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral: The stock’s total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform:** The stock’s total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and CSFB HOLT Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional CSFB HOLT Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions.*

Restricted: In certain circumstances, CSFB policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of CSFB's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward. All CSFB HOLT Small and Mid-Cap Advisor stocks are automatically rated volatile. All IPO stocks are automatically rated volatile within the first 12 months of trading.

Analysts' coverage universe weightings* are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe versus the relevant broad market benchmark***:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

CSFB HOLT Small and Mid-Cap Advisor stocks do not have coverage universe weightings.

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

****The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

CSFB's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Outperform/Buy*	39%	(54% banking clients)
Neutral/Hold*	43%	(54% banking clients)
Underperform/Sell*	15%	(45% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (TER.TO)

Method: Dividend yield versus the 10 year government of Canada forecast bond yield.

Risks: Rapid rise in the 10-year government of Canada bond yield.

See the Companies Mentioned section for full company names.

CSFB expects to receive or intends to seek investment banking related compensation from the subject company (TER.TO) within the next 3 months.

Important Regional Disclosures

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (TER.TO) within the past 12 months.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with CSFB should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse First Boston Canada Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

For disclosure information on other companies mentioned in this report, please visit the website at www.csfb.com/researchdisclosures or call +1 (877) 291-2683.

Disclaimers continue on next page.

CREDIT SUISSE | FIRST BOSTON

Disclaimers

Credit Suisse First Boston is the trade name for the investment banking business of Credit Suisse, a Swiss bank, and references in this report to Credit Suisse First Boston or CSFB herein include all of the subsidiaries and affiliates of Credit Suisse operating under the Credit Suisse First Boston division of Credit Suisse Group "CSG"). For more information on our structure, please follow the below link: http://www.creditsuisse.com/en/who_we_are/ourstructure.html.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CSG or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CSG, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CSG's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CSG's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse First Boston (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in the United States by Credit Suisse First Boston LLC; in Switzerland by Credit Suisse; in Canada by Credit Suisse First Boston Canada Inc.; in Brazil by Banco de Investimentos Credit Suisse First Boston S.A.; in Japan by Credit Suisse First Boston Securities (Japan) Limited; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse First Boston (Hong Kong) Limited, Credit Suisse First Boston Australia Equities Limited, Credit Suisse First Boston (Thailand) Limited, CSFB Research (Malaysia) Sdn Bhd, Credit Suisse Singapore Branch and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse Taipei Branch has been prepared by a registered Senior Business Person.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse First Boston LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

ASIA/PACIFIC: +852 2101-6000 **EUROPE: +44 (20) 7888-8888** **UNITED STATES OF AMERICA: +1 (212) 325-2000**

FORECAST INCREASE

CREDIT SUISSE | FIRST BOSTON

Equity Research Canada

Terasen Inc

TER.TO

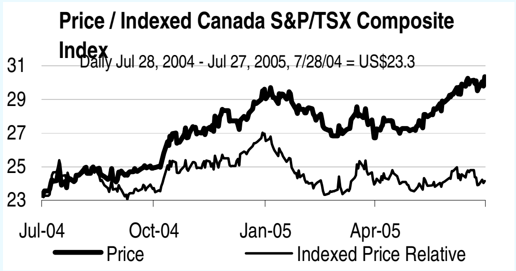
Clean Q, Opportunities for Growth Abound

- **Terasen reported earnings of $0.24 (after adjusting for $1 million tax benefit to Express that relates to Q1 but was included in Q2, and mark-to-market pretax gain of $3.3 million). This compares to our estimate, and consensus, of $0.21.**
- **The main reason for the outperformance is lower operations and maintenance (O&M) expenses in gas distribution (down 4% year on year, and $2 million (or 4%) less than our expectation), as well as higher volumes and better results on the petroleum transportation side.**
- **We are raising our 2005 EPS estimates from $1.49 to $1.60 and our 2006 EPS estimates from $1.59 to $1.80.**
- **We see many growth opportunities for Terasen into the long-term. Please see our report dated June 14, 2005 entitled "Opportunities Abound" where we highlight current projects along with our assessment of its probability of proceeding.**
- **We are raising our target price from $26.50 to $30. Our new target implies a 06E P/E of 17x. The target implies a dividend yield of 3%, or 70% of a theoretical 10-year bond yield of 4.25%. We are maintaining our Neutral rating on the stock.**

Terasen is a diversified utility with oil pipelines, local gas distribution assets and water utilities.

Rating	**NEUTRAL***
Price (27 Jul 05)	**30.35 (C$)**
Target price (12 months)	**30.00 (C$)**
52 week high - low	**30.35 - 23.15**
Market cap. (C$m)	**3,197.07**
Enterprise value (C$m)	**6,412.77**
Region / Country	**Americas / Canada**
Sector	**Pipelines**
Analyst's Coverage Universe	**Pipelines and Utilities**
Weighting (vs. broad market)	**MARKET WEIGHT**
Date	**28 July 2005**

**** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.***



On 07/27/05 the Canada S&P/TSX Composite Index index closed at 10,516.23

Year	12/04A	12/05E	12/06E
EPS (CSFB adj., C$)	**1.39**	**1.60**	**1.80**
Prev. EPS (C$)		**1.49**	**1.59**
P/E (x)	**21.8**	**19.0**	**16.9**
P/E rel. (%)	**129.1**	**138.0**	**131.9**
Q1 EPS	**0.63**	**0.60**	
Q2	**0.16**	**0.24**	
Q3	**0.08**	**0.16**	
Q4	**0.52**	**0.60**	

Number of shares (m)	**105.34**	IC (Current, C$m)	—
BV/Share (Current, C$)	**13.47**	EV/IC (x)	—
Net Debt (Current, C$m)	**2,969.9**	Dividend (Current, C$m)	**0.90**
Net debt/Total cap. (Current)	**67.5%**	Dividend yield	**3.0%**

Year	12/04A	12/05E	12/06E
Revenues (C$m)	—	—	—
EBITDA (C$m)	—	—	—
OCFPS (C$)	—	—	—
P/OCF (x)	—	—	—
EV/EBITDA (x)	—	—	—
ROIC	**10.8%**	—	—

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

research team

Dominique Barker, CA, CFA
Research Analyst
416 352 4594
dominique.barker@csfb.com

Richelle Embree
Research Analyst
416 352 4584
richelle.embree@csfb.com

FLASH FLASH FLASH FLASH FLASH FL

Investment Summary

Companies Mentioned *(Price as of 27 Jul 05)*

Terasen Inc (TER.TO, C$30.35, NEUTRAL, TP C$26.50, MARKET WEIGHT)

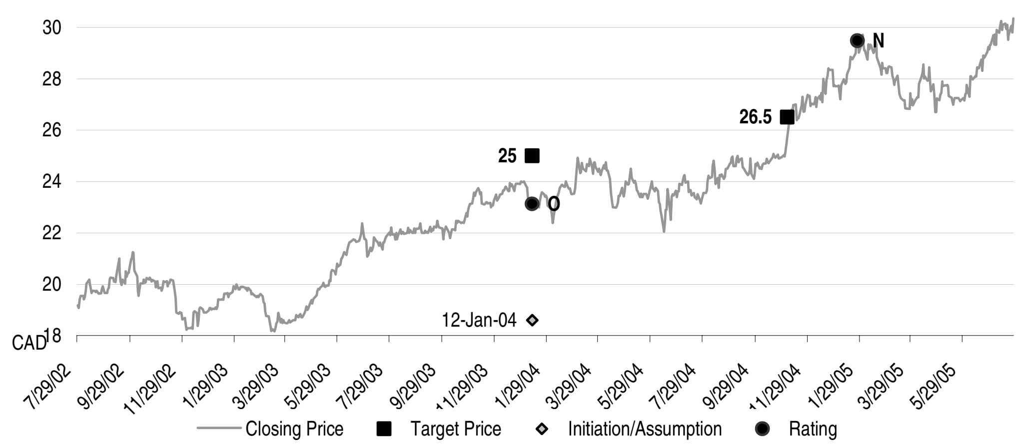
Disclosure Appendix

Important Global Disclosures

I, Dominique Barker, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TER.TO



Current: O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated
Prior to 9-Sep-02: SB=Strong Buy; B=Buy; H=Hold; S=Sell; R=Restricted; NR=Not Rated

TER.TO Date	Closing Price (CAD)	Target Price (CAD)	Rating	Initiation/ Assumption
1/12/04	23.13	25	OUTPERFORM	X
11/5/04	25.8	26.5		
1/26/05	29.48		NEUTRAL	

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including CSFB's total revenues, a portion of which are generated by CSFB's investment banking activities.

Analysts' stock ratings are defined as follows***:

Outperform: The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral: The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and CSFB HOLT Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional CSFB HOLT Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions.*

Restricted: In certain circumstances, CSFB policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of CSFB's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward. All CSFB HOLT Small and Mid-Cap Advisor stocks are automatically rated volatile. All IPO stocks are automatically rated volatile within the first 12 months of trading.

Analysts' coverage universe weightings* are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe versus the relevant broad market benchmark***:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*****_CSFB HOLT Small and Mid-Cap Advisor stocks do not have coverage universe weightings._

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

****The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

CSFB's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Outperform/Buy*	39%	(54% banking clients)
Neutral/Hold*	43%	(54% banking clients)
Underperform/Sell*	15%	(46% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

CSFB's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

CSFB's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to CSFB's Policies for Managing Conflicts of Interest in connection with Investment Research: http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html

CSFB does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (TER.TO)

Method: Dividend yield versus the 10 year government of Canada forecast bond yield.

Risks: Rapid rise in the 10-year government of Canada bond yield.

See the Companies Mentioned section for full company names.

CSFB expects to receive or intends to seek investment banking related compensation from the subject company (TER.TO) within the next 3 months.

Important Regional Disclosures

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (TER.TO) within the past 12 months.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with CSFB should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse First Boston Canada Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

As of the date of this report, CSFB acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

For disclosure information on other companies mentioned in this report, please visit the website at www.csfb.com/researchdisclosures or call +1 (877) 291-2683.

Disclaimers continue on next page.

CREDIT SUISSE | FIRST BOSTON

M&A PROPOSAL

CREDIT SUISSE | FIRST BOSTON

Equity Research Canada

Terasen Inc

TER.TO

Good Marriage

- **Kinder Morgan is acquiring Terasen for approximately $35.75 (see details inside on three options for shareholders), representing a premium of approximately 20% over the 20 day average closing price, and a premium of approximately 14% to the prior day's close. We are increasing our target to $35.75 (from $30.00), reflecting the implied takeover value for Terasen shares.**

- **Financial metrics: this represents a multiple of 11.8x last twelve months (LTM) EBITDA, and 25x LTM P/E. This is a full price.**

- **Rival bidders? While the break fee is only C$75 million (= 2% of equity value or 1.1% of entity value), we do not believe a rival bid is in the offing. We think Enbridge and Terasen would be an excellent fit (both heavily exposed to oil sands region of Alberta, both have gas distribution), but we do not believe shippers would allow the deal to happen, as it would limit competition and choice for them – we measure the probability of a takeover by Enbridge as remote. The other possibility is financial buyers. Ontario Teachers and OMERS, two of the largest Canadian pension funds, are partners with Terasen on the Express pipeline. We would measure the probability of a bid by financial buyers as low based on full valuation and limited synergies.**

- **Good marriage: we think Kinder Morgan is looking to deploy capital (current debt/cap low 40% range, BBB rating); Terasen has a need for capital (debt/cap 68%, BBB rating) as we estimate Terasen needs approximately C$4 billion in capital over the next five years.**

- **Impact on rest of sector: this confirms our view that the market for incremental oil sands production is the U.S., not China. We do not believe Enbridge's Gateway project (400 kbpd) proceeds and believe approximately $2 in Enbridge's share price is attributed to Gateway.**

- **Timing: Terasen expects the deal to close by the end of 2005. Please see our summary table of hurdles to pass and risks.**

Terasen is a diversified utility with oil pipelines, local gas distribution assets and water utilities.

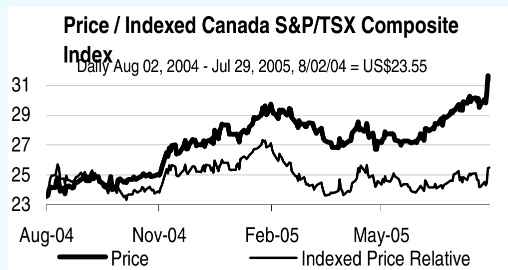
research team

Dominique Barker, CA, CFA
Research Analyst
416 352 4594
dominique.barker@csfb.com

Richelle Embree
Research Analyst
416 352 4584
richelle.embree@csfb.com

Rating	**NEUTRAL***
Price (29 Jul 05)	**31.40 (C$)**
Target price (12 months)	**35.75 (C$)**
52 week high - low	**31.64 - 23.44**
Market cap. (C$m)	**3,307.68**
Enterprise value (C$m)	**6,557.48**
Region / Country	**Americas / Canada**
Sector	**Pipelines**
Analyst's Coverage Universe	**Pipelines and Utilities**
Weighting (vs. broad market)	**MARKET WEIGHT**
Date	**01 August 2005**

**** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.***



On 07/29/05 the Canada S&P/TSX Composite Index index closed at 10,422.93

Year	12/04A	12/05E	12/06E
EPS (CSFB adj., C$)	**1.39**	**1.60**	**1.80**
Prev. EPS (C$)			
P/E (x)	**22.6**	**19.6**	**17.4**
P/E rel. (%)	**133.6**	**133.0**	**120.7**
Q1 EPS	**0.63**	**0.60**	
Q2	**0.16**	**0.24**	
Q3	**0.08**	**0.16**	
Q4	**0.52**	**0.60**	

Number of shares (m)	**105.34**	IC (Current, C$m)	**—**
BV/Share (Current, C$m)	**13.47**	EV/IC (x)	
Net Debt (Current, C$m)	**2,969.9**	Dividend (Current, C$m)	**0.90**
Net debt/Total cap. (Current)	**67.5%**	Dividend yield	**2.9%**

Year	12/04A	12/05E	12/06E
Revenues (C$m)	—	—	—
EBITDA (C$m)	—	—	—
OCFPS (C$)	—	—	—
P/OCF (x)	—	—	—
EV/EBITDA (x)			
ROIC	**10.8%**	—	—

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

FLASH FLASH FLASH FLASH FLASH FL

Investment Summary

Three Options for Shareholders

Kinder Morgan, Inc. (KMI, $88.86) is offering three choices for Terasen shareholders: 1) C$35.75 in cash; 2) 0.3331 shares of KMI common stock; 3) C$23.25 cash plus 0.1165 shares of KMI stock. See summary below, based on August 1 closing prices (KMI at US$88.86, CAD/USD at 1.2124), which value Terasen shares at approximately $35.75.

Exhibit 1: **Based on August 1 closing prices**

	Option 1 (cash)	Option 2 (shares)	Option 3 (cash and shares)
Exchange ratio	NA	0.3331	0.1165
Cash portion	$35.75	NA	$23.25
Stock portion	NA	$35.77	$12.66
Implied TER price	**$35.75**	**$35.77**	**$35.91**
Implied LTM P/E	24.9x	24.9x	25.0x
Implies LTM EV/EBITDA	11.8x	11.8x	11.8x

Source: Company data, CSFB estimates

Growth Opportunities Abound

Terasen has a pipeline of approximately C$4 billion worth of proposed projects for the next five years.

Exhibit 2: **Summary of what is in the Pipeline**

Segment	Project	Investment (millions)	Probability	Timing
Pipelines	Corridor expansion, 35 kbpd	$35	High	Fall 2005
Pipelines	Bison (42" pipeline), 1mm bpd	$700-$900	High	In-service 2009
Pipelines	TransMountain expansion, 35 kbpd	$210	High	In-service 2007
Gas utility	Additional compression	$50	Medium/High	2005-7
Pipelines	TMX1, 40 kbpd	$365	Medium/High	In-service 2008
Gas utility	Whistler gas distribution	$35	Medium	For 2010 Olympics
Gas utility	Whistler ground source heat pump	$10-$30	Medium	For 2010 Olympics
Pipelines	TMX2, 75 kbpd	$800-900	Medium	In-service 2009
Pipelines	TMX3, 475 kbpd	$900-$1100	Low	In-service 2009
Gas utility	Inland Pacific Connector	$300-500	Low	Long-term
Gas utility	LNG storage	$100	Low	2007-8
Pipelines	Express buildout	?	Low	Long-term
Water	M&A	?	Medium	On-going

Source: Company data, CSFB estimates

Therefore, Kinder Morgan will have substantial growth opportunities via Terasen for the short, medium and long-term. Terasen would have been unable to complete these projects without tapping the equity markets.

Timing of Approvals with Risk Assessment

Terasen expects the deal to close by December 2005. The only risks we see, and we would consider them moderate, is:

1) The US Federal Trade Commission (FTC), which is difficult for us to predict; and

2) The British Columbia regulator, where Terasen is the monopoly local gas distribution company. There is a modest risk this becomes a political issue in British Columbia.

Exhibit 3: Various Hurdles and Probability of Issue or Delay

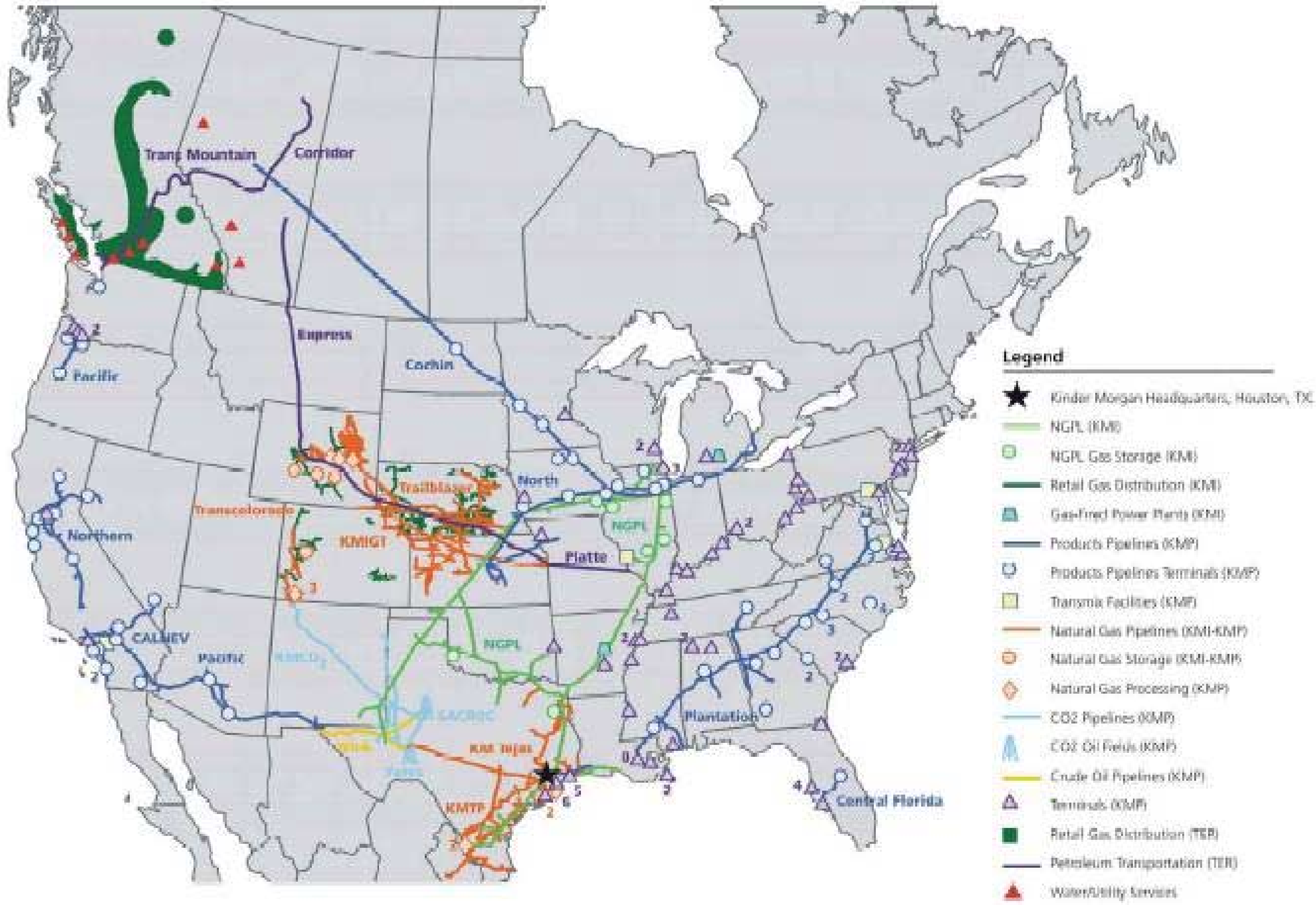
	Jurisdiction	Probability of issue or delay	Comment
Canada Competition Bureau	Canada	low	Regulated, will likely be deferred to regulators
US competition (Hart-Scott-Rodino)	US	medium	Terasen only has two pipelines in the US; but FTC is unpredictable
Investment Canada	Canada	low	No cultural issues; Duke takeover of Westcoast Energy is a good precedent
British Columbia Utilities Commission	British Columbia	medium	Duke's purchase of Westcoast provides precedent (Centra and PNG); BCUC will be interested in Kinder Morgan's ability to serve customer base well. Could become a political issue.
Local water regulators	Various communities with water utilities managed by TER	low	May be issues in jurisdictions where KMI has local gas distribution, but not aware of any
National Energy Board	Canada	low	Duke takeover of Westcoast is precedent
FERC	US	low	Not expected to have any issues

Source: Company data, CSFB estimates

The boards of both Terasen and Kinder Morgan have unanimously approved the transaction. 75% of shareholders must vote in favour of the deal at a special meeting to be held in October 2005.

Map of Operations

Exhibit 4: Terasen and Kinder Morgan Map of operations



Source: Terasen

Companies Mentioned *(Price as of 01 Aug 05)*

Enbridge Inc. (ENB.TO, C$35.30, NEUTRAL, TP C$31.00, MARKET WEIGHT)
Kinder Morgan, Inc. (KMI, $88.86, NOT RATED)
Terasen Inc (TER.TO, C$31.40, NEUTRAL, TP C$35.75, MARKET WEIGHT)

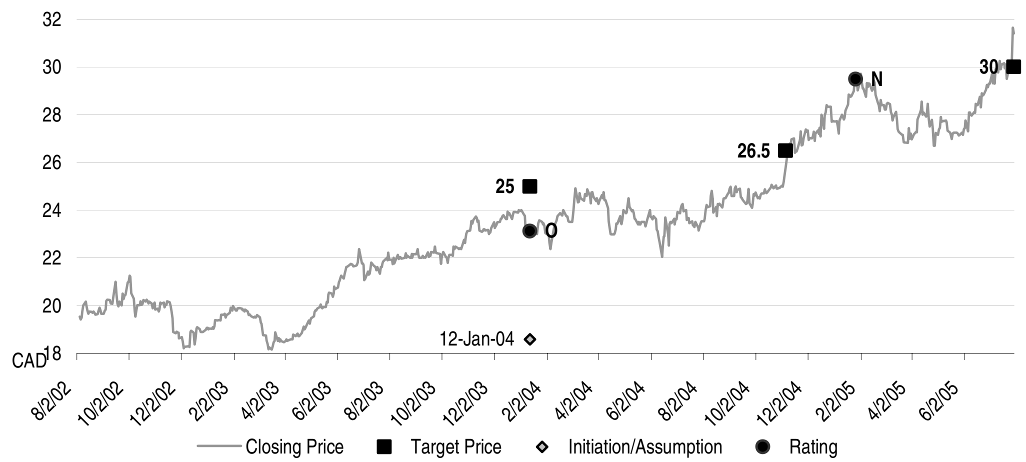
Disclosure Appendix

Important Global Disclosures

I, Dominique Barker, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TER.TO



Current: O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated
Prior to 9-Sep-02: SB=Strong Buy; B=Buy; H=Hold; S=Sell; R=Restricted; NR=Not Rated

TER.TO Date	Closing Price (CAD)	Target Price (CAD)	Rating	Initiation/ Assumption
1/12/04	23.13	25	OUTPERFORM	X
11/5/04	25.8	26.5		
1/26/05	29.48		NEUTRAL	
7/29/05	31.4	30		

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including CSFB's total revenues, a portion of which are generated by CSFB's investment banking activities.

Analysts' stock ratings are defined as follows***:

Outperform: The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral: The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and CSFB HOLT Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional CSFB HOLT Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions.*

Restricted: In certain circumstances, CSFB policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of CSFB's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward. All CSFB HOLT Small and Mid-Cap Advisor stocks are automatically rated volatile. All IPO stocks are automatically rated volatile within the first 12 months of trading.

Analysts' coverage universe weightings* are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe versus the relevant broad market benchmark***:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*****_CSFB HOLT Small and Mid-Cap Advisor stocks do not have coverage universe weightings._

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

CSFB's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution		
Outperform/Buy*	39%	(54% banking clients)
Neutral/Hold*	43%	(54% banking clients)
Underperform/Sell*	15%	(46% banking clients)
Restricted	3%	

*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

CSFB's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

CSFB's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to CSFB's Policies for Managing Conflicts of Interest in connection with Investment Research: http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html

CSFB does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (TER.TO)

Method: Dividend yield versus the 10 year government of Canada forecast bond yield.

Risks: Rapid rise in the 10-year government of Canada bond yield.

See the Companies Mentioned section for full company names.

CSFB expects to receive or intends to seek investment banking related compensation from the subject company (TER.TO) within the next 3 months.

Important Regional Disclosures

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (TER.TO) within the past 12 months.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with CSFB should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse First Boston Canada Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

As of the date of this report, CSFB acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

For disclosure information on other companies mentioned in this report, please visit the website at www.csfb.com/researchdisclosures or call +1 (877) 291-2683.

Disclaimers continue on next page.

CREDIT SUISSE | FIRST BOSTON

Disclaimers

ASIA/PACIFIC: +852 2101-6000 **EUROPE: +44 (20) 7888-8888** **UNITED STATES OF AMERICA: +1 (212) 325-2000**

FLASH FLASH FLASH FLASH FLASH FLASH FLASH FL

QUARTERLY

CREDIT SUISSE | FIRST BOSTON

Equity Research Canada

Terasen Inc

TER.TO

On a Tear

- **Terasen reported excellent results for Q3 – they were clean, clear and above our expectations. This is a volume story. Accordingly, we are increasing our EPS estimates for 2005 from $1.49 to $1.56 and increasing our target price from $25 to $26.50.**
- **The numbers: normalized EPS was -$0.03 (Q3 has historically been a loss due to seasonality in the gas distribution division), versus our estimate of -$0.08 and consensus of -$0.07. The upside surprise came from the petroleum transportation division, especially Express Pipeline. We believe the volume increases stem from the fact that Suncor Energy (SU.TO, C$40.85, NEUTRAL, TP C$40.00, OW) is shipping increased volumes to its recently acquired Denver refinery.**
- **Valuation: the stock is expensive at 9x 05E EV/EBITDA, 16x 05E P/E. However, we believe it deserves to be expensive owing to its low regulatory risk and excellent prospects for future growth. Our new target implies a 05E P/E of 17x.**
- **As we have said previously, we believe Terasen's TMX expansion is best positioned for new volumes out of the oil sands, which will eventually find a home in California and perhaps Asia. This is because Enbridge's (ENB.TO, C$51.60, NEUTRAL, TP C$50.00, MW) competing proposal will traverse northern British Columbia, where virtually none of the land is under treaty (many aboriginal land claims outstanding), presenting a high risk of the project proceeding.**
- **We note that rising steel costs will increase the $2.5 billion estimate of the TMX expansion – but if ROE remains constant, this is a positive (the more you spend, the more you make).**
- **The key risk we identify is the level of leverage at Terasen at 67% debt/cap versus Enbridge's debt/cap of 57%.**

Terasen is a diversified utility with oil pipelines, local gas distribution assets and water utilities.

research team

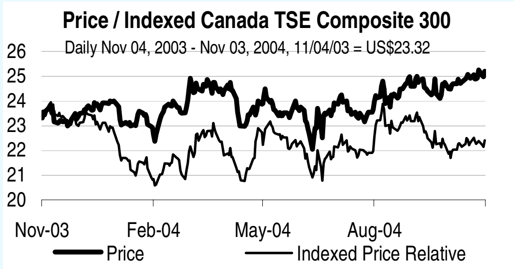
Dominique Barker, CA, CFA
416 352 4594
dominique.barker@csfb.com

Peter Best
416 352 4585
peter.best@csfb.com

Richelle Embree
416 352 4584
rrichelle.embree

Rating	**OUTPERFORM***
Price (03 Nov 04)	**25.20 (C$)**
Target price (12 months)	**26.50 (C$)**
52 week high - low	**25.25 - 22.05**
Market cap. (C$m)	**2 641.19**
Enterprise value (C$m)	**5 693.89**
Region / Country	**Americas / Canada**
Sector	**Pipelines**
Analyst's Coverage Universe	**Pipelines and Utilities**
Weighting (vs. broad market)	**MARKET WEIGHT**
Date	**04 November 2004**

**** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.***



On 11/03/04 the Canada TSE Composite 300 index closed at 8 841.35

Year	12/03A	12/04E	12/05E
EPS (CSFB adj., C$)	1.31	1.40	1.56
Prev. EPS (C$)			1.49
P/E (x)	19.2	18.0	16.1
P/E rel. (%)	91.9	113.2	121.3
Q1 EPS	0.71	0.76	0.84
Q2	0.08	0.09	0.10
Q3	-0.07	-0.03	-0.04
Q4	1.15	0.59	0.65

Number of shares (m)	104.81	IC (Current, C$m)	—
BV/Share (Current, C$)	14.13	EV/IC (x)	
Net Debt (Current, C$m)	3 052.7	Dividend (Current, C$m)	0.84
Net debt/Total cap. (Current)	67.5%	Dividend yield	3.3%

Year	12/03A	12/04E	12/05E
Revenues (C$m)	986.9	1 030.7	1 059.9
EBITDA (C$m)	569.7	618.7	647.9
OCFPS (C$)	5.63	2.88	2.71
P/OCF (x)	4.5	8.7	9.3
EV/EBITDA (x)	10.0	9.2	8.8
ROIC	—	10.8%	—

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

Investment Summary

Companies Mentioned *(Price as of 03 Nov 04)*

Terasen Inc (TER.TO, C$25.20, OUTPERFORM, TP C$25.00, MARKET WEIGHT)
Suncor Energy (SU.TO, C$40.85, NEUTRAL, TP C$40.00, OVERWEIGHT)
Enbridge Inc. (ENB.TO, C$51.60, NEUTRAL, TP C$50.00, MARKET WEIGHT)

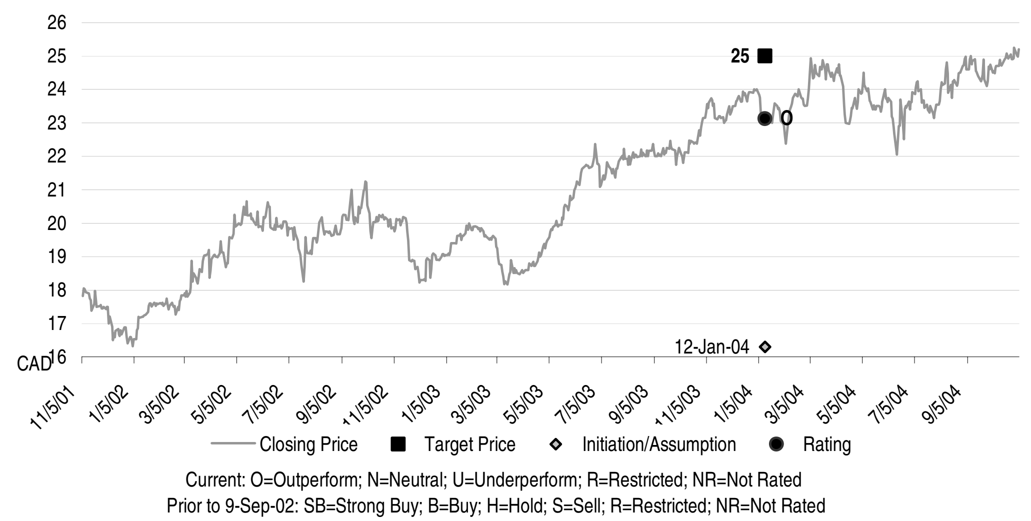
Disclosure Appendix

Important Global Disclosures

I, Dominique Barker, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TER.TO



TER.TO Date	Closing Price (CAD)	Target Price (CAD)	Rating	Initiation/ Assumption
12/01/2004	23.125	25	OUTPERFORM	X

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including CSFB's total revenues, a portion of which are generated by CSFB's investment banking activities.

Analysts' stock ratings are defined as follows:

Outperform: The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral: The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and CSFB HOLT Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional CSFB HOLT Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

Restricted: In certain circumstances, CSFB policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of CSFB's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward. All CSFB HOLT Small and Mid-Cap Advisor stocks are automatically rated volatile. All IPO stocks are automatically rated volatile within the first 12 months of trading.

Analysts' coverage universe weightings are defined as follows*:

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*****_CSFB HOLT Small and Mid-Cap Advisor stocks do not have coverage universe weightings._

CSFB's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Outperform/Buy*	39%	(57% banking clients)
Neutral/Hold*	43%	(56% banking clients)
Underperform/Sell*	17%	(48% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (TER.TO)

Method: Dividend yield versus the 10 year government of Canada forecast bond yield.

Risks: Rapid rise in the 10-year government of Canada bond yield.

See the Companies Mentioned section for full company names.

CSFB and/or its affiliates expect to receive or intend to seek investment banking related compensation from the subject company (TER.TO) within the next 3 months.

Important Canadian Disclosures

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with CSFB should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse First Boston Canada Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (TER.TO) within the past 12 months.

For disclosure information on other companies mentioned in this report, please visit the website at www.csfb.com/researchdisclosures or call +1 (877) 291-2683.

Disclaimers continue on next page.

CREDIT SUISSE | FIRST BOSTON

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse First Boston or its subsidiaries or affiliates (collectively "CSFB") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CSFB. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CSFB. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CSFB.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CSFB may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CSFB will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CSFB does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CSFB believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CSFB believes are reliable, but CSFB makes no representations as to their accuracy or completeness. Additional information is available upon request. CSFB accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CSFB. This report is not to be relied upon in substitution for the exercise of independent judgment. CSFB may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CSFB may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CSFB is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CSFB and its affiliate companies are involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading. CSFB may, to the extent permitted by law, act upon or use the information or opinions presented herein, or the research or analysis on which they are based, before the material is published.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CSFB and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to CSFB's own website material, CSFB has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CSFB's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CSFB's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse First Boston (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in the United States by Credit Suisse First Boston LLC; in Switzerland by Credit Suisse First Boston; in Canada by Credit Suisse First Boston Canada Inc.; in Brazil by Banco de Investimentos Credit Suisse Boston S.A.; in Japan by Credit Suisse First Boston Securities (Japan) Limited; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse First Boston (Hong Kong) Limited, Credit Suisse First Boston Australia Equities Limited, Credit Suisse First Boston (Thailand) Limited, CSFB Research (Malaysia) Sdn Bhd, Credit Suisse First Boston Singapore Branch and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse First Boston, Taipei Branch has been prepared by a registered Senior Business Person.

In jurisdictions where CSFB is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CSFB entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse First Boston LLC in the U.S.

Please note that this report was originally prepared and issued by CSFB for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CSFB should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

ASIA/PACIFIC: +852 2101-6000 **EUROPE: +44 (20) 7888-8888** **UNITED STATES OF AMERICA: +1 (212) 325-2000**

Merrill Lynch

Comment

Canada
Natural Gas-Pipelines

28 July 2005

Andrew C. Fairbanks
Research Analyst, MLPF&S
(1) 212 449-6697
andrew_fairbanks@ml.com

Kieran McCabe
Research Analyst, MLPF&S
(1) 212 449-0983

Terasen Inc.

Rebound in Oil Sands Volumes

NEUTRAL

Reason for Report: Earnings Commentary

Volatility Risk: LOW

Price: **C$31.64**

Estimates (Dec)	2004A	2005E	2006E
EPS:	$1.39	$1.48	$1.57
P/E:	22.8x	21.4x	20.2x
GAAP EPS:	$1.42	$1.54	$1.57
GAAP P/E:	22.3x	20.5x	20.2x
EPS Change (YoY):		6.5%	6.1%
Cash Flow/Share:	$2.94	$2.91	$2.82
Price/Cash Flow:	10.8x	10.9x	11.2x
Dividend Rate:	$0.76	$0.85	$0.90
Dividend Yield:	2.4%	2.7%	2.8%

Opinion & Financial Data

Investment Opinion:	A-2-7
Mkt. Value / Shares Outstanding (mn):	$3,353.8 / 106
Book Value/Share (Jun-2005):	$14.01
Price/Book Ratio:	2.3x
ROE 2005E Average:	10.6%
Total Debt / Capital:	67.9%
Est. 5 Year EPS Growth:	6.0%
Est. 5 Year Dividend Growth:	4.0%

Stock Data

52-Week Range:	C$31.20-C$23.10
Symbol / Exchange:	YTER / Toronto Stock Exchange
Institutional Ownership-Vickers:	NA

Highlights:

- ***TER reported clean seasonal operating earnings of C$25.6mm or C$0.24/share in 2Q05 compared to C$104.7mm or C$0.17/share in 2Q04.*** Including mark-to-market hedging gains of C$3.9mm (AT) related to natural gas derivatives at Clean Energy, earnings would be C$29.5mm or C$0.28/share.
- **Petroleum Transportation** earned C$20.9mm, up from C$16.2mm in 2Q04. Higher throughput on the Trans-Mountain mainline and Express System were the main reasons for the increase in earnings. TransMountain throughput on the Canadian mainline increased 8.3%.
- **Natural Gas Distribution** posted earnings of C$7.7mm compared to C$5.1mm in 2Q04. The segment was impacted by the lower allowable rate of return, which was partially offset by operating efficiencies at Terasen Gas.
- **Water and Utility Services earned** C$3.8mm compared to C$2.6mm in 2Q04. Growth in the base business and the contribution from TER's 50% interest in Fairbanks Sewer and Water Inc were the main reasons for the improvement in earnings year over year.
- **Other Activities** for 2Q05 posted a loss of C$2.9mm compared to a loss of C$6.0mm in the year ago period. Adjusting for a C$3.9mm AT hedging gain at Clean Energy (TER holds a 45.0% interest) the loss was C$6.8mm.
- ***No change to our 2005 EPS estimates of C$1.48 or our 2006 EPS estimate of C$1.57.***
- ***No change to our Neutral (A-2-7) opinion.***

Refer to important disclosures on pages 5 to 6. Analyst Certification on page 3.

*iQprofile*SM Terasen Inc.

Key Income Statement Data (Dec)	2003A	2004A	2005E	2006E	2007E
(CAD Millions)					
Sales	**1,877**	**1,957**	**1,811**	**1,906**	**1,887**
Gross Profit	NA	NA	NA	NA	NA
Sell General & Admin Expense	(314)	(303)	(302)	(321)	(296)
EBITDA	**508**	**539**	**563**	**613**	**588**
Depreciation & Amortization	(133)	(147)	(138)	(130)	(132)
Net Interest & Other Income	(168)	(167)	(171)	(171)	(168)
Tax Expense / Benefit	(59)	(69)	(91)	(101)	(93)
Net Income (Adjusted)	**138**	**147**	**157**	**166**	**156**
Average Fully Diluted Shares Outstanding	105	106	106	106	106
Key Cash Flow Statement Data					
Net Income (GAAP)	147	156	163	211	196
Depreciation & Amortization	133	147	138	130	132
Change in Working Capital	(23)	46	18	0	0
Deferred Taxation Charge	9	0	0	0	0
Other Adjustments, Net	0	0	0	0	0
Cash Flow from Operations	**268**	**349**	**318**	**341**	**327**
Capital Expenditure	(223)	(154)	(277)	(226)	(229)
(Acquisition) / Disposal of Investments	(207)	(58)	0	0	0
Other Cash Inflow (Outflow)	(2)	52	(3)	0	0
Cash Flow from Investing	**(432)**	**(160)**	**(280)**	**(226)**	**(229)**
Share Issue / (Repurchase)	10	15	6	0	0
Cost of Dividends Paid	(86)	(93)	(95)	(99)	(103)
Cash Flow from Financing	159	(163)	38	(70)	(53)
Net Debt	2,905	2,811	2,989	3,018	3,068
Change in Net Debt	**240**	**(111)**	**51**	**(16)**	**5**
Key Balance Sheet Data					
Property, Plant & Equipment	3,882	3,893	4,018	4,114	4,211
Other Non-Current Assets	456	482	509	509	509
Trade Receivables	404	349	280	280	280
Cash & Equivalents	2	20	92	92	92
Other Current Assets	171	228	243	243	243
Total Assets	**4,915**	**4,971**	**5,142**	**5,238**	**5,335**
Long-Term Debt	2,301	2,167	2,091	2,121	2,170
Other Non-Current Liabilities	170	209	227	227	228
Short-Term Debt	606	665	989	989	989
Other Current Liabilities	408	434	382	382	382
Total Liabilities	3,486	3,475	3,690	3,720	3,770
Total Equity	1,430	1,496	1,451	1,518	1,566
Total Equity & Liabilities	**4,915**	**4,971**	**5,142**	**5,238**	**5,335**
***iQmethod*SM – Business Performance**					
Return On Capital Employed	6.3%	6.2%	6.0%	7.0%	6.5%
Return On Equity	9.9%	10.0%	10.6%	11.2%	10.1%
Operating Margin	20.0%	20.0%	23.5%	25.3%	24.2%
Free Cash Flow	45	195	41	115	98
***iQmethod*SM – Quality of Earnings**					
Cash Realization Ratio	1.9x	2.4x	2.0x	2.1x	2.1x
Asset Replacement Ratio	1.7x	1.0x	2.0x	1.7x	1.7x
Tax Rate	28.6%	30.7%	36.0%	32.3%	32.2%
Net Debt-to-Equity Ratio	203.2%	187.9%	206.0%	198.8%	196.0%
Interest Cover	2.1x	2.4x	2.5x	2.8x	2.7x

*iQmethod*SM

iQmethod is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and Valuation.

The key features of ***iQmethod*** are:

- A consistently structured, detailed, and transparent methodology.
- Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

*iQdatabase*SM

The ***iQdatabase*** is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

iQprofile, ***iQmethod***, ***iQdatabase*** are service marks of Merrill Lynch & Co., Inc.

*iQmethod*SM Measures Definitions

Business Performance	
Return On Capital Employed =	[NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization] / [Avg (Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization)]
Return On Equity =	[Net Income] / [Avg Shareholders' Equity]
Operating Margin =	[Operating Profit] / [Sales]
Earnings Growth =	[Expected 5-Year CAGR From Latest Actual] or the analysts' estimate of the sustainable growth rate
Free Cash Flow =	[Cash Flow From Operations – Total Capex]
Quality of Earnings	
Cash Realization Ratio =	[Cash Flow From Operations] / [Net Income]
Asset Replacement Ratio =	[Capex] / [Depreciation]
Tax Rate =	[Tax Charge] / [Pre-Tax Income]
Net Debt-To-Equity Ratio =	[Net Debt = Total Debt, Less Cash & Equiv] / [Total Equity]
Interest Cover =	[EBIT] / [Interest Expense]
Valuation	
Price / Book Value =	[Current Sh Price] / [Shareholders' Equity / Current Basic Sh]
Dividend Yield =	[Annualized Declared Cash Div] / [Current Sh Price]

2Q05 Results

TER reported clean seasonal operating earnings of C$25.6mm or C$0.24/share in 2Q05 compared to C$104.7mm or C$0.17/share in 2Q04. Including mark-to-market hedging gains of C$3.9mm (AT) related to natural gas derivatives at Clean Energy, earnings would be C$29.5mm or C$0.28/share.

Operating income in Petroleum transportation rose from the year ago period as volumes on the TransMountain pipeline returned to full capacity. In addition, the capacity expansion at the Express system also impacted results positively. Natural gas distribution results were also higher compared to the year ago period as operating efficiencies and customer growth at Terasen Gas offset a lower allowed rate of return on equity in 2005. Operating income at Water and Utility Services increased by C$1.2mm from continued growth in the base waterworks and the contribution from Fairbanks Sewer & Water (50% interest).

TER's Board of Directors declared a regular common dividend per share of C$0.225 per quarter (annual dividend of C$0.90/share).

Management indicated on its conference call that the company remains comfortable with an earnings growth rate of 6% in 2005.

Segment Breakdown

Petroleum Transportation earned C$20.9mm, up from C$16.2mm in 2Q04. Higher throughput on the Trans-Mountain mainline and Express System were the main reasons for the increase in earnings. TransMountain throughput on the Canadian mainline increased 8.3%.

The Express System contributed C$7.6mm in 2Q05 compared to C$3.2mm in 2Q04.

Natural Gas Distribution posted earnings of C$7.7mm compared to C$5.1mm in 2Q04. The segment was impacted by the lower allowable rate of return, which was partially offset by operating efficiencies at Terasen Gas.

Water and Utility Services earned C$3.8mm compared to C$2.6mm in 2Q04. Growth in the base business and the contribution from TER's 50% interest in Fairbanks Sewer and Water Inc (FSW – no relation to the analyst) were the main reasons for the improvement in earnings year over year.

Other Activities for 2Q05 posted a loss of C$2.9mm compared to a loss of C$6.0mm in the year ago period. Adjusting for a C$3.9mm AT hedging gain at Clean Energy (TER holds a 45.0% interest) the loss was C$6.8mm.

Key Developments

■ Vancouver Island Gas Supply

On February 16, 2005, the BCUC approved the C$100mm LNG storage facility at Vancouver Island. The decision was subject to several conditions including the execution of a long-term Transportation Service Agreement (TSA) with BC Hydro backed by the capacity demand requirements of the Duke Point Power project. On June 17th, BC Hydro decided to abandon the Duke Point Power project on Vancouver Island. As a result, TER believes the TGVI's proposed storage facility has been delayed. TER plans to re-file the project with the BCUC later this year as it believes there is strong customer demand growth that will support the expansion of the natural gas distribution system, including the LNG storage facility.

■ Corridor Expansion

TER is working with Shell Canada and its AOSP partners. TER expects to begin engineering, environmental and consultation activities on the project soon. TER plans to file an application for the Corridor Pipeline Expansion Project with the AEUB and Alberta Environment in the fall of 2005. Pending regulatory approval, TER hopes to begin construction in late 2006.

■ TMX

TER continues to progress with work on the TMX expansion. The company filed an application in July with the National Energy Board (NEB) for the pump station expansion. This expansion would increase capacity to 260,000 b/d from 225,000 b/d at a cost of C$210mm. TER expects to hold an open season later this summer for the Anchor Loop Project (a 30-inch pipeline loop between Hinton, Alberta and Valemount, BC at a cost of C$365mm).

Investment Summary

No change to our 2005 EPS estimates of C$1.48 or our 2006 EPS estimate of C$1.57.

No change to our Neutral opinion. Nonetheless, we very much like the strategy, assets, and management of the company. While we like TER's current dividend yield of 3%, low risk business model, strategy, and disciplined corporate culture, we regard the shares as being close to fairly valued. TER has generated a strong, steady long-term track record of EPS and dividend growth.

Analyst Certification

I, Andrew Fairbanks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Chart 1: Terasen Summary Earnings Model

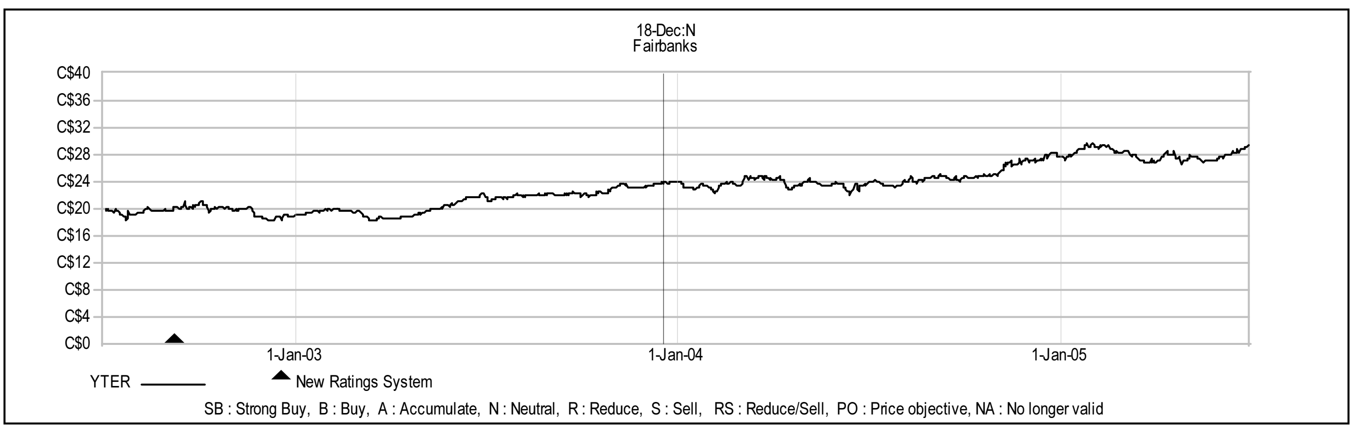
Earnings, AT C$mn	1997	1998	1999	2000	2001	2002	2003	2004	2005E	2006E
Natural Gas Transmission	45	52	52	59	68	92	99	96	103	106
Petroleum Transportation	20	23	20	22	27	29	56	71	73	79
Other	(0)	(4)	3	(2)	(11)	(12)	(17)	(20)	(19)	(20)
Sub-Total	**65**	**71**	**74**	**79**	**85**	**110**	**138**	**147**	**156**	**166**
Special Adjustments	(14)	-	7	30	-	(4)	(5)	3	7	
Total	**51**	**71**	**81**	**109**	**85**	**106**	**133**	**150**	**163**	**166**
EPS (Continuing Diluted)	**0.81**	**0.92**	**0.97**	**1.03**	**1.10**	**1.26**	**1.31**	**1.39**	**1.48**	**1.57**
Special Items	(0.18)	-	0.09	0.39	-	(0.05)	(0.05)	0.03	0.07	
EPS (Reported Diluted)	**0.63**	**0.92**	**1.06**	**1.42**	**1.10**	**1.21**	**1.26**	**1.42**	**1.54**	**1.57**
Shares O/S - FD	80	77	77	77	77	87	105	106	106	106
Divends per Share	**0.49**	**0.55**	**0.58**	**0.61**	**0.65**	**0.69**	**0.76**	**0.85**	**0.90**	**0.90**

Cash Flow	1997	1998	1999	2000	2001	2002	2003	2004	2005E	2006E
Net Income (bef Capital Sec)	51	71	81	113	91	113	139	156	167	166
DD&A	78	85	83	86	95	116	133	147	138	130
Deferred Taxes	(7)	1	10	(18)	10	11	9	(1)	0	0
Other	-	(1)	0	(4)	(1)	5	8	8	3	-
Cash Flow (fr. Ops.)	**122**	**156**	**174**	**176**	**195**	**244**	**290**	**311**	**308**	**295**
Net Acquis/sales	21	(3)	(21)	28	(15)	315	209	6	3	-
PP&E Spending	130	129	164	621	470	396	223	154	277	226
Capital Spending	151	126	142	648	455	711	432	160	280	226
Dividends	39	42	45	51	56	67	86	93	95	99
Free Cash Flow	**(68)**	**(11)**	**(13)**	**(523)**	**(316)**	**(533)**	**(228)**	**57**	**(67)**	**(29)**
Op. CFPS (Diluted)	1.52	2.03	2.28	2.30	2.54	2.80	2.76	2.94	2.91	2.79
EBITDA	375	398	416	452	523	611	673	769	805	881
EBITDA/Net Interest Expense	3.3x	3.3x	3.4x	3.8x	3.5x	3.8x	3.8x	4.6x	4.7x	5.2x
Net Debt	1,467	1,581	1,525	1,999	2,455	2,667	2,905	2,811	2,989	3,018
Net Debt/ Total Cap	71.4%	72.8%	70.7%	70.6%	74.5%	66.1%	67.0%	65.0%	66.0%	65.2%
Effective Tax Rate (%)	46.7%	45.3%	36.3%	7.1%	38.1%	36.0%	34.0%	30.7%	36.0%	32.3%
Return on Avg. Equity	11.1%	12.1%	12.2%	11.0%	10.3%	10.0%	9.9%	10.0%	10.8%	11.2%
ROACE (%) - oper Income	8.7%	9.1%	9.0%	7.9%	7.6%	7.4%	7.5%	7.2%	7.4%	7.3%

Source: Company reports and Merrill Lynch estimates

Important Disclosures

YTER Price Chart



From 8 Dec. 2001 to 6 Sep. 2002, the Investment Opinion System included: Strong Buy, Buy, Neutral, and Reduce/Sell. On 6 Sep. 2002, Strong Buy and Buy ratings became Buy, and Reduce/Sell became Sell. Any exceptions to these rating revisions are reflected in the chart. All price objectives for Neutral and Sell rated securities established before 6 Sep. 2002 were eliminated as of that date. The current Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of June 30, 2005.

Investment Rating Distribution: Energy Group (as of 30 June 2005)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	60	44.12%	Buy	20	33.33%
Neutral	72	52.94%	Neutral	21	29.17%
Sell	4	2.94%	Sell	0	0.00%

Investment Rating Distribution: Global Group (as of 30 June 2005)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1089	40.91%	Buy	359	32.97%
Neutral	1378	51.77%	Neutral	404	29.32%
Sell	195	7.33%	Sell	36	18.46%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. INVESTMENT RATINGS, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Terasen Inc.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

Officers of MLPF&S or one of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

UK readers: MLPFS or an affiliate is a liquidity provider for the securities discussed in this report. Merrill Lynch Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

Information relating to Non-US affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S): MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch Dublin (Frankfurt Branch): Merrill Lynch CMB Ltd, Dublin, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch Capital Markets Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Brazil): Banco Merrill Lynch de Investimentos SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Taiwan Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (Israel): Merrill Lynch Israel Limited.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-US affiliates. MLPF&S is the distributor of this research report in the US and accepts full responsibility for research reports of its non-US affiliates distributed in the US. Any US person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates. This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Australia by Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), licensed under the Australian Corporations Act, AFSL No 235132; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; and is distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No. 198602883D), which are regulated by the Monetary Authority of Singapore. No approval is required for publication or distribution of this report in Brazil.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

1 August 2005

Andrew C. Fairbanks
Research Analyst, MLPF&S
(1) 212 449-6697
andrew_fairbanks@ml.com

Kieran McCabe
Research Analyst, MLPF&S
(1) 212 449-0983

Terasen Inc.

Kinder Morgan Agrees to Buy TER; Change to "No Opinion"

NO RATING

Reason for Report: Change to No Opinion

Company

YTER; C$31.40; A-2-7 to 6

EPS (Dec): 2004A C$1.39; 2005E C$1.48; 2006E C$1.57
P/E (Dec): 2004A 22.6x; 2005E 21.2x; 2006E 20.0x

GAAP EPS (Dec): 2004A C$1.42; 2005E C$1.54; 2006E C$1.57
GAAP P/E (Dec): 2004A 22.1x; 2005E 20.4x; 2006E 20.0x

Event

Kinder Morgan (KMI) announced that it will acquire Terasen for a total purchase price, including the assumption of debt, of approximately US$5.6 billion (C$6.9 billion). The transaction has been approved by the Board of Directors of Terasen and Kinder Morgan as well as a special committee of independent directors created by the Terasen board to oversee the process.

The transaction requires the approval of 75% of Terasen shareholders who will vote at a special meeting to be held on or before October 31, 2005. For each TER share, Terasen shareholders will be able to elect from three options: 1) C$35.75 in cash, 2) 0.3331 share of KMI common stock, or 3) C$23.25 in cash plus 0.1165 shares of KMI common stock. There will be a conference call to discuss the transaction by Kinder Morgan at 8:30 am ET and Terasen at 10:00 AM ET.

Analysis

The prorated value of the offer is C$35.91 per TER share based on KMI's share price and C$/US$ exchange rates as of July 29th, representing a premium of 14% over Friday's closing price of TER's shares. The offer valuation equates to 24 times our prior 2005 EPS estimates and 23x our old 2006 EPS.

Recommendation

Based on today's announcement, we believe that the stock is no longer trading on equity fundamentals. Therefore, we are changing our investment opinion on the stock to a 6 (No Rating).

Investors should no longer rely on Merrill Lynch's prior estimates or ratings.

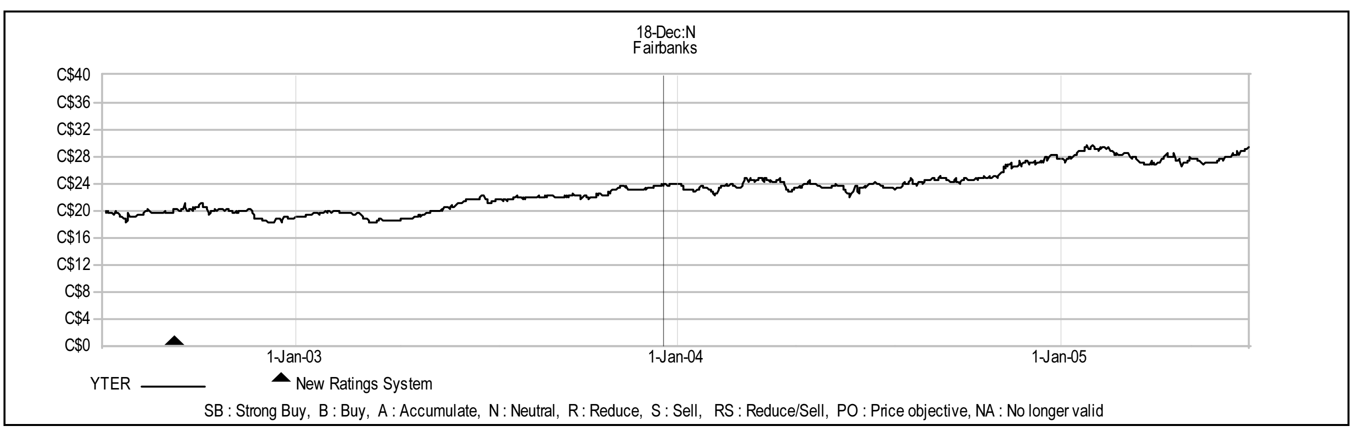
Refer to important disclosures on pages 3 to 4. Analyst Certification on page 2.

Analyst Certification

I, Andrew Fairbanks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Important Disclosures

YTER Price Chart



From 8 Dec. 2001 to 6 Sep. 2002, the Investment Opinion System included: Strong Buy, Buy, Neutral, and Reduce/Sell. On 6 Sep. 2002, Strong Buy and Buy ratings became Buy, and Reduce/Sell became Sell. Any exceptions to these rating revisions are reflected in the chart. All price objectives for Neutral and Sell rated securities established before 6 Sep. 2002 were eliminated as of that date. The current Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn.   Chart current as of June 30, 2005.

Investment Rating Distribution: Energy Group (as of 30 June 2005)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	60	44.12%	Buy	20	33.33%
Neutral	72	52.94%	Neutral	21	29.17%
Sell	4	2.94%	Sell	0	0.00%

Investment Rating Distribution: Global Group (as of 30 June 2005)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1089	40.91%	Buy	359	32.97%
Neutral	1378	51.77%	Neutral	404	29.32%
Sell	195	7.33%	Sell	36	18.46%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. INVESTMENT RATINGS, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Terasen Inc.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

Officers of MLPF&S or one of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

UK readers: MLPFS or an affiliate is a liquidity provider for the securities discussed in this report. Merrill Lynch Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

Information relating to Non-US affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S): MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch Dublin (Frankfurt Branch): Merrill Lynch CMB Ltd, Dublin, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch Capital Markets Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Brazil): Banco Merrill Lynch de Investimentos SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Taiwan Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (Israel): Merrill Lynch Israel Limited.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-US affiliates. MLPF&S is the distributor of this research report in the US and accepts full responsibility for research reports of its non-US affiliates distributed in the US. Any US person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates. This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Australia by Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), licensed under the Australian Corporations Act, AFSL No 235132; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; and is distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No. 198602883D), which are regulated by the Monetary Authority of Singapore. No approval is required for publication or distribution of this report in Brazil.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

NATIONAL BANK FINANCIAL

July 29, 2004

The NBF Daily Bulletin
Gas Utilities

Terasen Inc.

Q2 2004 Consistent With Expectation

Petroleum Transportation Business Continues To Shine

TER (T)	**Cdn$23.44**
Stock Rating:	**Underperform** (Unchanged)
Target:	**Cdn$22.75** (Was $22.40)
Risk Rating:	**Average** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$21.75 - $24.93
Bloomberg/Reuters: Canada	TER CN / TER.TO

(Year-End Dec 31)	2003a	2004e	2005e
EPS	$1.31	$1.42	$1.51
P/E	18.3x	16.6x	15.6x
EPS Change Y/Y		8.0%	6.4%
Book Value	$12.53	$13.10	$13.77
P/BV	1.9x	1.8x	1.7x
Dividend	$0.78	$0.84	$0.84
Dividend Yield	3.3%	3.6%	3.6%

Financial Data:	
Mkt. Value / Shares Outstanding (mln)	104.8
Book Value per Share	$13.00
Market Capitalization (mln)	$2 456
Price/Book Ratio	1.8x
Debt/Total Cap.	65%
Dividend per share	$0.84
Dividend Yield	3.58%

Industry Rating: Underweight
(NBF Economics & Strategy Group)

Company Profile:
TER is a holding company and its largest investment is Terasen Gas, British Columbia's largest diversified natural gas distributor. It also owns Terasen Gas-Vancouver Island (TGVI). TER also controls Terasen Pipelines-Trans Mountain (TM), Canada's second-largest petroleum pipeline. TER entered gas transmission in British Columbia in November 2000, and on May 1, 2003 began commercial shipping on the Corridor Pipeline for Shell Canada.

Winfried Fruehauf, PH.D. - (416) 869-7932
winfried.fruehauf@nbfinancial.com

Associate: Ramin Burney - (416) 869-7933
ramin.burney@nbfinancial.com

HIGHLIGHTS

- **Q2 2004 reported earnings: $10.6 million or $0.10 per share versus (vs.) $8.2 million or $0.08 per share in Q2 2003.** EPS equalled our estimate but were below consensus of $0.12.

- **Petroleum transportation division once again lead the y/y earnings improvement. It contributed earnings of $16.2 million or $0.15 per share vs. $12.2 million or $0.12 per share y/y.** High levels of throughput continued at Trans Mountain Pipe Line (TMP), and both the Express System (ES) and Corridor Pipeline (CP) provided good earnings contributions.

- **Gas distribution was, as usual, a seasonal "flatliner".** It incurred a loss of $2.2 million vs. a loss of $2.5 million in Q2 2003.

- **A final decision on Phase 1 (100,000 b/d) of the proposed three-phase, $2.1-billion TMX Project (looping of TMP) is scheduled for sometime in early 2005, with a potential in-service date of 2008.**

Stock Performance

Assessment

TER's diversified investments are adding a layer of growth to its relatively mature gas distribution business. Expansion of Trans Mountain Pipe Line's (TMP) mainline capacity by September 2004, new transportation contracts on the Express System (ES), and potential improvements of its water and utility services business will strengthen TER's 2004 and 2005 earnings. But, an encore to strong earnings growth, experienced in 2003 and to follow, to a degree, in 2004, is not in the cards, unless and until TER is able to make significant and accretive brownfield acquisitions on very favourable terms.

We view TER's common share prices as still over-priced relative to share prices of Canadian pipelines and utilities, notably Enbridge Inc. (TSX/NYSE-ENB). **Our Underperform rating is sustained.**

Second-Quarter 2004 Highlights

Q2 2004 reported earnings: $10.6 million or $0.10 per share vs. $8.2 million or $0.08 per share y/y. The petroleum transportation division once again lead the y/y earnings improvement. It contributed $16.2 million or $0.15 per share vs. $12.2 million or $0.12 per share y/y due to high levels of throughput at Trans Mountain Pipe Line (TMP), and good earnings contributions from Express System (ES) and Corridor Pipeline (CP).

TER's Q2 2004 EPS were consistent with our estimate but $0.02 lower than consensus. Our estimated EPS for 2004 and 2005 remain at $1.42 and $1.51 respectively.

Segmented Reported Earnings ($mln)	Q2 2004	Q2 2003
Natural Gas Distribution	$(8.5)	$(8.3)
Petroleum Transportation	$16.2	$12.2
Water and Utility Services	$2.6	$2.1
Other Activities	$(6.0)	$(3.6)
Earnings applicable to common shares	**$10.6**	**$8.2**
Source: Terasen Inc.		

Natural Gas Distribution

- **Q2 2004 natural gas distribution earnings: Loss of $2.2 million vs. a loss of $2.5 million in Q2 2003.** Terasen Gas (TG) and Terasen Gas-Vancouver Island (TGVI) usually incur losses in the second and third quarters of the year and generate earnings in the first and fourth quarters. Revenues fell to $248.1 million in Q2 2004 from $299.2 million, as the cost of natural gas declined in step with revenues as a result of lower consumption due to the weather being warmer than average.
- During the quarter, the British Colombia Utilities Commission (BCUC) approved a commodity price increase for TG due to the increase in the commodity cost of gas. Operations and maintenance expenses were $1.6 million higher y/y due to increased operating costs such as insurance and pipeline maintenance expense. This was partly offset by efficiencies from the operational integration of Terasen Gas (TG) and Terasen Gas-Vancouver Island (TGVI). This, in turn, offset the lower allowed ROE for 2004 and the introduction of the 50/50 over-earnings incentive sharing mechanism which arose from the PBR settlement that came into effect on Jan. 1, 2004. TG is allowed to earn for 2004 9.15% (vs. 9.42% in 2003) on the common-equity component of rate base (CECRB) and TGVI 9.65% (vs. 9.92% in 2003). In 2003, TG was able to claim 100% of efficiency gains.

Petroleum Transportation

- **Q2 2004 petroleum transportation earnings: $16.2 million vs. $12.2 million y/y.** This y/y improvement resulted mostly from the result start-up of commercial operations at Corridor Pipeline (CP) on May 1, 2003, strong throughput from TMP and good y/y earnings improvement at Express System (ES).

- **TMP's Q2 2004 earnings decreased to $9 million from $9.6 million a year ago, reflecting toll reductions.** TMP experienced high levels of throughput on both the Canadian and U.S. mainline sections (Cdn. Mainline 223,500 barrels per day [b/d] vs. 210,600; U.S. Mainline 97,400 b/d vs. 55,300). A 27,000 b/d expansion of TMP ($17 million estimated cost) is in progress, and is scheduled to enter service by late 2004.
- **The Express System (ES) contributed $3.2 million vs. a loss of $0.3 million y/y.** Throughput was up slightly to 176,200 b/d from 167,300 b/d a year ago. A foreign exchange hedging transaction placed in late 2003 has been able to reduce earnings volatility on ES. Expansion of ES is on target for an in-service date of end of Q1 2005. Total system capacity will increase by 108,000 b/d to 280,000 b/d at a cost of about US$109 million.
- A final decision on Phase 1 (100,000 b/d) of the proposed three-phase, $2.1-billion **TMX Project** (looping of TMP) is scheduled for sometime in early 2005, with a potential in-service date of 2008. As previously mentioned, neither TMX nor the proposed **Bison Pipeline Project** (crude oil pipeline from Athabasca to Edmonton) represent "cake walks." For either project to succeed, TER will have to out-muscle Enbridge. **None of TER's potential expansion projects will contribute to earnings in 2004 or 2005.**

Water and Utility Services

- **Q2 2004 water and utilities services earnings:** $2.6 million vs. $2.1 million y/y. Earnings from this segment are typically stronger in the second and third quarters, and are weaker in first and fourth quarters reflecting seasonal patterns of new construction.
- On April 20, 2004, TER announced that it had entered into an agreement to acquire a 50% interest in Fairbanks Sewer and Water Inc. (FSW) for US$30 million. FSW provides water and wastewater treatment and water distribution services to the city of Fairbanks, Alaska. TER has an option to acquire the remaining 50% interest at fair market value in 2009. The transaction has received regulatory approval and is expected to close on July 30, 2004.

Other Activities

- **Other Activities** (including Terasen International, TER's 44.6% interest in Clean Energy, and corporate interest and administration charges), lost **$6.0 million in Q2 2004 vs. a loss of $3.6 million y/y.** This quarter's higher loss was due to increased corporate and financing costs, partly offset by a $2.3 million (after-tax) mark-to-market gain at Clean Energy from its natural gas derivatives.

Financial and Outlook

- **Capital Spending**: Q2 2004 $31.8 million vs. $62.2 million in Q2 2003 when there were Corridor Pipeline (CP) expenditures. Capital spending is estimated at about $100 million for f2004.
- **Funds From Operations**: Q2 2004: $48.7 million vs. $56.9 million y/y.
- **EPS guidance for 2004 is in the high $1.30s**, and EPS growth is forecast at 6% minimum. Dividend yield is expected to be in the mid-3% range.

Valuation

For the 12-month period ending June 2006, we are estimating EPS of $1.58; DPS of $0.96, retained EPS of $0.62, a retained EPS multiple of 10x, and a nominal long-term corporate bond yield of 7.25% (vs. 7.00% previously), tax-effected to 5.80%. The support price is $16.55 and the residual price is $6.20, for a target price of $22.75.

DISCLOSURES:

Ratings And What They Mean:

PRIMARY STOCK RATING: NBF has a three-tiered rating system that is relative to the coverage universe of the particular analyst. Here is a brief description of each: **Outperform –** The stock is expected to outperform the analyst's coverage universe over the next 12 months; **Sector Perform –** The stock is projected to perform in line with the sector over the next 12 months; **Underperform –** The stock is expected to underperform the sector over the next 12 months.

SECONDARY STOCK RATING: Under Review – Our analyst has withdrawn the rating because of insufficient information and is awaiting more information and/or clarification; **Tender** – Our analyst is recommending that investors tender to a specific offering for the company's stock; **Restricted** – Because of ongoing investment banking transactions or because of other circumstances, NBF policy and/or laws or regulations preclude our analyst from rating a company's stock.

INDUSTRY RATING: NBF has an Industry Weighting system that reflects the view of our Economics & Strategy Group, using its sector rotation strategy. The three tiered system rates industries as **Overweight**, **Market Weight** and **Underweight**, depending on the sector's projected performance against broader market averages over the next 12 months.

RISK RATING: NBF utilizes a four-tiered risk rating system, **Low**, **Average**, **Above Average** and **Speculative**. The system attempts to evaluate risk against the overall market. In addition to sector-specific criteria, analysts also utilize quantitative and qualitative criteria in choosing a rating. The criteria include predictability of financial results, share price volatility, credit ratings, share liquidity and balance sheet quality.

General

National Bank Financial (NBF) is an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on Canadian stock exchanges.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein**.**

Research Analysts

The Research Analyst(s) who prepare these reports certify that their respective report accurately reflects his or her personal opinion and that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views as to the securities or companies.

NBF compensates its Research Analysts from a variety of sources. The Research Department is a cost centre and is funded by the business activities of NBF including, Institutional Equity Sales and Trading, Retail Sales, the correspondent clearing business, and Corporate and Investment Banking. Since the revenues from these businesses vary, the funds for research compensation vary. No one-business line has a greater influence than any other for Research Analyst compensation.

Canadian Residents

In respect of the distribution of this report in Canada, NBF accepts responsibility for its contents. To make further inquiry related to this report, Canadian residents should contact their NBF professional representative. To effect any transaction, Canadian residents should contact their NBF Investment advisor.

U.S. Residents

NBF Securities (USA) Corp., an affiliate of NBF, accepts responsibility for the contents of this report, subject to any terms set out above. Any U.S. person wishing to effect transactions in any security discussed herein should do so only through NBF Securities (USA) Corp.

UK Residents

In respect of the distribution of this report to UK residents, NBF has approved this financial promotion for the purposes of Section 21(1) of the Financial Services and Markets Act 2000. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant securities or related financial instruments discussed in this report, or may act or have acted as investment and/or commercial banker with respect thereto. The value of investments can go down as well as up. Past performance will not necessarily be repeated in the future. The investments contained in this report are not available to private customers. This report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to non-private customers in the United Kingdom within the meaning of the rules of the Regulated by the Financial Services Authority.

Copyright

ADDITIONAL COMPANY RELATED DISCLOSURES

In the past 12 months NBF has not acted as financial advisor, fiscal agent or underwriter for the company that is the subject of this report. NBF may act in such a capacity in the future and receive, or expect to receive, compensation for such activities.

NBF is an indirect wholly owned subsidiary of the National Bank of Canada. From time to time the National Bank of Canada may enter into lending or financial arrangements with companies that are the subject of NBF Research Reports. At the date of this report, National Bank of Canada is not a lender to the company which is the subject of this report.

NBF and/or its Affiliates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. On the last day of the month preceding the date of this report, NBF and its Affiliates held in the aggregate less then 1% of the outstanding shares (of any class of equity securities) of this issuer.

February 18, 2005

The NBF Daily Bulletin
Gas Utilities

Terasen Inc.

2004 Results a Penny Higher Than Expected

Petroleum Transportation Leads Y/Y Growth

TER (T)	**Cdn$29.34**
Stock Rating:	**Underperform** (Unchanged)
Target:	**Cdn$24.50** (Was $24.15)
Risk Rating:	**Average** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$22.05 - $29.71
Bloomberg/Reuters: Canada	TER CN / TER.TO

(Year-End Dec 31)	2004a	2005e	2006e
EPS	$1.43	$1.51	$1.58
P/E	19.4x	19.4x	18.6x
EPS Change Y/Y	9.2%	5.6%	4.6%
Book Value	$13.04	$13.65	$14.33
P/BV	2.1x	2.1x	2.0x
Dividend Yield	3.0%	3.1%	3.1%

Financial Data:	
Shares Outstanding (mln)	105.2
Book Value per Share	$13.04
Market Capitalization (mln)	$3 086
Price/Book Ratio	2.3x
Debt/Total Cap.	65%
Dividend per share	$0.90
Dividend Yield	3.07%

Industry Rating: Underweight
(NBF Economics & Strategy Group)

Company Profile:
TER is a holding company and its largest investment is Terasen Gas (TG), British Columbia's largest diversified natural gas distributor. It also owns Terasen Gas-Vancouver Island (TGVI). TER also controls Terasen Pipelines-Trans Mountain (TMP), Canada's second-largest petroleum pipeline. TER entered gas transmission in British Columbia in November 2000, and on May 1, 2003 began commercial shipping on the Corridor Pipeline (CP) for Shell Canada.

Winfried Fruehauf, PHD - (416) 869-7932
winfried.fruehauf@nbfinancial.com

Associate: Ramin Burney - (416) 869-7933
ramin.burney@nbfinancial.com

HIGHLIGHTS

- **Q4 2004 reported earnings:**
  $53.9 million or $0.51 per share vs. $50.9 million or $0.49 per share year-over-year (y/y). For 2004, earnings increased to $149.8 million or $1.43 per share vs. $136.1 million or $1.31 per share y/y. **2004 EPS were $0.01 higher than our estimate.**

- **Earnings from Natural Gas Distribution declined y/y…**
  …as a result of lower allowed RROE for both Terasen Gas (TG) and Terasen Gas-Vancouver Island (TGVI), which more than offset operating efficiencies achieved from the integration of their operations.

- **Petroleum Transportation, and Water and Utility Services businesses contributed y/y earnings improvements of 26% and 61%, respectively.**
  High levels of throughput continued at Trans Mountain Pipe Line (TMP) and at the Express System (ES), while Corridor Pipeline (CP) contributed a full year of solid earnings.

- **TER's Board of Directors approved a 7.1% increase in the quarterly common share dividend to $0.225 from $0.21 per share.**

- **We have raised our target price slightly to $24.50 from $24.15 but…**
  …still believe that TER is over-priced relative to its peers and its own dividend and earnings metrics. Hence, our Underperform rating is sustained.

Stock Performance

Assessment

TER's diversified investments have been able to supplement earnings from its relatively mature gas distribution business. The recent expansion of Trans Mountain Pipe Line's (TMP) mainline capacity and the expected completion of the Express System (ES) expansion by April 2005, as well as potential improvements in its water and utility services business will provide some earnings growth in 2005. But earnings growth beyond 2005, will hinge on the success of TER's planned petroleum-pipeline projects that will most surely encounter stiff competition from the likes of Enbridge Inc. (TSX; NYSE-ENB) and possibly TransCanada Corp. (TSX; NYSE-TRP).

We continue to view TER's common share prices as quite over-priced relative to share prices of Canadian pipelines and utilities. **Our Underperform rating is sustained.**

Fourth-Quarter 2004 Highlights

Q4 2004 reported earnings: $53.9 million or $0.51 per share vs. $50.9 million or $0.49 per share y/y. Earnings from Petroleum Transportation, and from Water and Utility Services improved y/y, while Natural Gas Distribution posted lower earnings y/y.

Segmented Reported Earnings ($mln)	Q4 2004	Q4 2003
Natural Gas Distribution	$42.6	$44.8
Petroleum Transportation	$19.9	$17.9
Water and Utility Services	$0.7	$0.4
Other Activities	$(9.3)	$(8.8)
Earnings applicable to common shares	**$53.9**	**$50.9**
Source: Terasen Inc.		

Natural Gas Distribution

- **Q4 2004 natural gas distribution earnings: Earnings of $42.6 million vs. $44.8 million y/y.** In 2004, earnings decreased to $95.9 million from $98.8 million in 2003. Earnings were negatively impacted by the lower allowed RROE for 2004 for Terasen Gas (TG) (9.15% vs. 9.42% in 2003) and Terasen Gas-Vancouver Island (TGVI) (9.65% vs. 9.92% in 2003), and the introduction of the 50/50 over-earnings incentive sharing mechanism which arose from the PBR settlement that came into effect on Jan. 1, 2004. This more than offset $4.1 million of operating efficiencies achieved from the integration of TG and TGVI operations. For 2005, the allowed RROE for TG is 9.03%, and TGVI is 9.53%.

- Starting in Q4 2004, Terasen Gas' income tax expense was determined by applying the effective annual tax rate to the pre-tax income in the quarter as opposed to the previous method of allocating annual tax expense based on budgeted sales revenue for the four quarters. Earnings for every quarter of 2004 were restated but the change had no impact on the total 2004 fiscal year results.

- On Feb. 16, 2005, the British Columbia Utilities Commission (BCUC) approved TGVI's proposed $100 million LNG storage facility (1 bcf of natural gas-equivalent capacity) near Nanaimo, B.C. The approval is subject to various conditions including the execution of a long-term Transportation Service Agreement (TSA) with B.C. Hydro which yesterday received BCUC approval to enter into an energy purchase contract with developers of a 262-MW electricity plant in the same area. However, construction of the LNG facility or the electricity plant is not assured.

Petroleum Transportation

- **Q4 2004 petroleum transportation earnings: $19.9 million vs. $17.9 million y/y.** For 2004, earnings jumped to $70.9 million from $56.2 million in 2003. The y/y improvement resulted due to high levels of throughput at Trans Mountain Pipe Line (TMP) and the Express System (ES), and a full year contribution from the Corridor Pipeline (CP).

- **TMP's Q4 2004 earnings increased to $11.2 million from $10 million y/y.** For 2004, earnings were $39.4 million vs. $35.8 million. The y/y improvement was due to throughput increases of 9% on the Canadian mainline (236,100 barrels per day [b/d] vs. 216,100) and 68% on the U.S. mainline (91,700 b/d vs. 54,600), as well as lower operating and maintenance costs. A 27,000 b/d expansion of TMP ($19 million cost) was completed in early October 2004.
- **The Express System (ES) contributed in Q4 2004 $4.9 million vs. $3.9 million y/y.** For 2004, earnings increased to $15.9 million from $9.7 million in 2003. Earnings increased y/y as mostly as a result of higher throughput (175,300 b/d from 171,200 b/d a year ago). A foreign exchange hedging transaction of balance-sheet items placed in late 2003 has been able to reduce earnings volatility on ES. Expansion of ES is on target for an in-service date of April 2005. Total system capacity will increase by 108,000 b/d to 280,000 b/d at a cost of about US$100 million, but earnings improvements are expected to be relatively modest because of ship-or-pay arrangements.
- On Jan. 31, 2005, Terasen Pipelines announced that it had received strong support from 17 different parties including existing and new customers who participated in the TMX Project's Expression of Interest process. It now plans to proceed with an Open Season in summer 2005. However, support from residents adjacent to the right-of-way is not assured.
- The TMX Project proposes a staged expansion of the existing Trans Mountain system (225,000 b/d capacity) between Edmonton, Alberta and Burnaby, B.C. The expansion consists of the looping of the existing pipeline to existing facilities in Burnaby, B.C. and/or could include the extension of Trans Mountain through the B.C. Interior to a potential new VLCC capable port on the B.C. coast. However, passage of VLCC through the Strait of Juan de Fuca is not assured environmentally.
- TER's initial expansion phase (TMX1), subject to final commercial arrangements and regulatory approvals, would increase the system's capacity to 300,000 b/d from 225,000 b/d by the end of 2008. Further stages of the expansion would bring the capacity to 850,000 b/d. The new capacity would allow additional transportation from Alberta's tar sands to the West Coast and Asian markets. TER Pipelines will now attempt to finalize a tolling framework with customers which will lead to the formal Open Season. However, we view transhipments of petroleum from TER's marine terminal to Kitimat/Prince Rupert and, thence, to East Asia as costly and time-consuming.
- TER's TMX Project is, in part, in direct competition with **Enbridge Inc.'s (TSX-ENB)** proposed $2.5 billion Gateway Project. We believe that ENB's proposal has more support and a better probability of succeeding. ENB is expected to sign commitments by mid-2005 for about 80% of the planned 400,000 b/d capacity. ENB is also prepared to lower its equity stake in the pipeline to no less than 51%. To the extent that refinery markets in Washington State (and possibly California) are concerned, there is likely to be room for incremental pumping capacity; however, we view looping requiring additional rights-of-way as a material challenge to TMX, and hasten to add that shipper and refiner support is one thing, but the NIMBY-syndrome is quite another.
- So far, TER has not addressed the latter publicly, which we view as the litmus test of TER's expansion plans. The NIMBY syndrome covers not only pipeline expansion, but also tanker, especially VLCC, traffic in the Straits of Georgia and Juan de Fuca.

Water and Utility Services

- **Q4 2004 water and utility services earnings: $0.7 million vs. $0.4 million y/y.** Earnings from this segment are typically stronger in the second and third quarters, and are weaker in first and fourth quarters reflecting seasonal patterns of new construction. For 2004, earnings increased to $6.6 million from $4.1 million, with $1.2 million of the earnings growth attributable to the July 31, 2004 acquisition of a 50% interest in the Fairbanks Sewer and Water Inc. (FSW) for $40.8 million and other minor acquisitions, and $1.3 million due to organic growth in existing businesses. TER expects this business to deliver one-third of its annual growth objectives of 6%.

Other Activities

- **Other Activities** (including Terasen International, TER's 45% interest in Clean Energy, and corporate interest and administration charges), **lost $9.3 million in Q4 2004 vs. a loss of $8.8 million y/y.** This quarter's higher loss was due to lower tax recovery. For 2004, net loss increased to $23.6 million from $23 million in 2003 due to lower tax recovery offset by lower corporate and financing costs, as well as a $3.3 million (after-tax) gain at Clean Energy from its price risk management activities.

Financial and Outlook

- **Capital Expenditures**: Q4 2004: $49.6 million vs. $63.6 million in Q4 2003. 2004: $154.4 million vs. $222.9 million in 2003. Projected 2005 capital expenditures are about $350 million including: **Natural Gas Distribution ($240 million)** - the acquisition of the Coastal Facilities buildings ($50 million); the Fraser River crossing ($20 million); the purchase and upgrade of the Texada Island compressor station ($15 million); and initial capital expenditures on the construction of the LNG storage facility on Vancouver Island ($23 million). **Petroleum Transportation** ($50 million) – the TMX Project, and Corridor Pipeline de-bottlenecking. **Water & Utility Services ($50 million)** – for organic expansion and minor water acquisitions.
- **Cash from Operations**: Q4 2004: $40.7 million vs. $32.2 million y/y. 2004: $342 million vs. $269.8 million in 2003.
- TER's Board of Directors approved a 7.1% increase in the quarterly common share dividend to $0.225 from $0.21 per share.
- **TER's growth forecast is 6% using the 2004 EPS base of $1.40 (excluding Clean Energy's $3.3 million after-tax gain).** TER expects TMP to have weaker throughput in Q1 2005, due to the impact of production outages by producers such as Shell, Syncrude and Suncor, and two refinery turnarounds.

Valuation

For the 2006 calendar year, we are estimating EPS of $1.58; DPS of $1.02; retained EPS of $0.56; a retained EPS multiple of 10x; and a nominal long-term corporate bond yield of 6.75%, tax-effected to 5.40%. The support price is $18.89 and the residual price is $5.60, for a target price of $24.50.

Research Analysts
The Research Analyst(s) who prepare these reports certify that their respective report accurately reflects his or her personal opinion and that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views as to the securities or companies.
NBF compensates its Research Analysts from a variety of sources. The Research Department is a cost centre and is funded by the business activities of NBF including, Institutional Equity Sales and Trading, Retail Sales, the correspondent clearing business, and Corporate and Investment Banking. Since the revenues from these businesses vary, the funds for research compensation vary. No one-business line has a greater influence than any other for Research Analyst compensation.
Canadian Residents
In respect of the distribution of this report in Canada, NBF accepts responsibility for its contents. To make further inquiry related to this report, Canadian residents should contact their NBF professional representative. To effect any transaction, Canadian residents should contact their NBF Investment advisor.
U.S. Residents
NBF Securities (USA) Corp., an affiliate of NBF, accepts responsibility for the contents of this report, subject to any terms set out above. Any U.S. person wishing to effect transactions in any security discussed herein should do so only through NBF Securities (USA) Corp.
UK Residents
In respect of the distribution of this report to UK residents, NBF has approved this financial promotion for the purposes of Section 21(1) of the Financial Services and Markets Act 2000. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant securities or related financial instruments discussed in this report, or may act or have acted as investment and/or commercial banker with respect thereto. The value of investments can go down as well as up. Past performance will not necessarily be repeated in the future. The investments contained in this report are not available to private customers. This report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.
This information is only for distribution to non-private customers in the United Kingdom within the meaning of the rules of the Regulated by the Financial Services Authority.

ADDITIONAL COMPANY RELATED DISCLOSURES

If a company specific disclosure is not found herein for a listed company, NBF at this time does not provide research coverage or stock rating for the company in question

TER
In the past 12 months NBF has not acted as financial advisor, fiscal agent or underwriter for the company that is the subject of this report. NBF may act in such a capacity in the future and receive, or expect to receive, compensation for such activities.
NBF is an indirect wholly owned subsidiary of the National Bank of Canada. From time to time the National Bank of Canada may enter into lending or financial arrangements with companies that are the subject of NBF Research Reports. At the date of this report, National Bank of Canada is not a lender to the company which is the subject of this report.
NBF and/or its Affiliates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. On the last day of the month preceding the date of this report, NBF and its Affiliates held in the aggregate less then 1% of the outstanding shares (of any class of equity securities) of this issuer.

ALA.un
In the past 12 months NBF acted as financial advisor, fiscal agent, or underwriter to the company that is the subject of this report and received remuneration for its services.
NBF is an indirect wholly owned subsidiary of the National Bank of Canada. From time to time the National Bank of Canada may enter into lending or financial arrangements with companies that are the subject of NBF Research Reports. At the date of this report, National Bank of Canada is a lender to the company which is the subject of this report.
NBF and/or its Affiliates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. On the last day of the month preceding the date of this report, NBF and its Affiliates held in the aggregate less then 1% of the outstanding shares (of any class of equity securities) of this issuer.

ENB
In the past 12 months NBF has not acted as financial advisor, fiscal agent or underwriter for the company that is the subject of this report. NBF may act in such a capacity in the future and receive, or expect to receive, compensation for such activities.
NBF is an indirect wholly owned subsidiary of the National Bank of Canada. From time to time the National Bank of Canada may enter into lending or financial arrangements with companies that are the subject of NBF Research Reports. At the date of this report, National Bank of Canada is a lender to the company which is the subject of this report.
NBF and/or its Affiliates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. On the last day of the month preceding the date of this report, NBF and its Affiliates held in the aggregate less then 1% of the outstanding shares (of any class of equity securities) of this issuer.

May 5, 2005

The NBF Daily Bulletin
Gas Utilities

Terasen Inc.

Q1 2005 Results Slightly Lower Than Expected

Temporary Weakness In Petroleum Transportation Depresses Results

TER (T)	**Cdn$27.45**
Stock Rating:	**Underperform** (Unchanged)
Target:	**Cdn$24.95** (Was $24.50)
Risk Rating:	**Average** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$22.05 - $29.71
Bloomberg/Reuters: Canada	TER CN / TER.TO

(Year-End Dec 31)	2004a	2005e	2006e
EPS	$1.43	$1.51	$1.58
P/E	19.4x	18.2x	17.4x
EPS Change Y/Y	9.2%	5.6%	4.6%
Book Value	$13.04	$13.65	$14.33
P/BV	2.1x	2.0x	1.9x
Dividend Yield	3.0%	3.3%	3.3%

Financial Data:	
Shares Outstanding (mln)	105.4
Book Value per Share	$13.75
Market Capitalization (mln)	$2 894
Price/Book Ratio	2.0x
Debt/Total Cap.	68%
Dividend per share	$0.90
Dividend Yield	3.28%

Industry Rating: Underweight
(NBF Economics & Strategy Group)

Company Profile:
TER is a holding company and its largest investment is Terasen Gas (TG), British Columbia's largest diversified natural gas distributor. It also owns Terasen Gas-Vancouver Island (TGVI). TER also controls Terasen Pipelines-Trans Mountain (TMP), Canada's second-largest petroleum pipeline. TER entered gas transmission in British Columbia in November 2000, and on May 1, 2003 began commercial shipping on the Corridor Pipeline (CP) for Shell Canada.

Winfried Fruehauf, PhD - (416) 869-7932
winfried.fruehauf@nbfinancial.com

Associate: Ramin Burney - (416) 869-7933
ramin.burney@nbfinancial.com

HIGHLIGHTS

- **Q1 2005 reported earnings: $66.3 million or $0.63 per share vs. $67.9 million or $0.65 per share year-over-year (y/y). EPS was one penny lower than our and the Street's estimate.**

- **Earnings from Petroleum Transportation fell sharply to $12.7 million from $18.3 million y/y, mostly due to a weak contribution from Trans Mountain Pipe Line (TMP)…** TMP's throughput dropped 35.72% y/y as a result of maintenance turnarounds at refineries connected to TMP and temporary production outages in the Alberta tar sands which reduced supply.

- **Improved earnings from Natural-Gas (Gas) Distribution ($55.7 mln vs. $54.7 mln) and Water and Utilities Services ($0.8 mln vs. nil), as well as a decrease in operating losses at Other Activities managed to offset most of the weakness in Petroleum Transportation.**

- **Operating efficiencies and customer growth at Terasen Gas (TG) and Terasen Gas-Vancouver Island (TGVI) more than offset the lower allowed RROE for 2005.**

- **We continue to note that TER is over-priced relative to its peers, based on dividend and retained-earnings metrics. Hence, we sustain our Underperform rating.**

Stock Performance

Assessment – *no earth-shattering developments*

We continue to view TER's common share prices as quite over-priced relative to share prices of Canadian pipelines and utilities, as evidenced by a price-to-retained-earnings multiple that far exceeds fundamentals. **Hence, we are sustaining our Underperform rating.**

First-Quarter 2005 Highlights

Q1 2005 reported earnings: $66.3 million or $0.63 per share vs. $67.9 million or $0.65 per share y/y. EPS was one penny lower than our and the Street's estimate.

Earnings decreased y/y as **Petroleum Transportation** earnings fell sharply to $12.7 million from $18.3 million y/y, mostly due to a weak contribution from **Trans Mountain Pipe Line (TMP)**. TMP's throughput dropped 35.72% y/y as a result of maintenance turnarounds at refineries connected to TMP, and temporary production outages in the Alberta oil sands which reduced supply. Improved earnings from **Gas Distribution** ($55.7 million vs. $54.7 million) and **Water and Utilities Services** ($0.8 mln vs. nil), as well as a decrease in operating losses at **Other Activities** managed to offset most of the weakness in Petroleum Transportation.

Segmented Reported Earnings ($mln)	Q1 2005	Q1 2004
Natural Gas Distribution	$55.7	$54.7
Petroleum Transportation	$12.7	$18.3
Water and Utility Services	$0.8	-
Other Activities	$(2.9)	$(5.1)
Earnings applicable to common shares	**$66.3**	**$67.9**

Source: Terasen Inc.

Gas Distribution

- **Q1 2005 natural gas distribution earnings: Earnings of $55.7 million vs. $54.7 million y/y.** Operating efficiencies and strong customer growth at Terasen Gas (TG) and Terasen Gas-Vancouver Island (TGVI) more than offset the lower allowed RROE for 2005. For 2005, TG's RROE is 9.03% vs. 9.15% in 2004, and TGVI's 9.53% vs. 9.65% in 2004.
- Higher revenues and cost of gas y/y reflected customer growth during the quarter and the cost of gas charged to customers. Increased operation and maintenance expenses were partially offset by improved operating efficiencies related to the operational integration of TG and TGVI. Customer additions during the quarter for TG and TGVI were 2,345 and 1,049, respectively, driven by strong economic conditions and housing activity in B.C.
- On Feb. 16, 2005, the British Columbia Utilities Commission (BCUC) approved TGVI's proposed $100 million LNG storage facility (1 bcf of gas-equivalent capacity) near Nanaimo, B.C. The approval is subject to various conditions including the execution of a long-term Transportation Service Agreement (TSA) with B.C. Hydro. TGVI is working with B.C. Hydro to obtain a TSA to serve the Duke Power Point Project on Vancouver Island. However, construction of the LNG facility or the electricity plant is not assured.

Petroleum Transportation

- **Q1 2005 petroleum transportation earnings: $12.7 million vs. $18.3 million y/y.** Earnings fell sharply due to a lower earnings contribution from all three pipelines but primarily the **Trans Mountain Pipe Line (TMP).**
- **TMP's Q1 2005 earnings decreased to $5.4 million from $10.4 million** as throughput dropped 35.72% y/y as a result of maintenance turnarounds at refineries connected to TMP, and temporary production outages in the Alberta oil sands which reduced supply. Throughput decreased 29% y/y on the Canadian mainline (170,000 barrels per day [b/d] vs. 240,400 b/d), and 52% y/y on the U.S. mainline (44,500 b/d vs. 93,300 b/d). **However, this drop in throughput is not expected to recur during the balance of 2005. TMP**

has been running at full capacity during April and had to apportion nominations for April and May 2005.

- **The Corridor Pipeline (CP) earnings contribution decreased to $3.6 million from $3.9 million y/y** as a result of a lower RROE for 2005. TER has been discussing with Shell and its partners in the Athabasca Oil Sands Project on the potential expansion of CP to 300,000 b/d from 155,000 b/d for 2009 with 90,000 b/d increments every two years thereafter. The expansion would occur in phases with the first phase (already approved by the CP Shippers' Committee) increasing capacity by about 35,000 b/d by adding pumping capacity with a fall 2005 in-service date, at a cost of $6.5 million; and the second phase (under review) adding 110,000 b/d by 2009 at a cost of $700-800 million. TER is also looking at increasing the capacity past the 500,000 b/d level.
- **However, in our view, what complicates sharing of CP's capacity is Shell's apprehension about potential degradation of its bitumen by lower-quality bitumen of third parties.**
- **The Express System (ES) contributed $3.7 million vs. $4.0 million y/y.** Earnings decreased y/y due to the same temporary production outages in the Alberta tar sands which reduced supply and reduced TMP's throughput. Throughput decreased to 166,900 b/d from 171,300 b/d a year ago. On April 19, 2005, TER announced that ES had completed its expansion thereby increasing capacity by 108,000 b/d to 280,000 b/d at a cost of about US$100 million, but earnings improvements are expected to be relatively modest because of ship-or-pay arrangements. They resemble, in essence, the fundamentals of gas-pipeline operations, making ES more or less unique.
- During Q1, TMP continued work on the TMX Project. It proposes a staged expansion of the existing Trans Mountain system (225,000 b/d capacity) between Edmonton, Alberta and Burnaby, B.C. The expansion consists of looping of the existing pipeline to existing facilities in Burnaby, B.C. and/or could include the extension of Trans Mountain through the B.C. Interior to a potential new VLCC capable port on the B.C. coast. On Jan. 31, 2005, Terasen Pipelines announced that it had received strong support from 17 different parties including existing and new customers who participated in the TMX Project's Expression of Interest process. TMP continues to develop the technical, regulatory and commercial components of the project and is working with potential shippers to attempt to finalize an interim commercial and tolling framework in Q2 prior to proceeding with an Open Season in summer 2005.
- **However, we view transhipments, if any, of petroleum from TER's marine terminal to Kitimat/Prince Rupert and, thence, to East Asia as costly and time-consuming.**

Water and Utility Services

- **Q1 2005 water and utility services earnings: $0.8 million vs. nil y/y.** Earnings from this segment which includes TER Waterworks, TER Utility Services, and TER's 30% interest in CustomerWorks LP, are typically stronger in the second and third quarters, and are weaker in first and fourth quarters reflecting seasonal patterns of new construction. Earnings increased y/y due to growth in the base waterworks and utility service businesses and a small contribution from the July 31, 2004 acquisition of a 50% interest in the Fairbanks Sewer and Water Inc. (FSW).
- TER still expects this business to deliver one-third of its annual growth objectives of 6%.

Other Activities

- **Other Activities** (including Terasen International, TER's 45% interest in Clean Energy (CE), and corporate interest and administration charges), **reduced its loss to $2.9 million in Q1 2005 vs. a loss of $5.1 million y/y.** The lower loss y/y was due to a reduction in corporate expenses, improved operations at CE, and a $2.6 million net after-tax mark-to-market gain from CE's outstanding gas positions.
- Operation and maintenance expenses declined to $3.9 million from $5.1 million due to cost reductions and operating efficiencies.

Financial and Outlook

- **Capital Expenditures** in Q1 2005 were $83.8 million vs. $28.9 million in Q1 2004, mostly on the $49.4 million acquisition of the Coastal Facilities buildings by Natural Gas Distribution. Projected 2005 capital expenditures are about $350 million.
- **Cash from Operations**: Q1 2005: $99.1 million vs. $105.2 million y/y.
- **TER's growth forecast is 6% using the 2004 EPS base of $1.40 (excluding Clean Energy mark-to-market gains).** TER expects to make up the Q1 shortfall in Petroleum Transportation earnings with better performances from all businesses throughout the balance of 2005.

Valuation

For the 12-month period ending March 2007, we are estimating EPS of $1.61; DPS of $1.04; retained EPS of $0.57; a retained EPS multiple of 10x; and a nominal long-term corporate bond yield of 6.75%, tax-effected to 5.40%. The support price is $19.26 and the residual price is $5.70, for a target price of $24.95 (rounded).

form the basis of or be relied on in connection with any contract or commitment whatsoever.
This information is only for distribution to non-private customers in the United Kingdom within the meaning of the rules of the Regulated by the Financial Services Authority.

ADDITIONAL COMPANY RELATED DISCLOSURES

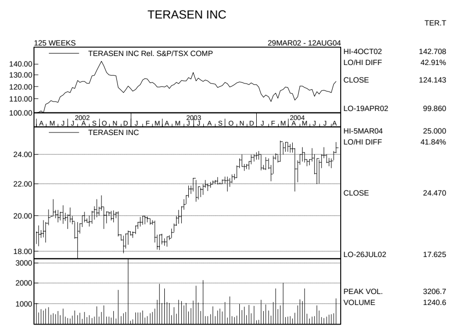
If a company specific disclosure is not found herein for a listed company, NBF at this time does not provide research coverage or stock rating for the company in question

In the past 12 months NBF has not acted as financial advisor, fiscal agent or underwriter for the company that is the subject of this report. NBF may act in such a capacity in the future and receive, or expect to receive, compensation for such activities.
NBF is an indirect wholly owned subsidiary of the National Bank of Canada. From time to time the National Bank of Canada may enter into lending or financial arrangements with companies that are the subject of NBF Research Reports. At the date of this report, National Bank of Canada is not a lender to the company which is the subject of this report.
NBF and/or its Affiliates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. On the last day of the month preceding the date of this report, NBF and its Affiliates held in the aggregate less then 1% of the outstanding shares (of any class of equity securities) of this issuer.

RBC Capital Markets

Research Comment

August 13, 2004



Fai Lee, CGA, CFA
(604) 257-7662
fai.lee@rbccm.com

Stephen Bain, CFA
Quantitative Research
(416) 842-7902
stephen.bain@rbccm.com

Price:	$24.47	Price Target:	$26.00
52-Wk High:	$25.00	52-Wk Low:	$21.50
Float (MM):	104.8	Debt-to-Cap:	0.65
Shs O/S (MM):	114.0	Mkt Cap (MM):	$2,564
Dividend:	$0.84	Yield:	3.4%

Strategic Shareholders: Trans Mountain - 8.1%

(FY Dec 31)	2003A	2004E	2005E	2006E
EPS				
Basic	$1.37	$1.41	$1.54	$1.57
Diluted	$1.36	$1.40	$1.53	$1.56
P/E	17.9	17.4	15.9	15.6
EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.12	($0.08)	$0.62
2004E	$0.76A	$0.10A	($0.05)	$0.61
2005E	$0.80	$0.13	($0.04)	$0.65

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items and may not be consistent with GAAP.

For Required Disclosures, please see page 2.

Maureen Howe, a member of the Canadian pipelines and utilities team, is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Oversight Presents Possible Buying Opportunity

Event

We believe that an oversight by the TSX and Standard & Poor's (S&P) could result in index selling of Terasen's shares.

Investment Opinion

- **S&P/TSX oversight.** It appears that S&P may have been using too many shares in their index weight for Terasen. Shares held by Terasen's Trans Mountain subsidiary are currently included in the public float of Terasen in calculating its weight in the TSX/S&P Composite Index. If S&P decides to exclude these shares going forward, which we believe they are likely to, Terasen's weight in the index will be reduced. As a result, we estimate that indexers will have to sell approximately 0.436 million shares.
- **Timing of likely sale.** We believe that S&P will likely wait until the quarterly rebalancing on September 17 before reducing Terasen's weight in the TSX/S&P Composite Index. However, there is a possibility that they might do it sooner.
- **Buying opportunity.** We believe that any decline in Terasen's share price associated with a reduction in Terasen's index weighting will present a buying opportunity for non-indexers. From a fundamental viewpoint, we believe that Terasen is attractively priced relative to comparable energy infrastructure companies. Terasen offers investors with opportunities for income growth through expected dividend increases and capital appreciation. Our positive outlook for the company is supported by our expectations for continued EPS growth over our forecast period.
- **Valuation.** Our target price of $26.00 reflects a 12-month dividend distribution one-year forward of $0.92 and required dividend yield of 3.50%. Terasen is ranked Outperform, Average Risk.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $26.00 reflects a 12-month dividend distribution one-year forward of $0.92 and a required dividend yield of 3.50%.

Price Target Impediments

Factors that could have negative implications for Terasen's earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain's Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

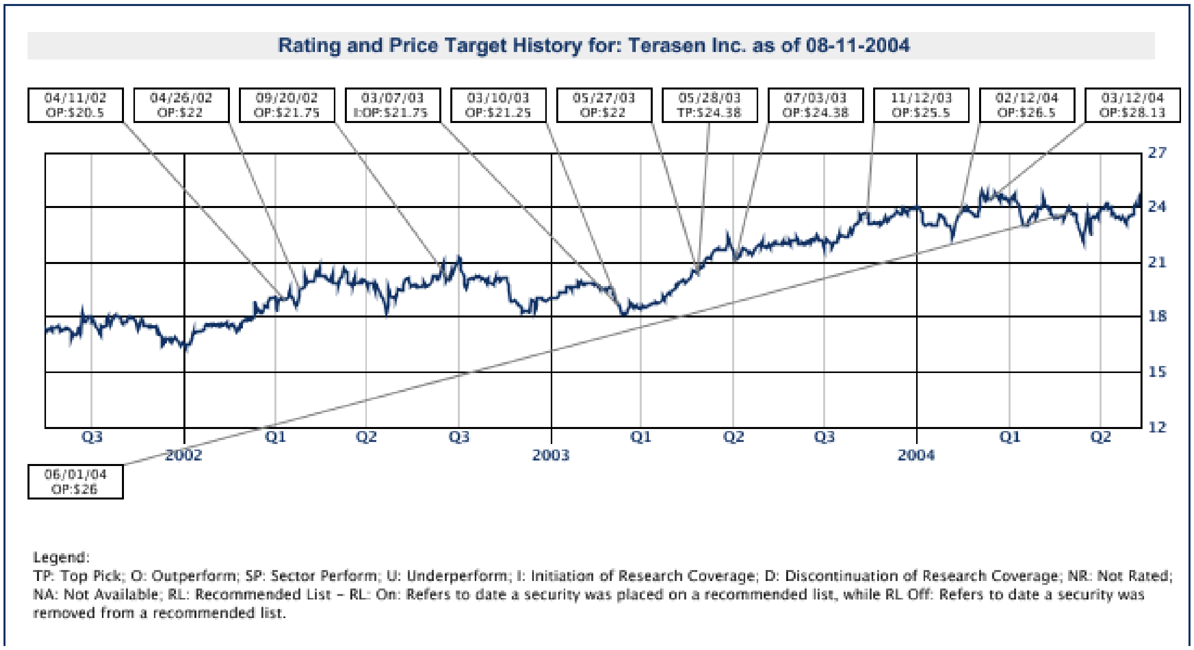
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories–Buy, Hold/Neutral, or Sell–regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	359	48.45	120	33.43
HOLD [SP]	294	39.68	69	23.47
SELL [U]	88	11.88	5	5.68



In the event that this is a compendium report (covers more than six subject companies), RBC Capital Markets may choose to provide specific disclosures for the subject companies by reference. To access current disclosures, clients should refer to http://rbc2.bluematrix.com/bluematrix/Disclosure?f=34 Ydf8xF or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a member company of RBC Capital Markets or one of its affiliates. RBC Capital Markets Recommended Lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. RBC Dain Rauscher Inc. Recommended Lists include the Western Region Focus List (1), a former list called Model Utility Portfolio (2), and the Prime Opportunity List (3) (formerly called the Private Client Selects), Private Client Prime Portfolio (4), a former list called Private Client Portfolio (5), and the Prime Income List (6). The abbreviation "RL On" means the date a security was placed on a Recommended List. The abbreviation "RL Off" means the date a security was removed from a Recommended List.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.

Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

The author(s) of this report are employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

Maureen Howe is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Terasen Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Terasen Inc. in the next three months.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.

RBC Capital Markets is currently providing Terasen Inc. with non-securities services.

RBC Capital Markets has provided Terasen Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Terasen Inc. with non-securities services in the past 12 months.

A household member or members of the analyst hold(s) or exercise(s) investment discretion over a long position in the common shares of Terasen Inc.

A household member or members of the analyst hold(s) or exercise(s) investment discretion over a long position in warrants, rights or securities convertible into the common shares of Terasen Inc.

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Terasen Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Terasen Inc.

Additional Disclosures

The information contained in this report has been compiled by RBC Capital Markets ("RBC CM") from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC CM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC Capital Markets is a business name used by subsidiaries of the Royal Bank of Canada including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. All opinions and estimates contained in this report constitute RBC CM's judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation of an offer to buy any securities. RBC CM and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, the entities constituting RBC CM or their affiliates may at any time have a long or short position in any such security or option thereon. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the particular circumstances or needs of any specific person who may read it. To the full extent permitted by law neither RBC CM or any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC CM. The entities comprising RBC Capital Markets are wholly owned subsidiaries of the Royal Bank of Canada and are members of the RBC Financial Group.

Additional information is available on request.

To U.S. Residents:
This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:
This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:
This publication has been approved by Royal Bank of Canada Europe Limited ("RBCEL") which is authorized and regulated by Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

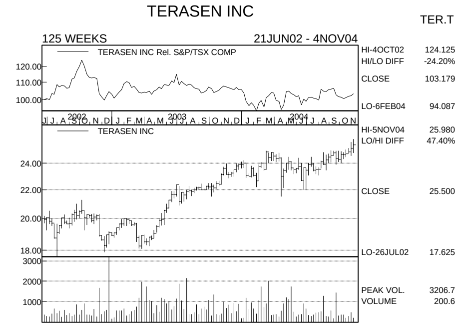
To Persons Receiving This Advice in Australia:
This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

To Hong Kong Residents:
This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

RBC Capital Markets

Research Comment

November 5, 2004



Fai Lee, CGA, CFA
(604) 257-7662
fai.lee@rbccm.com

Price:	$25.50	Price Target:	$26.50
52-Wk High:	$25.74	52-Wk Low:	$21.50
Float (MM):	104.9	Debt-to-Cap:	0.67
Shs O/S (MM):	114.1	Mkt Cap (MM):	$2,675
Dividend:	$0.84	Yield:	3.3%

Strategic Shareholders: Trans Mountain - 8.1%

(FY Dec 31)	2003A	2004E	2005E	2006E
EPS				
Basic	$1.37	$1.41	$1.54	$1.57
Diluted	$1.36	$1.40	$1.53	$1.56
P/E	18.6	18.1	16.6	16.2
EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.12	($0.08)	$0.62
2004E	$0.76A	$0.10A	($0.03)A	$0.58
2005E	$0.80	$0.13	($0.04)	$0.65

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items and may not be consistent with GAAP.

For Required Disclosures, please see page 4.

Maureen Howe, a member of the Canadian pipelines and utilities team, is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Q3/04 Results Slightly Higher than Expected; Company Provides Update on Growth Prospects

Event

Terasen reported its third quarter financial results.

Investment Opinion

- **Q3/04 results slightly higher than expected.** Terasen's normalized EPS was ($0.03) in Q3/04 compared to our estimate of ($0.05) and ($0.08) in Q3/03. Higher-than-expected results from Natural Gas Distribution, Water and Utility Services and Other Activities were partially offset by lower-than-expected results from Trans Mountain.
- **Businesses continue to perform well.** Terasen continues to benefit from strong throughput volumes at Trans Mountain and Express and operating efficiencies achieved through the integration of Terasen Gas and Terasen Gas (Vancouver Island). In addition, the water business is performing well.
- **Guidance for 2004 in line with expectations.** Management reiterated its previous guidance for 2004 normalized EPS in the high $1.30s. In light of the guidance, we remain comfortable with our 2004 EPS estimate of $1.41.
- **Growth outlook remains positive.** We believe recent developments provide support for the expansion of the Corridor Pipeline and the Terasen Gas (Vancouver Island) system. In addition, Terasen plans to seek non-binding expressions of interest for the TMX project by the end of 2004 with an open season to follow in mid-2005.
- **Valuation.** Our target price of $26.50 (unchanged) reflects a 12-month dividend distribution one-year forward of $0.93 and a required dividend yield of 3.50%. Terasen is ranked Outperform, Average Risk.

Details

Terasen's normalized EPS was ($0.03) in Q3/04 compared to our estimate of ($0.05) and ($0.08) in Q3/03. Higher-than-expected results from Natural Gas Distribution, Water and Utility Services and Other Activities were partially offset by lower-than-expected results from Trans Mountain. Terasen's third quarter results are summarized in Exhibit 1.

Exhibit 1: Third Quarter Financial Results ($MM Except EPS or Otherwise Indicated)

	For 3 months Ended Sept. 30			
	2004	RBC CM Est. Q3/04	2003	Comments
Natural Gas Distribution				
Terasen Gas	$ (24.8)	$ (25.3)	$ (25.5)	Operating efficiencies from integration of Terasen Gas and TGVI partially offset by lower allowed rate of return on equity at both utilities.
Terasen Gas (Vancouver Island)	6.8	6.4	6.1	
	(18.0)	(18.9)	(19.4)	
Petroleum Transportation				
Trans Mountain	8.8	9.5	8.9	
Corridor	3.9	4.0	3.8	
Express	3.8	3.5	2.6	Higher throughput volumes on a year-over-year basis.
	16.5	17.0	15.3	
Water and Utility Services	3.3	2.8	2.2	Improvement partially reflects acquisition of Fairbanks Sewer & Water.
Other Activities	(5.2)	(6.5)	(5.9)	Year-over-year improvement reflects lower financing costs.
Normalized earnings	$ (3.4)	$ (5.6)	$ (7.8)	
Fx gain at Express			0.2	
Estimated impact of B.C. forest fires on TMPL results			(1.0)	
One-time regulatory adjustment at TGVI			1.0	
Mark-to-market gain at Clean Energy	2.0			
Reported earnings	$ (1.4)	$ (5.6)	$ (7.6)	
Weighted average shares outstanding (MM)	104.8	104.7	103.9	
Normalized EPS	$ (0.03)	$ (0.05)	$ (0.08)	

Source: Terasen; RBC Capital Markets

Natural Gas Distribution

Normalized earnings from Natural Gas Distribution were ($18.0) million in Q3/04 compared to ($19.4) million in Q3/03. The year-over-year improvement reflects operating efficiencies achieved through the integration of the Terasen Gas and Terasen Gas (Vancouver Island) operations, which were partially offset by lower allowed returns on equity at the utilities and the sharing of operating efficiencies between shareholders and customers starting in 2004.

Petroleum Transportation

Normalized earnings from Petroleum Transportation were $16.5 million in Q3/04 compared to earnings of $15.3 million in Q3/03. The year-over-year increase was primarily attributable to higher throughput volumes on Express, which increased from 174,700 bpd in Q3/03 to 178,200 bpd in Q3/04. Throughput on the Trans Mountain System also increased, reflecting strong demand for Alberta oil sands' product. Volumes on the Trans Mountain Canadian mainline increased from 233,100 bpd in Q3/03 to 241,400 bpd in Q3/04, while volumes on the Trans Mountain U.S. mainline rose from 55,700 bpd in Q3/03 to 86,900 bpd in Q3/04.

Water and Utility Services

Normalized earnings from Water and Utility Services increased from $2.2 million in Q3/03 to $3.3 million in Q3/04. The increase reflected growth in existing operations, as well as contributions from acquisitions including Fairbanks Sewer & Water Inc. The Fairbanks acquisition was completed on July 31, 2004.

Other Activities

Excluding a $2.0 million mark-to-market gain for natural gas derivative positions at Clean Energy, earnings from Other Activities increased from ($5.9) million to ($5.2) million. The increase was largely due to a decline in financing costs as a result of lower interest rates.

SUMMARY
Overall, the results were slightly better than we had expected. Terasen continues to benefit from strong throughput volumes at Trans Mountain and Express and from operating efficiencies achieved through the integration of Terasen Gas and Terasen Gas (Vancouver Island). In addition, the water business is performing well.

EPS Estimates / Management Guidance

During its third quarter conference call, Terasen's management reiterated its previous guidance for 2004 EPS in the high $1.30s, which excludes any mark-to-market earnings/losses from Clean Energy. In light of management's guidance, we remain comfortable with our 2004 EPS estimate of $1.41.

Outlook

Vancouver Island Capacity Expansion
On November 3, 2004, BC Hydro announced that it had offered an electricity purchase agreement to Duke Point Power Limited Partnership. Subject to regulatory approval, Duke Point will construct a 252 MW, gas-fired combined cycle power plant near Nanaimo, B.C. We believe the announcement will provide the necessary support for Terasen's proposal to meet increased demand for natural gas on Vancouver Island by providing additional compression on the Terasen Gas (Vancouver Island) system and constructing a new LNG storage facility. Terasen's project has an estimated cost of $100 million. According to BC Hydro, Terasen's proposal is significantly less expensive than the Georgia Strait Crossing pipeline that was proposed by BC Hydro and Williams Cos. to provide natural gas supply to Vancouver Island. The British Columbia Utilities Commission will hold a hearing for Terasen's proposal on November 17, 2004. A decision is expected by the end of January 2005. If approved, the facilities could be in service by June 2007.

Corridor Expansion
On September 21, 2004, Shell Canada announced plans to increase bitumen production at the Athabasca Oil Sands Project (AOSP) from 155,000 bpd to 270,000-290,000 bpd by 2010. Over the next three years, Shell Canada has proposed a number of debottlenecking projects at the Muskeg River Mine and Scotford Upgrader to increase the bitumen production rate to 180,000-200,000 bpd. Over the 2006 to 2010 period, planned expansions of the Muskeg River Mine and Scotford Upgrader are expected to further increase bitumen throughputs by approximately 90,000 bpd.

Shell Canada and its partners hold an option for an additional 75,000 bpd of transportation capacity on the Corridor Pipeline. Terasen had planned to install four new pump stations at a cost of approximately $120 million if the pipeline capacity option was exercised. The planned expansions announced by Shell Canada in September 2004 are considerably greater than originally envisioned. As the installation of new pump stations on the Corridor Pipeline would not result in sufficient transportation capacity to accommodate the expected increase in production from AOSP by 2010, Terasen is evaluating the possibility of constructing a new pipeline to accommodate the increased production. Under this scenario, Shell Canada would be the anchor shipper on the new pipeline and other producers would be invited to ship their product along the same pipeline. The project would replace the Bison Pipeline, a project that Terasen had proposed to transport bitumen from the Athabasca oil sands to the Edmonton area.

TMX Update
During its third quarter conference call, Terasen provided an update on its TMX project. The company continues to hold discussions with interested shippers on its proposal. Terasen plans to seek non-binding expressions of interest by the end of 2004 with an open season to follow in mid-2005.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $26.50 (unchanged) reflects a 12-month dividend distribution one-year forward of $0.93 and a required dividend yield of 3.50%.

Price Target Impediments

Factors that could have negative implications for Terasen's earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain's Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

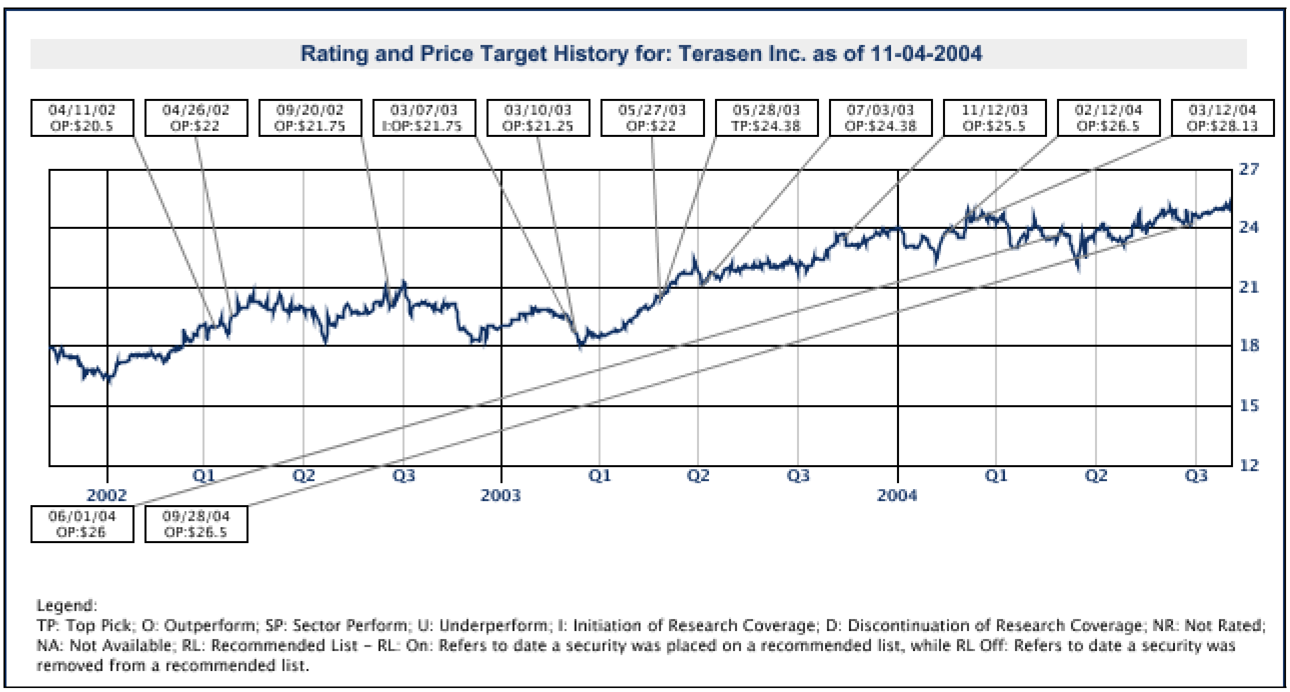
Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories–Buy, Hold/Neutral, or Sell–regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	360	46.45	129	35.83
HOLD [SP]	332	42.84	73	21.99
SELL [U]	83	10.71	6	7.23



In the event that this is a compendium report (covers more than six subject companies), RBC Capital Markets may choose to provide specific disclosures for the subject companies by reference. To access current disclosures, clients should refer to http://rbc2.bluematrix.com/bluematrix/Disclosure?f=34 Ydf8xF or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a member company of RBC Capital Markets or one of its affiliates. RBC Capital Markets Recommended Lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. RBC Dain Rauscher Inc. Recommended Lists include the Western Region Focus List (1), a former list called Model Utility Portfolio (2), and the Prime Opportunity List (3) (formerly called the Private Client Selects), Private Client Prime Portfolio (4), a former list called Private Client Portfolio (5), and the Prime Income List (6). The abbreviation "RL On" means the date a security was placed on a Recommended List. The abbreviation "RL Off" means the date a security was removed from a Recommended List.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.

Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

The author(s) of this report are employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months. A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Terasen Inc. in the past 12 months.

Maureen Howe is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector. A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Terasen Inc. during the past 12 months.

During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Terasen Inc. RBC Capital Markets is currently providing Terasen Inc. with non-securities services. RBC Capital Markets has provided Terasen Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Terasen Inc. with non-securities services in the past 12 months. RBC Capital Markets has provided Terasen Inc. with investment banking services in the past 12 months.

A household member or members of the analyst hold(s) or exercise(s) investment discretion over a long position in the common shares of Terasen Inc..

A household member or members of the analyst hold(s) or exercise(s) investment discretion over a long position in warrants, rights or securities convertible into the common shares of Terasen Inc..

Additional Disclosures

The information contained in this report has been compiled by RBC Capital Markets (“RBC CM”) from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC CM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC Capital Markets is a business name used by subsidiaries of the Royal Bank of Canada including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. All opinions and estimates contained in this report constitute RBC CM’s judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation of an offer to buy any securities. RBC CM and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, the entities constituting RBC CM or their affiliates may at any time have a long or short position in any such security or option thereon. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the particular circumstances or needs of any specific person who may read it. To the full extent permitted by law neither RBC CM or any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC CM. The entities comprising RBC Capital Markets are wholly owned subsidiaries of the Royal Bank of Canada and are members of the RBC Financial Group.

Additional information is available on request.

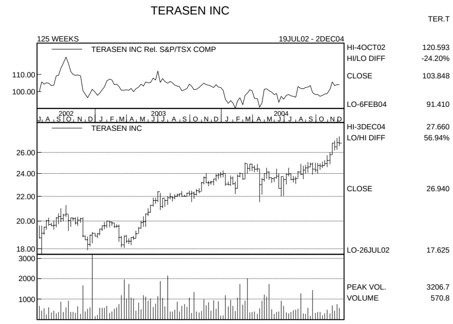
To U.S. Residents:
This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:
This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:
This publication has been approved by Royal Bank of Canada Europe Limited ("RBCEL") which is authorized and regulated by Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To Persons Receiving This Advice in Australia:
This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

To Hong Kong Residents:
This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).



Fai Lee, CGA, CFA
(604) 257-7662
fai.lee@rbccm.com

Price:	$26.94	Price Target:	$29.00
52-Wk High:	$27.66	52-Wk Low:	$21.50
Float (MM):	104.9	Debt-to-Cap:	0.67
Shs O/S (MM):	114.1	Mkt Cap (MM):	$2,826
Dividend:	$0.84	Yield:	3.1%

Strategic Shareholders: Trans Mountain - 8.1%

(FY Dec 31)	2003A	2004E	2005E	2006E
EPS				
Basic	$1.37	$1.41	$1.54	$1.57
Diluted	$1.36	$1.40	$1.53	$1.56
P/E	19.7	19.1	17.5	17.2
EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.12	($0.08)	$0.62
2004E	$0.76A	$0.10A	($0.03)A	$0.58
2005E	$0.80	$0.13	($0.04)	$0.65

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items and may not be consistent with GAAP.

For Required Disclosures, please see page 3.

Maureen Howe, a member of the Canadian pipelines and utilities team, is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

Terasen Inc.

(TSX: TER)

Outperform

Average Risk

2004 Financial Analyst and Investor Conference

Event

Yesterday, Terasen held its 2004 Financial Analyst and Investor Conference.

Investment Opinion

- **Investor conference highlights growth opportunities.** Throughout the presentation, the company emphasized the growth opportunities available to its three primary business segments: Natural Gas Distribution, Petroleum Transportation and Water & Utility Services. Terasen listed $3.0-$3.6 billion of potential projects from 2005-2010 that could help the company meet its growth objectives. Even though some of the projects may not be developed, Terasen views these potential projects as the primary growth platform for value creation, recognizing the difficulty of creating value through mergers and acquisitions. Terasen's presentation was consistent with our view that the company has more opportunities for quality growth than many of its energy infrastructure counterparts.
- **Expressions of Interest for TMX project.** Terasen is presently seeking non-binding Expressions of Interest to confirm the level of support from individual companies for the TMX Project and its various phases. The Expression of Interest process will be followed by an open season for firm long-term transportation capacity, which is expected to occur in Q2/05. According to Terasen, it decided to take the first step in moving the TMX Project along in order to ensure that there is sufficient lead time to meet producers' requirements for pipeline capacity. We believe the issuance of the Expression of Interest documents is a positive development for the TMX Project.
- **Incentive Toll Settlement renewal discussions commence.** Terasen has started discussions with the shippers on the Trans Mountain Canadian mainline to renew the 2001-2005 Incentive Toll Settlement. Management does not expect the absolute rebasing of the ITS to be a significant risk.
- **Capitalizing on growing water business.** To capitalize on the expected growth in water infrastructure needs, Terasen plans to be an aggregator of small water utilities. Terasen's overall objective is to create a water distribution company that is comparable to Terasen Gas.
- **Valuation.** Our target price of $29.00 reflects a 12-month dividend distribution one-year forward of $0.94 and a required dividend yield of 3.25%. Terasen is ranked Outperform, Average Risk.

Details

Yesterday, Terasen held its 2004 Financial Analyst and Investor Conference in Toronto, Ontario. Throughout the presentation, the company emphasized the growth opportunities available to its three primary business segments: Natural Gas Distribution, Petroleum Transportation and Water & Utility Services. The following are some highlights from yesterday's presentation.

- **Steadfast on growth targets.** Management remains committed to delivering minimum EPS growth of 6% annually and corresponding growth in dividends.
- **Significant potential project portfolio.** Terasen listed $3.0-$3.6 billion of potential projects from 2005-2010 that could help the company meet its growth objectives. As shown in Exhibit 1, almost all of the projects have been previously announced (Whistler Gas Pipeline and Water and Utility Services are the exceptions). Even though some of the projects may not be developed, Terasen views these potential projects as the primary growth platform for value creation, recognizing the difficulty of creating value through mergers and acquisitions.

Exhibit 1: Potential Project Portfolio ($MM)

Natural Gas Distribution	
Vancouver Island LNG	$100
Whistler Gas Pipeline	40
Inland Pacific Connector	300-500
Petroleum Transportation	
Express Expansion (US$)	110
Corridor Expansion	300+
TMX1	600 - 700
TMX2	600 - 700
TMX3	800 - 900
Heartland Terminal	30 -120
Water and Utility Services	100+
Total	$3,000 - $3,600

Source: Terasen

- **Disciplined acquisition approach.** While its potential projects are expected to be the primary contributors to future growth, Terasen is also pursuing potential acquisitions. When considering such acquisitions, the company plans to adopt a disciplined approach. Ideal assets would provide a positive financial impact (e.g., accretive within one or two years) and fit within Terasen's geographic focus, existing business lines and operational competencies. Major new acquisitions would be financed with equity.
- **First mover on TMX project.** Terasen is presently seeking non-binding Expressions of Interest to confirm the level of support from individual companies for the TMX Project and its various phases. The Expression of Interest process will be followed by an open season for firm long-term transportation capacity, which is expected to occur in Q2/05. According to Terasen, it decided to take the first step in moving the TMX Project along by seeking the Expressions of Interest in order to ensure that there is sufficient lead time to meet producers' requirements for pipeline capacity. Terasen plans to fund the ongoing costs associated with the TMx1 expansion up to the time that firm transportation agreements are signed following the open season and will be at risk for the recovery of these funds should the expansion not proceed. The development costs for TMx1 are expected to total $12 million, which we have assumed will be capitalized. If the expansion does not proceed, we estimate a negative EPS impact of $0.07 that is not reflected in our 2005 EPS estimate. If the TMX project proceeds, Terasen expects to issue new equity in 2007.
- **Absolute rebasing not viewed as significant risk.** Terasen has started discussions with the shippers on the Trans Mountain Canadian mainline to renew the 2001-2005 Incentive Toll Settlement (ITS). The company plans to include the TMX Project as part of its renewal discussions. Management does not expect the absolute rebasing of the ITS to be a significant risk and suggested that shippers are not interested in going through the lengthy regulatory process that would be required for absolute rebasing. However, management did suggest that shippers are unlikely to provide the same amount of growth opportunities that are embedded in the current ITS. Our current EPS estimate for 2006 reflects a modest decline in earnings from Trans Mountain that we have assumed would result from the renewal of the ITS.
- **Aggregator of water business.** The water business includes water treatment, water distribution, waste water collection, waste water treatment and associated utility services such as bill collection and meter reading. Terasen views its water business as a high growth business that is still in early stages of development. It is estimated that approximately $100

billion in water infrastructure investments could be required in Canada over the next 20 years. Terasen views the industry as highly fragmented and plans to be an aggregator of small water utilities. The company also plans to lever off of its acquisitions to pursue related growth projects. Terasen's overall objective is to create a water distribution company that is comparable to Terasen Gas.

- **Potential acquisitions of regional gas distribution companies.** Terasen indicated that several gas distribution companies currently serve the U.S. Pacific Northwest. The company believes that there may be some opportunities for consolidation of such businesses.
- **Seeking higher ROE from British Columbia Utilities Commission (BCUC).** The BCUC is planning a generic return on equity review in Q3/05. Terasen plans to seek higher allowed ROEs and deemed equity components for Terasen Gas and Terasen Gas Vancouver Island through the review. It will also seek changes to the BCUC generic ROE formula, which we believe is punitive relative to formulas adopted by other regulators in Canada.

Summary

While very little of the information provided was really new, we believe that Terasen's investor presentation successfully highlights its numerous growth opportunities. We view Terasen as having more opportunities for quality growth than many of its energy infrastructure counterparts. In addition, we are encouraged that the company has taken the initiative to issue the Expression of Interest documents for its TMX Project. We believe that Terasen's willingness to incur the ongoing costs associated with the development of the TMx1 expansion provides an indication of management's confidence in its plans.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $29.00 reflects a 12-month dividend distribution one-year forward of $0.94 and a required dividend yield of 3.25%.

Price Target Impediments

Factors that could have negative implications for Terasen's earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain's Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

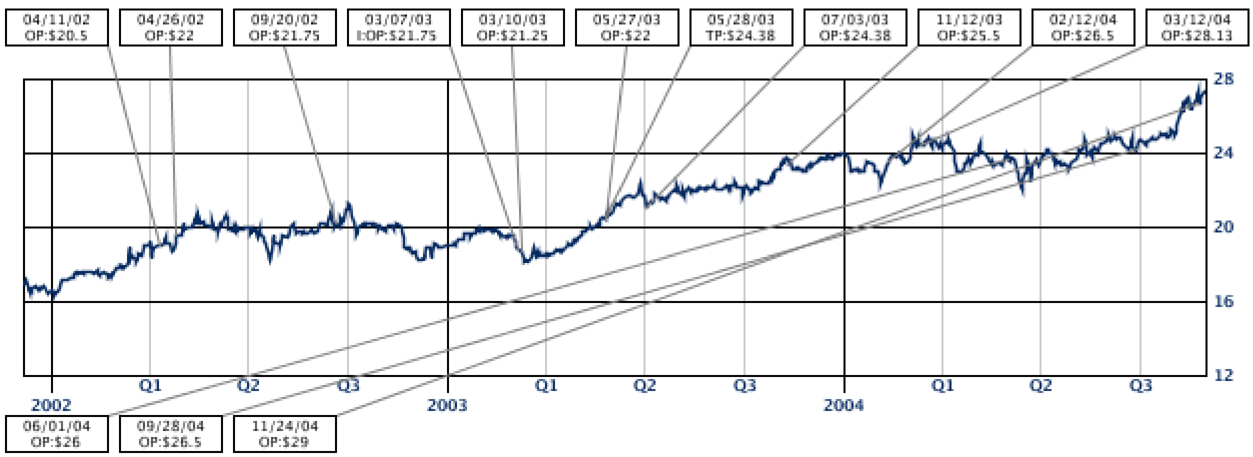
Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories–Buy, Hold/Neutral, or Sell–regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	416	46.12	161	38.70
HOLD [SP]	393	43.57	102	25.95
SELL [U]	93	10.31	11	11.83

Rating and Price Target History for: Terasen Inc. as of 12-01-2004



Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list.

In the event that this is a compendium report (covers more than six subject companies), RBC Capital Markets may choose to provide specific disclosures for the subject companies by reference. To access current disclosures, clients should refer to http://rbc2.bluematrix.com/bluematrix/Disclosure?f=34 Ydf8xF or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a member company of RBC Capital Markets or one of its affiliates. RBC Capital Markets Recommended Lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. RBC Dain Rauscher Inc. Recommended Lists include the Western Region Focus List (1), a former list called Model Utility Portfolio (2), and the Prime Opportunity List (3) (formerly called the Private Client Selects), Private Client Prime Portfolio (4), a former list called Private Client Portfolio (5), and the Prime Income List (6). The abbreviation "RL On" means the date a security was placed on a Recommended List. The abbreviation "RL Off" means the date a security was removed from a Recommended List.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.

Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

The author(s) of this report are employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

Maureen Howe is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Terasen Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.

RBC Capital Markets is currently providing Terasen Inc. with non-securities services.

RBC Capital Markets has provided Terasen Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Terasen Inc. with non-securities services in the past 12 months.

A household member or members of the analyst team hold(s) or exercise(s) investment discretion over a long position in the common shares of Terasen Inc.

A household member or members of the analyst team hold(s) or exercise(s) investment discretion over a long position in warrants, rights or securities convertible into the common shares of Terasen Inc.

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Terasen Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Terasen Inc.

Additional Disclosures

The information contained in this report has been compiled by RBC Capital Markets ("RBC CM") from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC CM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC Capital Markets is a business name used by subsidiaries of the Royal Bank of Canada including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. All opinions and estimates contained in this report constitute RBC CM's judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation of an offer to buy any securities. RBC CM and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, the entities constituting RBC CM or their affiliates may at any time have a long or short position in any such security or option thereon. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the particular circumstances or needs of any specific person who may read it. To the full extent permitted by law neither RBC CM or any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC CM. The entities comprising RBC Capital Markets are wholly owned subsidiaries of the Royal Bank of Canada and are members of the RBC Financial Group.

Additional information is available on request.

To U.S. Residents:

This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:

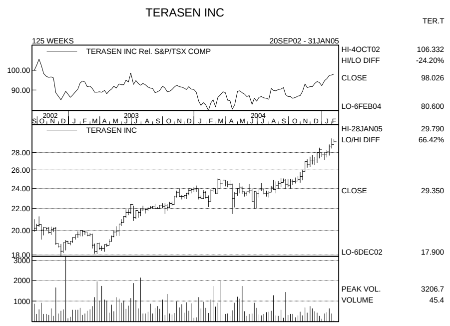
This publication has been approved by Royal Bank of Canada Europe Limited ("RBCEL") which is authorized and regulated by Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).



Terasen Inc.

(TSX: TER)

Outperform

Average Risk

"Moving Full Steam Ahead" With TMX Project

Fai Lee, CGA, CFA
(604) 257-7662
fai.lee@rbccm.com

Price:	$29.35	Price Target:	$32.00
52-Wk High:	$29.79	52-Wk Low:	$21.50
Float (MM):	104.9	Debt-to-Cap:	0.67
Shs O/S (MM):	114.1	Mkt Cap (MM):	$3,079
Dividend:	$0.84	Yield:	2.9%

Strategic Shareholders: Trans Mountain - 8.1%

(FY Dec 31)	2003A	2004E	2005E	2006E
EPS				
Basic	$1.37	$1.41	$1.54	$1.57
Diluted	$1.36	$1.40	$1.53	$1.56
P/E	21.4	20.8	19.1	18.7
EPS	Q1	Q2	Q3	Q4
2003A	$0.71	$0.12	($0.08)	$0.62
2004E	$0.76A	$0.10A	($0.03)A	$0.59
2005E	$0.78	$0.14	($0.03)	$0.65

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items and may not be consistent with GAAP.

For Required Disclosures, please see page 4.

Maureen Howe, a member of the Canadian pipelines and utilities team, is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

Event

Given strong support from its customers, Terasen plans to proceed to the next phase of the Trans Mountain system expansion project ("TMX Project").

Investment Opinion

- **Expression of Interest process confirms support.** Through a non-binding Expression of Interest process, Terasen's customers have indicated a strong need for additional crude oil pipeline capacity from Alberta to the west coast of B.C. by 2008. Based on the customer support, Terasen plans to move ahead with the initial expansion phase, TMx1. The next step is to finalize a tolling framework with customers leading to a formal open season expected this summer. Whether the tolling framework for TMx1 will be included as part of the discussions on the renewal of Trans Mountain's Incentive Toll Settlement (ITS) still needs to be determined.
- **Future expansion plans past 2008 still uncertain.** While customers also indicated the need for significant expansion of the Trans Mountain system beyond 2008, there is no clear consensus on whether the future expansion should involve the Southern Option (i.e., further expansion of the existing Trans Mountain System to the Lower Mainland of B.C.) or the Northern Option (i.e. greenfield pipeline to a deepwater port at Prince Rupert or Kitimat). The lack of consensus is not surprising given the various issues that must be considered as discussed in our *Moving Oil Sands Product to Market* report dated December 22, 2004.
- **Implications.** Overall, we view yesterday's announcement as a positive development for Terasen and the TMX Project. We believe there is a reasonable probability that Terasen will eventually proceed to the construction phase of TMx1. It is difficult to evaluate the financial impact to Terasen without additional information on the final tolling arrangement for TMx1 and the outcome of the renewal of Trans Mountain's ITS, which expires at the end of 2005. We believe that Terasen will look to address the two issues at the same time. Nevertheless, we have attempted to estimate the EPS impact for TMx1 on a standalone basis assuming a cost of service methodology. Based on our assumptions, we estimate a full-year EPS impact of approximately $0.07 in 2009.
- **Valuation.** Our target price of $32.00 (unchanged) reflects a 12-month dividend distribution one-year forward of $0.95 and a required dividend yield of 2.95%. Terasen is ranked Outperform, Average Risk.

Details

Yesterday, Terasen announced that it has received strong support from 17 different parties including existing and new customers to proceed to the next phase of the Trans Mountain system expansion project ("TMX"). The TMX Project is designed to meet increased demand for pipeline capacity to the west coast of British Columbia due to growing Alberta oil sands production. While it has not provided information on the specific customers that support the projects or the volumes that they are interested in transporting, Terasen indicated that it has received support from Canadian producers, West Coast refiners and Far East interests.

In December 2004, Terasen commenced a non-binding Expression of Interest process to confirm the level of support from potential customers for the TMX Project and its various phases. Through this process, customers have indicated a strong need for additional pipeline capacity from Alberta to the west coast of B.C. by 2008. Based on the customer support, Terasen plans to move ahead with the initial expansion phase, TMx1. The next step is to finalize a tolling framework with customers, leading to a formal open season expected this summer. Whether the tolling framework for TMx1 will be included as part of the discussions on the renewal of Trans Mountain's Incentive Toll Settlement (ITS) still needs to be determined.

Pending final commercial arrangements and regulatory approvals, TMx1 would increase Trans Mountain's capacity from 225,000 bpd to 300,000 bpd by the end of 2008. TMx1 would be constructed in two phases. The first phase would add 35,000 bpd of capacity by the end of 2006 through the addition of pump stations along the pipeline system at an estimated cost of $205 million. The second phase would involve looping 178 kilometres of the system, providing an additional 40,000 bpd by the end of 2008 at an estimated cost of $365 million.

While customers also indicated the need for significant expansion of the Trans Mountain system beyond 2008, there is no clear consensus on whether the future expansion should involve the Southern Option (i.e., further expansion of the existing Trans Mountain System to the Lower Mainland of B.C.) or the Northern Option (i.e. greenfield pipeline to a deepwater port at Prince Rupert or Kitimat). The lack of consensus is not surprising given the various issues that must be considered as discussed in our *Moving Oil Sands Product to Market* report dated December 22, 2004.

Exhibit 1: TMX Project

Source: Company reports

Implications

Overall, we view yesterday’s announcement as a positive development for Terasen and the TMX Project. We believe there is a reasonable probability that Terasen will eventually proceed to the construction phase of TMx1.

It is difficult to evaluate the financial impact to Terasen without additional information on the final tolling arrangement for TMx1 and the outcome of the renewal of Trans Mountain’s ITS, which expires at the end of 2005. We believe that Terasen will attempt to address the two issues at the same time. Trans Mountain has performed well under its ITS over the last four years and faces the risk that its earnings could decline under a renewed agreement. While the ultimate impact could be more significant, we have reflected a $3 million decline in Trans Mountain’s earnings in 2006 compared to 2005 pending additional information on the status of the ITS renewal negotiations that we hope will be forthcoming over the coming months. Depending on the outcome of Terasen’s negotiations, the development of TMx1 could mitigate part or all of the potential negative impact associated with the ITS renewal.

While we believe that the TMx1 tolling arrangement and Trans Mountain’s ITS renewal agreement could be linked, we have attempted to estimate the EPS impact for TMx1 on a standalone basis assuming a cost of service methodology. In our analysis, we have assumed a deemed common equity component of 35%, an allowed ROE of 10%, an equity issuance of 6.2 million shares at $32.00 to finance Terasen’s equity investment, and assumed EPS growth of 6% between 2006 and 2009. Based on our assumptions, we estimate a full-year EPS impact of approximately $0.07 in 2009.

Exhibit 2: 2009E EPS Impact

	2009E
TMx 1 Phase 1	$205.0
TMx 1 Phase 2	365.0
Total	$570.0
Deemed common equity	35.0%
Deemed common equity	$199.5
Allowed ROE	10.0%
Allowed earnings	$20.0
Shares outstanding before TMx1	104.9
Additional shares from TMx1	6.2
Total shares (MM)	111.1
EPS impact before dilution	$0.18
Dilution based on assumed 6% annual EPS growth	($0.10)
Potential EPS Impact	$0.07

Source: RBC Capital Markets estimates

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $32.00 reflects a 12-month dividend distribution one-year forward of $0.95 and a required dividend yield of 2.95%.

Price Target Impediments

Factors that could have negative implications for Terasen’s earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain’s Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

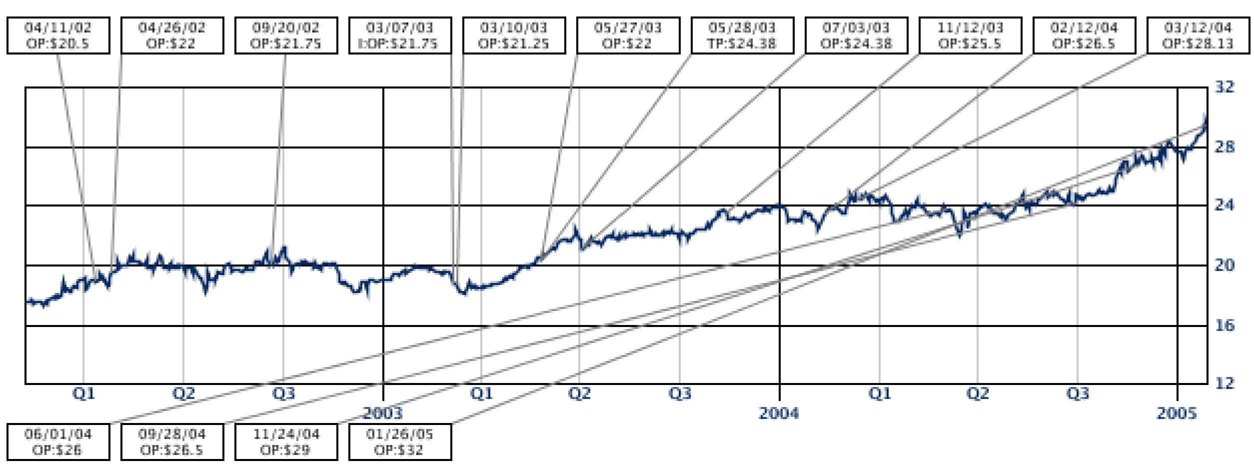
Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories–Buy, Hold/Neutral, or Sell–regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	412	46.50	151	36.65
HOLD [SP]	388	43.79	105	27.06
SELL [U]	86	9.71	14	16.28

Rating and Price Target History for: Terasen Inc. as of 01-28-2005



Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list.

In the event that this is a compendium report (covers more than six subject companies), RBC Capital Markets may choose to provide specific disclosures for the subject companies by reference. To access current disclosures, clients should refer to http://rbc2.bluematrix.com/bluematrix/Disclosure?f=34 Ydf8xF or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a member company of RBC Capital Markets or one of its affiliates. RBC Capital Markets Recommended Lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. RBC Dain Rauscher Inc. Recommended Lists include the Western Region Focus List (1), a former list called Model Utility Portfolio (2), and the Prime Opportunity List (3) (formerly called the Private Client Selects), Private Client Prime Portfolio (4), a former list called Private Client Portfolio (5), and the Prime Income List (6). The abbreviation "RL On" means the date a security was placed on a Recommended List. The abbreviation "RL Off" means the date a security was removed from a Recommended List.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.

Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

The author(s) of this report are employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

Maureen Howe is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Terasen Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.

RBC Capital Markets is currently providing Terasen Inc. with non-securities services.

RBC Capital Markets has provided Terasen Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Terasen Inc. with non-securities services in the past 12 months.

A household member or members of the analyst team hold(s) or exercise(s) investment discretion over a long position in the common shares of Terasen Inc.

A household member or members of the analyst team hold(s) or exercise(s) investment discretion over a long position in warrants, rights or securities convertible into the common shares of Terasen Inc.

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Terasen Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Terasen Inc.

Additional Disclosures

The information contained in this report has been compiled by RBC Capital Markets ("RBC CM") from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC CM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC Capital Markets is a business name used by subsidiaries of the Royal Bank of Canada including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. All opinions and estimates contained in this report constitute RBC CM's judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation of an offer to buy any securities. RBC CM and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, the entities constituting RBC CM or their affiliates may at any time have a long or short position in any such security or option thereon. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the particular circumstances or needs of any specific person who may read it. To the full extent permitted by law neither RBC CM or any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC CM. The entities comprising RBC Capital Markets are wholly owned subsidiaries of the Royal Bank of Canada and are members of the RBC Financial Group.

Additional information is available on request.

To U.S. Residents:
This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:
This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:
This publication has been approved by Royal Bank of Canada Europe Limited (“RBCEL”) which is authorized and regulated by Financial Services Authority (“FSA”), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

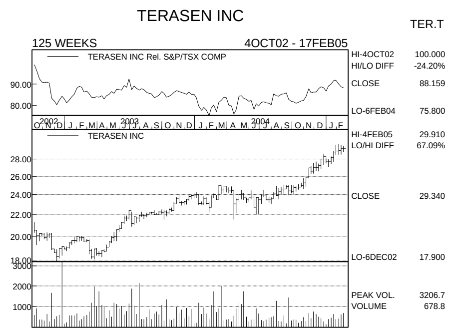
To Persons Receiving This Advice in Australia:
This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

To Hong Kong Residents:
This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

RBC Capital Markets

Research Comment

February 18, 2005



Terasen Inc.

(TSX: TER)

Outperform

Average Risk

2004 Results In Line With Expectations; Annual Dividend Increased by $0.06 to $0.90

Fai Lee, CGA, CFA
(604) 257-7662
fai.lee@rbccm.com

Price:	$29.34	Price Target:	$32.00
52-Wk High:	$29.91	52-Wk Low:	$21.50
Float (MM):	105.2	Debt-to-Cap:	0.65
Shs O/S (MM):	114.4	Mkt Cap (MM):	$3,086
Dividend:	$0.90	Yield:	3.1%

Strategic Shareholders: Trans Mountain - 8.0%

(FY Dec 31)	2003A	2004A	2005E	2006E
EPS				
Old Basic	$1.37	$1.40	$1.54	$1.57
Old Diluted	$1.36	$1.39	$1.53	$1.56
Basic	$1.37	$1.40	$1.50	$1.57
Diluted	$1.36	$1.39	$1.49	$1.56
P/E	21.4	21.0	19.6	18.7
EPS	Q1	Q2	Q3	Q4
2003A	$0.62	$0.18	$0.03	$0.54
2004A	$0.63	$0.17	$0.08	$0.52
2005E	$0.63	$0.21	$0.10	$0.56

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items and may not be consistent with GAAP.

For Required Disclosures, please see page 4.

Maureen Howe, a member of the Canadian pipelines and utilities team, is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

Event

Terasen announced its 2004 financial results and increased its annual dividend.

Investment Opinion

- **2004 results in line with expectations.** Terasen's normalized EPS was $1.40 in 2004 compared to our estimate of $1.41 and $1.37 in 2003. Lower-than-expected results from Natural Gas Distribution and Other Activities were largely offset by higher-than-expected Petroleum Transportation results.
- **Annual dividend increased by 7.1% from $0.84 to $0.90.** The increase was in line with our expectations, but the timing was earlier than expected. In previous years, Terasen increased its common dividend in the second quarter. According to Terasen, the decision to increase the dividend in the first quarter reflects strong results, a positive outlook for 2005 and aligns the dividend increase with the company's fiscal year.
- **2005 EPS estimate decreased to reflect lower throughput volumes.** For 2005, Terasen's management is targeting EPS growth of 6% from a base of $1.40. EPS growth is expected to be driven by incremental earnings from Trans Mountain and the Express System expansion, operating efficiencies and customer growth in the Natural Gas Distribution business, and continued growth in the water and utility services business. During the first few months of 2005, management expects temporary weakness in throughput volumes on the Trans Mountain system primarily due to production outages in the Alberta oil sands and west coast refinery turnarounds. Largely reflecting weaker throughput volumes on the Trans Mountain system, we have reduced our 2005 EPS estimate from $1.54 to $1.50.
- **Growth outlook remains positive.** Notwithstanding the potential risk to earnings associated with a new Incentive Tolling Settlement at Trans Mountain and the temporary decline in throughput volumes expected on the Trans Mountain System in the first few months of 2005, we believe that the overall growth outlook for Terasen remains positive given the number of potential opportunities that are available to the company.
- **Valuation.** Our target price of $32.00 (unchanged) reflects a 12-month dividend distribution one-year forward of $0.96 and a required dividend yield of 2.95%. Terasen is ranked Outperform, Average Risk.

Details

Overall, the 2004 results were in line with our expectations. Terasen's normalized EPS was $1.40 in 2004 compared to our estimate of $1.41 and $1.37 in 2003. Lower-than-expected results from Natural Gas Distribution and Other Activities were largely offset by higher-than-expected Petroleum Transportation results. Terasen's 2004 financial results are summarized in Exhibit 1.

Exhibit 1: 2004 Financial Results Summary ($MM Except EPS or Otherwise Indicated)

	For 3 mos. ended Dec. 31		For 12 mos. ended Dec. 31		
	2004	2003	2004	2003	Comments
Natural gas distribution					
Terasen Gas	$36.2	$37.5	$69.7	$72.6	Results prior to Q4/04 restated to reflect change in accounting for income tax expense.
Terasen Gas (Vancouver Island)	6.4	7.3	26.2	26.2	
	42.6	44.8	95.9	98.8	$2.7 million lower-than-expected.
Petroleum transportation					
Trans Mountain	11.2	10.0	39.4	36.8	
Corridor	3.8	4.0	15.6	10.7	
Express System	4.9	3.9	15.9	13.3	
	19.9	17.9	70.9	60.8	$2.4 million higher-than-expected.
Water and utility services	0.7	0.4	6.6	4.1	
Other activities	(8.3)	(7.0)	(26.9)	(21.2)	$1.0 million lower than expected.
Normalized earnings	$54.9	$56.1	$146.5	$142.5	
Restructuring charge		(3.4)		(3.4)	Terasen Gas
Westport Innovations writedown		(1.8)		(1.8)	Other activities
Impact of forest fires in Q3/03				(1.0)	Trans Mountain
Foreign exchange loss at Express				(3.6)	Express System
Mark-to-market gains (losses) at Clean Energy	(1.0)		3.3		Other activities
Reported earnings	$53.9	$50.9	$149.8	$132.7	
Weighted average shares outstanding (MM)	105.0	104.1	104.7	103.8	
Normalized EPS	$0.52	$0.54	$1.40	$1.37	

Source: Terasen; RBC Capital Markets

Natural Gas Distribution

Normalized earnings from Natural Gas Distribution were $95.9 million in 2004 compared to $98.8 million in 2003. The decline was attributed to a reduction in the allowed returns on equity at Terasen Gas (Vancouver Island) ("TGVI") and Terasen Gas (-$2.4 million) and the introduction of an earnings sharing mechanism for operating efficiencies (-$4.7 million), partially offset by operating efficiencies achieved through the integration of the Terasen Gas and TGVI operations (+$4.1 million).

In Q4/04, the accounting for income tax expense at Terasen Gas was changed. Under the new accounting methodology, income tax expense is determined by applying the effective annual tax rate to pre-tax income in the quarter. Previously, Terasen Gas allocated annual income tax expense was based on budgeted sales revenue for the four quarters. Reflecting the change in accounting, Terasen Gas' quarterly results prior to Q4/04 were restated. According to Terasen, the change in accounting had no impact on annual financial results. However, it should be noted that recurring earnings from Natural Gas Distribution declined by $0.7 million during the first nine months of 2004 instead of increasing by $1 million as previously reported by Terasen. Based on the previously reported results and our forecast for a modest decline in Q4/04 earnings at Terasen Gas and TGVI, we had expected a relatively flat contribution from Natural Gas Distribution in 2004 compared to 2003.

Petroleum Transportation

Normalized earnings from Petroleum Transportation were $70.9 million in 2004 compared to earnings of $60.8 million in 2003. Notwithstanding slightly lower-than-expected throughput volumes on the Trans Mountain Canadian mainline, earnings from Petroleum Transportation were higher-than-expected due to operating efficiencies at Trans Mountain and increased earnings from the Express System.

Water and Utility Services

Normalized earnings from Water and Utility Services increased from $4.1 million in 2003 to $6.6 million in 2004. The increase reflected growth in existing operations, as well as contributions from acquisitions including Fairbanks Sewer & Water Inc. The Fairbanks acquisition was completed on July 31, 2004.

Other Activities
Excluding a $3.3 million after-tax mark-to-market gain for natural gas derivative positions at Clean Energy, earnings from Other Activities decreased from ($21.2) million to ($26.9) million. The decrease largely reflects higher income tax expense in 2004.

Dividend Increase

Yesterday, Terasen's Board of Directors approved a 7.1% increase to the annual dividend from $0.84 to $0.90. The increase was in line with our expectations, but the timing was earlier than expected. In previous years, Terasen increased its common dividend in the second quarter. According to Terasen, the decision to increase the dividend in the first quarter reflects strong results, a positive outlook for 2005 and aligns the dividend increase with the company's fiscal year.

EPS Estimates / Management Guidance

For 2005, Terasen's management is targeting EPS growth of 6% from a base of $1.40. EPS growth is expected to be driven by incremental earnings from Trans Mountain and the Express System expansion, operating efficiencies and customer growth in the Natural Gas Distribution business, and continued growth in the water and utility services business. During the first few months of 2005, management expects temporary weakness in throughput volumes on the Trans Mountain system primarily due to production outages in the Alberta oil sands and west coast refinery turnarounds.

Largely reflecting weaker throughput volumes on the Trans Mountain system, we have reduced our 2005 EPS estimate from $1.54 to $1.50. The outlook for 2006 will depend on the outcome of Trans Mountain's negotiations with its shippers with respect to a new Incentive Toll Settlement (ITS). Management expects to reach a satisfactory agreement on a new ITS and remains committed to delivering on its target of 6% annual EPS growth. Pending additional information on the new ITS, we are maintaining our 2006 EPS estimate of $1.57 at this time.

Outlook

ITS
Trans Mountain has initiated discussions with its shippers regarding the commercial terms for a new ITS, which would replace the current ITS that is set to expire at the end of 2005. Depending on the final tolling arrangement with shippers, Trans Mountain's earnings could be materially negatively impacted in 2006. However, as previously stated, management expects to reach a satisfactory agreement on a new ITS.

TMX
Terasen is working with shippers on finalizing the commercial and tolling framework for its TMX project prior to holding an open season for binding commitments by mid-2005. The company expects to spend an additional $7 to $12 million prior to receiving binding support for the project. At this time, negotiations for the tolling framework for the TMX project and discussions for a new ITS are being conducted separately. However, an umbrella tolling agreement with shippers is not out of the question in the future.

If Terasen proceeds with the first phase of the project (TMx1), it expects to recognize an allowance for funds used during construction (AFUDC) during the construction period. Booking AFUDC could mitigate the potential negative earnings impact associated with a new ITS. TMx1 would be constructed in two phases. The first phase would add 35,000 bpd of capacity by the end of 2006 through the addition of pump stations along the pipeline system at an estimated cost of $205 million. The second phase would involve looping 178 kilometres of the system, providing an additional 40,000 bpd by the end of 2008 at an estimated cost of $365 million.

2005 Capital Expenditures Program
Terasen is forecasting $350 million of capital expenditures in 2005 compared to $154.4 million in 2004. Major capital expenditures in 2005 include the unwinding of a synthetic lease that was previously entered into by Terasen Gas to finance new building facilities in the Greater Vancouver area ($50 million), the purchase and upgrade of the Texada Island compressor station ($15 milllion), initial expenditures for TGVI's proposed LNG storage facility ($23 million), further development of Trans Mountain's TMX Project ($13.5 million) and Corridor Pipeline de-bottlenecking ($6.5 million). The 2005 capital expenditures budget also includes minor acquisitions at the water and utility services business. Terasen expects to finance the planned capital expenditures with internally generated funds and debt.

Vancouver Island Capacity Expansion
On February 16, the British Columbia Utilities Commission (BCUC) approved TGVI's proposal to build a $100 million LNG storage facility near Nanaimo, subject to several conditions, including the execution of a long-term Transportation Service Agreement (TSA) with BC Hydro substantially in the form indicated as acceptable by the BCUC. Yesterday, the BCUC approved BC Hydro's agreement to purchase electricity from Duke Point Power Limited Partnership's proposed power plant, subject to BC Hydro entering into a long-term TSA with TGVI to serve the proposed power plant. In reaction to the BCUC decision, the Joint Industry Electricity Steering Committee announced plans to appeal the regulator's ruling to the appropriate

court in the next several days. TGVI plans to work with BC Hydro on a TSA, but there is no certainty that a TSA will ultimately be executed as highlighted by the expected legal action.

Corridor Expansion
Terasen has been working with Shell and its partners on the potential expansion of the Corridor Pipeline from 155,000 bpd to 300,000 bpd. Expansion of the system is expected to be undertaken in phases. The first phase, which has been approved by the shippers, involves de-bottlenecking the existing system by adding pumping capacity. The initial phase is expected to add 35,000 bpd of capacity by the fall of 2005 at an estimated cost of $6.5 million. The second phase would increase system capacity by 110,000 bpd at an estimated cost of $500-$600 million. This phase is under review and, if approved, is expected to be in service by 2009.

Summary

Notwithstanding the potential risk to earnings associated with a new Incentive Tolling Settlement at Trans Mountain and the temporary decline in throughput volumes expected on the Trans Mountain System in the first few months of 2005, we believe that the overall growth outlook for Terasen remains positive given the number of potential opportunities that are available to the company. Key events to watch for in 2005 include the outcome of the discussions on a new ITS and the TMX project.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $32.00 reflects a 12-month dividend distribution one-year forward of $0.96 and a required dividend yield of 2.95%.

Price Target Impediments

Factors that could have negative implications for Terasen’s earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain’s Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

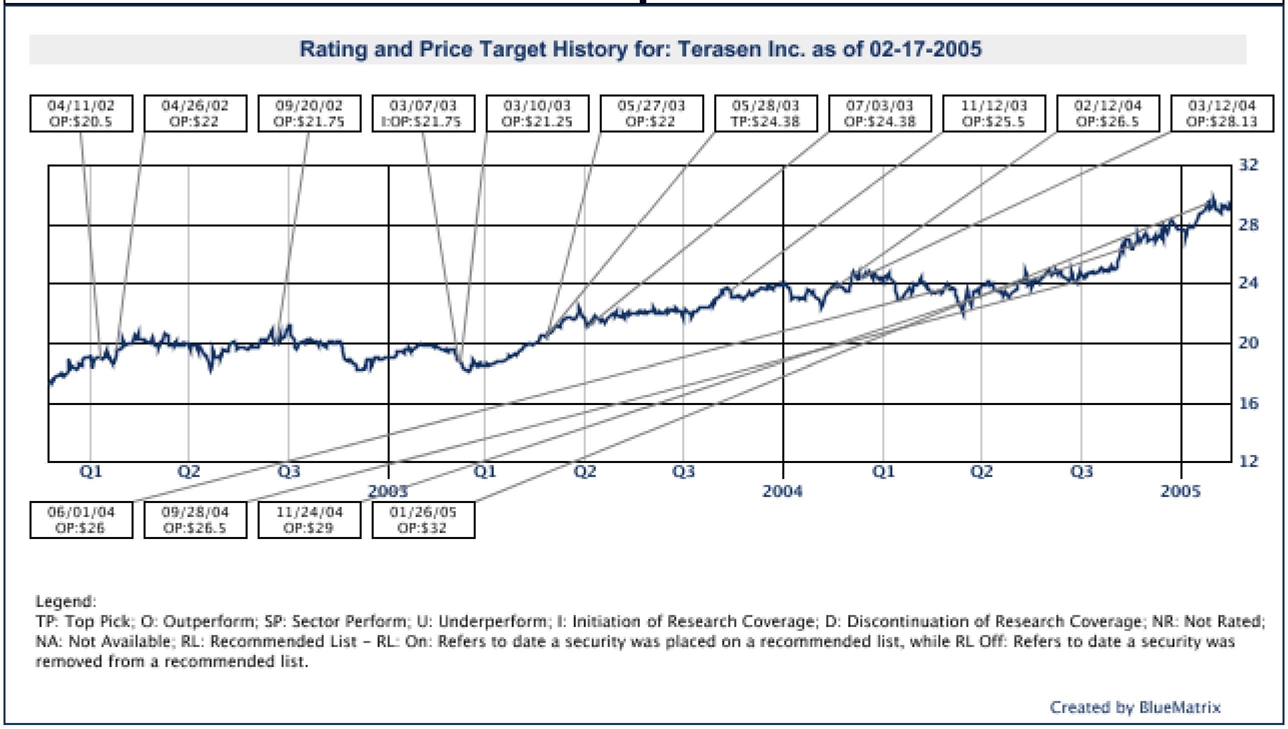
Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories–Buy, Hold/Neutral, or Sell–regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	416	46.64	150	36.06
HOLD [SP]	399	44.73	107	26.82
SELL [U]	77	8.63	14	18.18



In the event that this is a compendium report (covers more than six subject companies), RBC Capital Markets may choose to provide specific disclosures for the subject companies by reference. To access current disclosures, clients should refer to http://rbc2.bluematrix.com/bluematrix/Disclosure?f=34 Ydf8xF or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a member company of RBC Capital Markets or one of its affiliates. RBC Capital Markets Recommended Lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. RBC Dain Rauscher Inc. Recommended Lists include the Western Region Focus List (1), a former list called Model Utility Portfolio (2), and the Prime Opportunity List (3) (formerly called the Private Client Selects), Private Client Prime Portfolio (4), a former list called Private Client Portfolio (5), and the Prime Income List (6). The abbreviation "RL On" means the date a security was placed on a Recommended List. The abbreviation "RL Off" means the date a security was removed from a Recommended List.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.

Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

The author(s) of this report are employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Terasen Inc. in the past 12 months.

Maureen Howe is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Terasen Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Terasen Inc.

RBC Capital Markets is currently providing Terasen Inc. with non-securities services.

RBC Capital Markets has provided Terasen Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Terasen Inc. with non-securities services in the past 12 months.

Additional Disclosures

The information contained in this report has been compiled by RBC Capital Markets ("RBC CM") from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC CM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC Capital Markets is a business name used by subsidiaries of the Royal Bank of Canada including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. All opinions and estimates contained in this report constitute RBC CM's judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation of an offer to buy any securities. RBC CM and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, the entities constituting RBC CM or their affiliates may at any time have a long or short position in any such security or option thereon. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the particular circumstances or needs of any specific person who may read it. To the full extent permitted by law neither RBC CM or any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC CM. The entities comprising RBC Capital Markets are wholly owned subsidiaries of the Royal Bank of Canada and are members of the RBC Financial Group.

Additional information is available on request.

To U.S. Residents:
This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:
This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:
This publication has been approved by Royal Bank of Canada Europe Limited ("RBCEL") which is authorized and regulated by Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

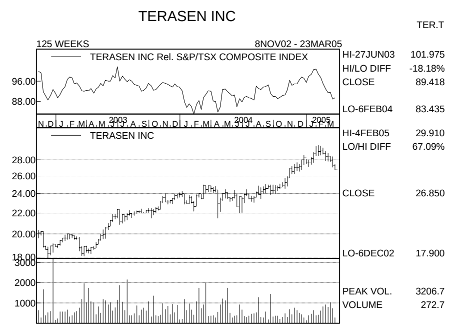
To Persons Receiving This Advice in Australia:
This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

To Hong Kong Residents:
This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

RBC Capital Markets

Research Comment

March 24, 2005



Fai Lee, CGA, CFA
(604) 257-7662
fai.lee@rbccm.com

Price:	$26.85	Price Target:	$32.00
52-Wk High:	$29.91	52-Wk Low:	$21.50
Float (MM):	105.2	Debt-to-Cap:	0.65
Shs O/S (MM):	114.4	Mkt Cap (MM):	$2,824
Dividend:	$0.90	Yield:	3.4%

Strategic Shareholders: Trans Mountain - 8.0%

(FY Dec 31)	2003A	2004A	2005E	2006E
EPS				
Old Basic	$1.37	$1.40	$1.50	$1.57
Old Diluted	$1.36	$1.39	$1.49	$1.56
Basic	$1.37	$1.40	$1.48	$1.57
Diluted	$1.36	$1.39	$1.47	$1.56
P/E	19.6	19.2	18.1	17.1
EPS	Q1	Q2	Q3	Q4
2003A	$0.62	$0.18	$0.03	$0.54
2004A	$0.63	$0.17	$0.08	$0.52
2005E	$0.61	$0.21	$0.10	$0.57

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items and may not be consistent with GAAP.

For Required Disclosures, please see page 2.

Maureen Howe, a member of the Canadian pipelines and utilities team, is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

Terasen Inc.

(TSX: TER)

Outperform

Average Risk

2005 EPS Estimate Reduced to Reflect Lower Throughput at Trans Mountain in Q1/05

Event

We have reduced our 2005 EPS estimate to reflect lower forecast earnings from Trans Mountain in Q1/05.

Investment Opinion

- **Throughput in Q1/05 expected to be lower than originally forecast.** Due to production outages in the Alberta oil sands and west coast refinery turnarounds, we had reflected a decline in throughput on the Trans Mountain Canadian mainline in Q1/05. Based on a recent presentation by Terasen to the National Energy Board, we believe that we have underestimated the extent of the decline.
- **Expect throughput volumes to rebound.** Trans Mountain has throughput protection if annual volumes on the Canadian mainline decline below 179,265 bpd. However, we believe the decline in Q1/05 is due to temporary factors and we do not expect annual volumes to decline below 179,265 bpd. Supporting our view, April nominations for the Trans Mountain Canadian mainline have been fairly strong and the pipeline is back in apportionment.
- **2005 EPS estimate decreased to reflect lower throughput volumes.** Reflecting weaker-than-forecast throughput volumes on the Trans Mountain system in Q1/05, we have reduced our 2005 EPS estimate from $1.50 to $1.48.
- **Valuation.** Our target price of $32.00 reflects a 12-month dividend distribution one-year forward of $0.96 and a required dividend yield of 2.95%.

Details

Terasen's management indicated during its fourth quarter conference call that it expected temporary weakness in throughput volumes on the Trans Mountain system during the first few months of 2005, primarily due to production outages in the Alberta oil sands and west coast refinery turnarounds. In our financial model, we had reflected a decline in throughput on the Trans Mountain Canadian mainline from 239,100 bpd in Q4/04 to 200,000 bpd in Q1/05. Based on a recent presentation by Terasen to the National Energy Board, we believe Trans Mountain Canadian mainline throughput will fall below our previous estimate. It appears that throughput in January and February was about 170,000 bpd and the forecast for March is about 190,000 bpd.

Trans Mountain has throughput protection if annual volumes on the Canadian mainline decline below 179,265 bpd. However, we believe the decline in Q1/05 is due to temporary factors and we do not expect annual volumes to decline below 179,265 bpd. According to Terasen, April nominations for the Trans Mountain Canadian mainline have been fairly strong and the pipeline is back in apportionment.

Reflecting weaker-than-forecast throughput volumes on the Trans Mountain system in Q1/05, we have reduced our 2005 EPS estimate from $1.50 to $1.48.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $32.00 reflects a 12-month dividend distribution one-year forward of $0.96 and a required dividend yield of 2.95%.

Price Target Impediments

Factors that could have negative implications for Terasen's earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain's Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

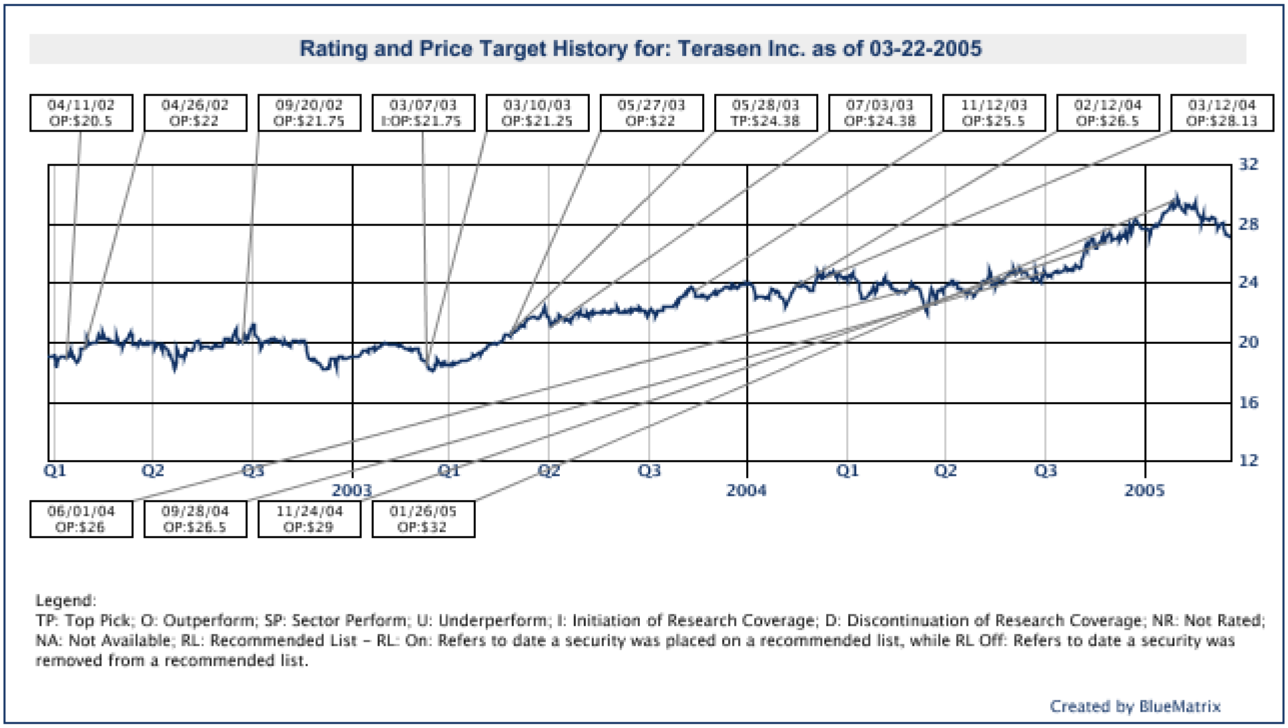
Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories–Buy, Hold/Neutral, or Sell–regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	421	46.93	156	37.05
HOLD [SP]	398	44.37	105	26.38
SELL [U]	78	8.70	15	19.23



In the event that this is a compendium report (covers more than six subject companies), RBC Capital Markets may choose to provide specific disclosures for the subject companies by reference. To access current disclosures, clients should refer to http://rbc2.bluematrix.com/bluematrix/Disclosure?f=34 Ydf8xF or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a member company of RBC Capital Markets or one of its affiliates. RBC Capital Markets Recommended Lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. RBC Dain Rauscher Inc. Recommended Lists include the Western Region Focus List (1), a former list called Model Utility Portfolio (2), and the Prime Opportunity List (3) (formerly called the Private Client Selects), Private Client Prime Portfolio (4), a former list called Private Client Portfolio (5), and the Prime Income List (6). The abbreviation "RL On" means the date a security was placed on a Recommended List. The abbreviation "RL Off" means the date a security was removed from a Recommended List.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.

Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

The author(s) of this report are employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months. A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Terasen Inc. in the past 12 months. Maureen Howe is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector. A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Terasen Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Terasen Inc. RBC Capital Markets is currently providing Terasen Inc. with non-securities services. RBC Capital Markets has provided Terasen Inc. with investment banking services in the past 12 months. RBC Capital Markets has provided Terasen Inc. with non-securities services in the past 12 months.

Additional Disclosures

The information contained in this report has been compiled by RBC Capital Markets ("RBC CM") from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC CM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC Capital Markets is a business name used by subsidiaries of the Royal Bank of Canada including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. All opinions and estimates contained in this report constitute RBC CM's judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation of an offer to buy any securities. RBC CM and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, the entities constituting RBC CM or their affiliates may at any time have a long or short position in any such security or option thereon. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the particular circumstances or needs of any specific person who may read it. To the full extent permitted by law neither RBC CM or any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC CM. The entities comprising RBC Capital Markets are wholly owned subsidiaries of the Royal Bank of Canada and are members of the RBC Financial Group.

Additional information is available on request.

To U.S. Residents:
This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:
This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:
This publication has been approved by Royal Bank of Canada Europe Limited ("RBCEL") which is authorized and regulated by Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

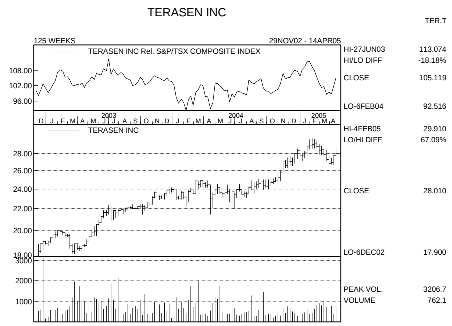
To Persons Receiving This Advice in Australia:
This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

To Hong Kong Residents:
This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

RBC Capital Markets

Research Comment

April 15, 2005



Fai Lee, CGA, CFA
(604) 257-7662
fai.lee@rbccm.com

Price:	$28.01	Price Target:	$32.00
52-Wk High:	$29.91	52-Wk Low:	$21.50
Float (MM):	105.2	Debt-to-Cap:	0.65
Shs O/S (MM):	114.4	Mkt Cap (MM):	$2,946
Dividend:	$0.90	Yield:	3.2%

Strategic Shareholders: Trans Mountain - 8.0%

(FY Dec 31)	2003A	2004A	2005E	2006E
EPS				
Basic	$1.37	$1.40	$1.48	$1.57
Diluted	$1.36	$1.39	$1.47	$1.56
P/E	20.4	20.0	18.9	17.8
EPS	Q1	Q2	Q3	Q4
2003A	$0.62	$0.18	$0.03	$0.54
2004A	$0.63	$0.17	$0.08	$0.52
2005E	$0.61	$0.21	$0.10	$0.57

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items and may not be consistent with GAAP.

For Required Disclosures, please see page 2.

Maureen Howe, a member of the Canadian pipelines and utilities team, is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Enbridge Signs MOU with PetroChina; We Remain Positive on Terasen's TMx1 Project

Event

Enbridge announced a memorandum of understanding (MOU) with PetroChina International Company Limited.

Investment Opinion

- **MOU with PetroChina.** Under the MOU, Enbridge and PetroChina have agreed to cooperate on the development of the Gateway Pipeline and supply of crude oil from Canada to China. The Gateway Pipeline is a proposed 400,000 bpd pipeline project designed to transport Alberta oil sands production from Edmonton, Alberta to a port on the west coast of British Columbia. The Gateway project can be considered as a rival project to the northern option of Terasen's TMX Project.
- **We don't view the MOU as a major obstacle for the TMX Project.** Enbridge's management indicated that the MOU is a preliminary step in the development of the Gateway Project and it cautioned against reading too much into the announcement. At this time, we believe that there is insufficient information to accurately determine the implications, if any, of Enbridge's MOU on Terasen's TMX Project. For example, we do not know the terms of PetroChina's involvement/commitment in the Gateway project, whether PetroChina has agreed to deal exclusively with Enbridge or if there are any sunset clauses to the MOU.
- **Still remain positive about development of TMx1**. Notwithstanding Enbridge's announcement, we remain positive with respect to the development of the first phase of Terasen's TMX project ("TMx1") based on the results of its previously announced Expression of Interest process and discussions with Terasen's management.
- **Valuation.** Our target price of $32.00 (unchanged) reflects a 12-month dividend distribution one-year forward of $0.96 and a required dividend yield of 2.95%.

Details

Yesterday, Enbridge announced that it has entered into a memorandum of understanding with PetroChina International Company Limited to cooperate on the development of the Gateway Pipeline and supply of crude oil from Canada to China. PetroChina is a large integrated company that is involved in the exploration, development and production of crude oil and natural gas; refining, transportation, storage and marketing, including import and export, of crude oil and petroleum products; production and sale of chemical products; and transmission, marketing and sale of natural gas.

Under the MOU, Enbridge will assist PetroChina to aggregate long-term supplies of Canadian crude oil with a target of approximately 200,000 bpd. Enbridge is seeking commitments from other potential shippers on the Gateway Pipeline to fill the remaining capacity.

Enbridge's management indicated that the MOU is a preliminary step in the development of the Gateway Project and it cautioned against reading too much into the announcement stating, "…there remains a great deal to be accomplished before the Gateway Pipeline can become a reality." At this time, we believe that there is insufficient information to accurately determine the implications, if any, of Enbridge's MOU on Terasen's TMX Project. For example, we do not know the terms of PetroChina's involvement/commitment in the Gateway project, whether PetroChina has agreed to deal exclusively with Enbridge or if there are any sunset clauses to the MOU. Notwithstanding Enbridge's announcement, we remain positive with respect to the development of the first phase of Terasen's TMX project ("TMx1") based on the results of its previously announced Expression of Interest process and discussions with Terasen's management.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $32.00 reflects a 12-month dividend distribution one-year forward of $0.96 and a required dividend yield of 2.95%.

Price Target Impediments

Factors that could have negative implications for Terasen's earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain's Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.
Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

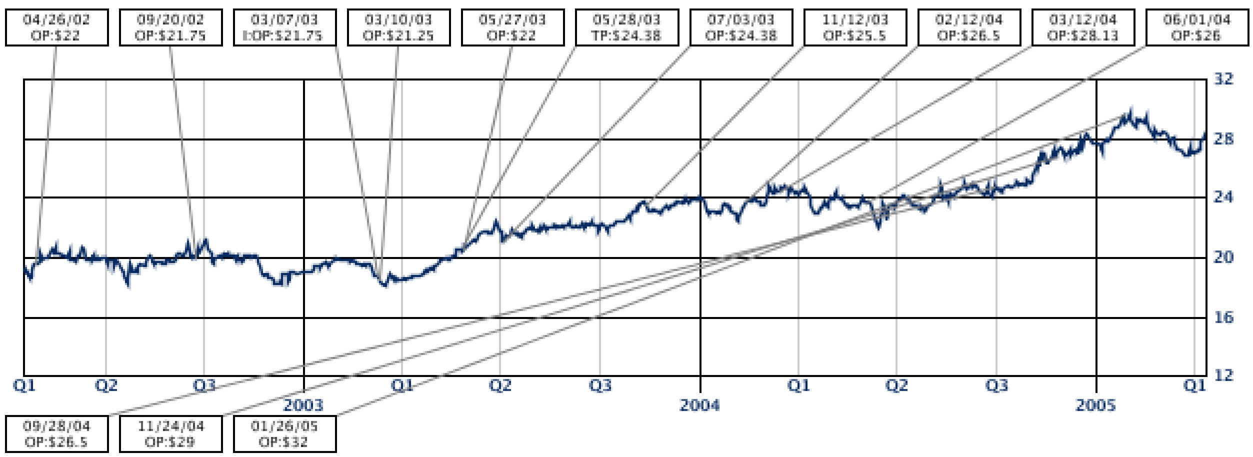
Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories–Buy, Hold/Neutral, or Sell–regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	383	41.59	126	32.90
HOLD [SP]	444	48.21	134	30.18
SELL [U]	94	10.21	25	26.60

Rating and Price Target History for: Terasen Inc. as of 04-13-2005



Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list.

In the event that this is a compendium report (covers more than six subject companies), RBC Capital Markets may choose to provide specific disclosures for the subject companies by reference. To access current disclosures, clients should refer to http://rbc2.bluematrix.com/bluematrix/Disclosure?f=34 Ydf8xF or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.
References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a member company of RBC Capital Markets or one of its affiliates. RBC Capital Markets Recommended Lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. RBC Dain Rauscher Inc. Recommended Lists include the Western Region Focus List (1), a former list called Model Utility Portfolio (2), and the Prime Opportunity List (3) (formerly called the Private Client Selects), Private Client Prime Portfolio (4), a former list called Private Client Portfolio (5), and the Prime Income List (6). The abbreviation "RL On" means the date a security was placed on a Recommended List. The abbreviation "RL Off" means the date a security was removed from a Recommended List.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.

Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

The author(s) of this report are employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

Maureen Howe is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Terasen Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.

RBC Capital Markets is currently providing Terasen Inc. with non-securities services.

RBC Capital Markets has provided Terasen Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Terasen Inc. with non-securities services in the past 12 months.

A household member or members of the analyst team hold(s) or exercise(s) investment discretion over a long position in the common shares of Terasen Inc.

A household member or members of the analyst team hold(s) or exercise(s) investment discretion over a long position in warrants, rights or securities convertible into the common shares of Terasen Inc.

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Terasen Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Terasen Inc.

Additional Disclosures

The information contained in this report has been compiled by RBC Capital Markets ("RBC CM") from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC CM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC Capital Markets is a business name used by subsidiaries of the Royal Bank of Canada including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. All opinions and estimates contained in this report constitute RBC CM's judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation of an offer to buy any securities. RBC CM and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, the entities constituting RBC CM or their affiliates may at any time have a long or short position in any such security or option thereon. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the particular circumstances or needs of any specific person who may read it. To the full extent permitted by law neither RBC CM or any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC CM. The entities comprising RBC Capital Markets are wholly owned subsidiaries of the Royal Bank of Canada and are members of the RBC Financial Group.

Additional information is available on request.

To U.S. Residents:

This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ("RBCEL") which is authorized and regulated by Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

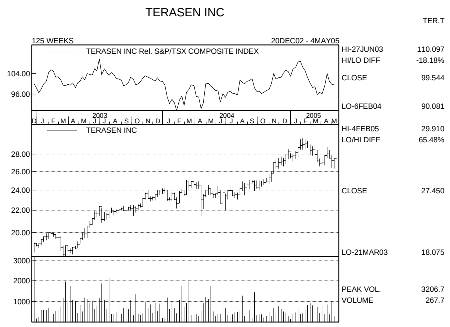
To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

RBC Capital Markets

Research Comment

May 5, 2005



Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Q1/05 Results In Line With Expectations; On Track for 2005

Fai Lee, CGA, CFA
(604) 257-7662
fai.lee@rbccm.com

Price:	$27.45	Price Target:	$32.00
52-Wk High:	$29.91	52-Wk Low:	$22.00
Float (MM):	105.4	Debt-to-Cap:	0.68
Shs O/S (MM):	114.6	Mkt Cap (MM):	$2,894
Dividend:	$0.90	Yield:	3.3%

Strategic Shareholders: Trans Mountain - 8.0%

(FY Dec 31)	2003A	2004A	2005E	2006E
EPS				
Basic	$1.37	$1.40	$1.48	$1.57
Diluted	$1.36	$1.39	$1.47	$1.56
P/E	20.0	19.6	18.5	17.5
EPS	Q1	Q2	Q3	Q4
2003A	$0.62	$0.18	$0.03	$0.54
2004A	$0.63	$0.17	$0.08	$0.52
2005E	$0.60A	$0.22	$0.12	$0.54

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items and may not be consistent with GAAP.

For Required Disclosures, please see page 4.

Maureen Howe, a member of the Canadian pipelines and utilities team, is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

Event

Terasen announced its first quarter results.

Investment Opinion

- **Q1/05 results in line with expectations.** Terasen's normalized EPS were $0.60 in Q1/05 compared to our estimate of $0.61 and $0.63 in Q1/04. Lower-than-expected results from Petroleum Transportation were largely offset by higher-than-expected results from Water and Utility Services and Other Activities. As expected, petroleum transportation throughput was negatively impacted by a temporary decline in production from the Alberta oilsands and refinery turnarounds.
- **Guidance for 2005 unchanged.** Notwithstanding the decline in first quarter results, Terasen's management is confident that it will achieve its target of 6% EPS growth in 2005. In the second quarter, Trans Mountain returned to operating at full capacity and was at 35% apportionment for May nominations. Management expects throughput to remain strong through the remainder of the year. Further, the recent completion of the Express pipeline expansion should provide increased earnings through the remainder of the year. Based on this outlook, we remain comfortable with our 2005 EPS estimate.
- **Outlook for 2006 still somewhat uncertain**. The earnings outlook for 2006 will depend on the outcome of Trans Mountain's negotiations with its shippers on the renewal of the existing Incentive Toll Settlement (ITS), which expires at the end of 2005. Given the preliminary nature of Trans Mountain's negotiations with its shippers, Terasen's management was unable to provide guidance with respect to the expected impact of the ITS renewal. Developments with respect to Terasen's TMX Project could also impact 2006 earnings. Pending additional information on the outcome of the ITS negotiations and the TMX project, we are maintaining our 2006 EPS estimate at this time.
- **Business development activities continue.** Terasen continues to work on a number of potential growth opportunities including development of the TMX Project and LNG Storage Facility, as well as the expansion of the Corridor Pipeline and Express System.
- **Valuation.** Our target price of $32.00 reflects a 12-month dividend distribution one-year forward of $0.97 and a required dividend yield of 2.95%.

Details

In general, the Q1/05 results were in line with our expectations. Terasen's normalized EPS were $0.60 in Q1/05 compared to our estimate of $0.61 and $0.63 in Q1/04. Lower-than-expected results from Petroleum Transportation were largely offset by higher-than-expected results from Water and Utility Services and Other Activities. As expected, petroleum transportation throughput was negatively impacted by a temporary decline in production from the Alberta oilsands, as well as maintenance turnarounds at refineries connected the Trans Mountain pipeline. Terasen's first quarter financial results are summarized in Exhibit 1.

Exhibit 1: Financial Results Summary ($MM Except EPS or Otherwise Indicated)

	For 3 months Ended Mar. 31			
	2005	2004	RBC CM Est. Q1/05	Comments
Natural Gas Distribution				
Terasen Gas	$ 49.0	$ 48.0	$ 48.9	Operating efficiencies and customer growth more than offset lower allowed ROE in 2005.
Terasen Gas (Vancouver Island)	6.7	6.7	6.6	
	55.7	54.7	55.5	
Petroleum Transportation				
Trans Mountain	5.4	10.4	6.6	Q1/05 results negatively impacted by production outages in the Alberta oilsands and refinery turnarounds.
Corridor	3.6	3.9	4.0	Lower allowed return on equity in Q1/05.
Express	3.7	4.0	4.3	Q1/05 results negatively impacted by production outages in the Alberta oilsands
	12.7	18.3	14.9	
Water and Utility Services	0.8	-	(0.0)	
Other Activities	(5.5)	(6.8)	(6.5)	Q1/05 results reflect lower corporate expenses and improved operations at Clean Energy.
Normalized earnings	$ 63.7	$ 66.2	$ 63.9	
Normalization adjustments:				
Mark-to-market gain at Clean Energy	2.6	1.7		
Reported earnings	$ 66.3	$ 67.9	$ 63.9	
Weighted average shares outstanding (MM)	105.3	104.4	105.2	
Normalized EPS	$ 0.60	$ 0.63	$ 0.61	

Source: Terasen; RBC Capital Markets

Natural Gas Distribution

Normalized earnings from Natural Gas Distribution were $49.0 million in Q1/05 compared to $48.0 million in Q1/04. Operating efficiencies and customer growth at Terasen Gas more than offset the lower allowed rate of return on equity in 2005.

Petroleum Transportation

Normalized earnings from Petroleum Transportation were $12.7 million in Q1/05 compared to earnings of $18.3 million in Q1/04. The first quarter results were negatively impacted by lower throughput volumes on Trans Mountain's mainline, which were attributable to temporary production outages in the Alberta oilsands and refinery turnarounds. In Q1/05, throughput averaged 170,000 bpd on Trans Mountain's Canadian mainline and 44,500 bpd on the U.S. mainline. In comparison, throughput averaged 240,400 bpd on the Canadian mainline and 93,300 bpd on the U.S. mainline in Q1/04. Based on March 2005 presentation by Terasen to the National Energy Board, we had expected Q1/05 throughput of approximately 175,000 bpd on the Canadian mainline and 40,000 bpd on the U.S. mainline.

Earnings from the Express System decreased from $4.0 million in Q1/04 to $3.7 million in Q1/05. The Q1/05 contribution from Express was also negatively impacted by the temporary production outages in the Alberta oilsands. Reflecting a lower allowed return on equity, earnings from the Corridor Pipeline declined by $0.3 million from $3.9 million in Q1/04 to $3.6 million Q1/05.

Water and Utility Services

Normalized earnings from Water and Utility Services increased from nil in Q1/04 to $0.8 million in Q1/05. The increase reflected continued growth in the base waterworks and utility service business combined with a small contribution from Fairbanks Sewer and Water Inc., which was acquired on July 31, 2004.

Other Activities
Excluding mark-to-market gains for natural gas derivative positions at Clean Energy, normalized earnings from Other Activities increased from ($6.8) million in Q1/04 to ($5.5) million in Q1/05. The increase was attributed to a reduction in corporate expenses and improved operations at Clean Energy.

EPS Estimates

Notwithstanding the decline in first quarter results, Terasen's management is confident that it will achieve its target of 6% EPS growth in 2005. In the second quarter, Trans Mountain returned to operating at full capacity and was at 35% apportionment for May nominations. Management expects throughput to remain strong through the remainder of the year. Further, the recent completion of the Express pipeline expansion should provide increased earnings through the remainder of the year. Based on the Q1/05 results and the expected outlook for the remainder of the year, we remain comfortable with our 2005 EPS estimate at this time.

The earnings outlook for 2006 will depend on the outcome of Trans Mountain's negotiations with its shippers on the renewal of the existing Incentive Toll Settlement (ITS), which expires at the end of 2005. In our financial forecast, we have assumed a $3 million decline in earnings at Trans Mountain in 2006 compared to 2004. Our 2006 EPS estimate would be negatively impacted if the renewal of the ITS reduced Trans Mountain's annual earnings contribution below $36 million. Given the preliminary nature of Trans Mountain's negotiations with its shippers, Terasen's management was unable to provide guidance with respect to the expected impact of the ITS renewal. Developments with respect to Terasen's TMX Project could also impact 2006 earnings. Pending additional information on the outcome of the ITS negotiations and the TMX project, we are maintaining our 2006 EPS estimate at this time.

Outlook

TMX Project
Terasen continues to work on its TMX project including developing the technical, regulatory and commercial components of the project. The pump station expansion project, which falls under the first phase of the TMX project, has received good interest from shippers. Through the construction of 13 new pump stations, the $205 million project would add 35,000 bpd of incremental capacity in 2006. Terasen is also working with potential domestic and overseas shippers on finalizing an interim commercial and tolling framework in the second quarter prior to holding an open season for long-term commitments for the first phase of the project. The open season could be held as early as June or July 2005.

Corridor Pipeline
Shell Canada recently filed regulatory applications to expand the capacity at its Muskeg River Mine and Scotford Upgrader. To accommodate the expected increase in production volumes, Terasen is actively working with Shell and its partners in the Athabasca Oil Sands Project on potentially expending the Corridor Pipeline from 155,000 bpd to 300,000 bpd by 2009 with 90,000 bpd increments every two years thereafter. Terasen is presently working on the first phase of the project, which consists of de-bottlenecking the existing system by adding pumping capacity at an estimated cost of $6.5 million. The first phase is expected to be in service by the fall of 2005. The second phase would expand the Corridor Pipeline by an additional 110,000 bpd at an estimated cost of $700 million to $800 million. Terasen is also working on expansion opportunities to ship third party volumes on the Corridor Pipeline.

Express System
In April 2005, Terasen completed its expansion plans for the Express System increasing total capacity by 108,000 bpd to 280,000 bpd at a total cost of approximately US$100 million. Approximately 84% of the total capacity is committed under long-term contracts. Terasen expects to start shipping uncommitted volumes in June or July 2005. The company has started to work on further expansion opportunities of the Express System to provide incremental capacity into PADD II, PADD V or possibly PADD III.

LNG Storage Facility
Terasen Gas Vancouver Island (TGVI) is working with BC Hydro on finalizing a long-term Transportation Service Agreement (TSA) to serve the Duke Point Power Project on Vancouver Island. In February 2005, the British Columbia Utilities Commission (BCUC) approved the construction of a liquefied natural gas storage facility on Vancouver Island subject to the execution of the TSA. According to Terasen, it has made substantial progress with respect to its negotiations with BC Hydro.

In April 2005, a B.C. Court of Appeal judge dismissed an appeal motion filed by third parties seeking to overturn the BCUC's decision to approve BC Hydro's electricity purchase agreement with Pristine Power, which will construct the Duke Point Power Project. The third parties have filed a request to have a three-judge Appeal Court panel review the original ruling and a hearing has been set for June 3, 2005. Notwithstanding the appeal hearing, Terasen remains optimistic that the LNG storage facility will proceed ahead.

Summary

The Q1/05 results were generally in line with our expectations. We remain comfortable with our current 2005 EPS estimate. Terasen's 2006 earnings outlook is somewhat unclear given the expiry of Trans Mountain's current ITS and the uncertainty with respect to its renewal. On the positive side, Terasen has a number of potential organic growth opportunities within its existing businesses.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $32.00 reflects a 12-month dividend distribution one-year forward of $0.96 and a required dividend yield of 2.95%.

Price Target Impediments

Factors that could have negative implications for Terasen's earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain's Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

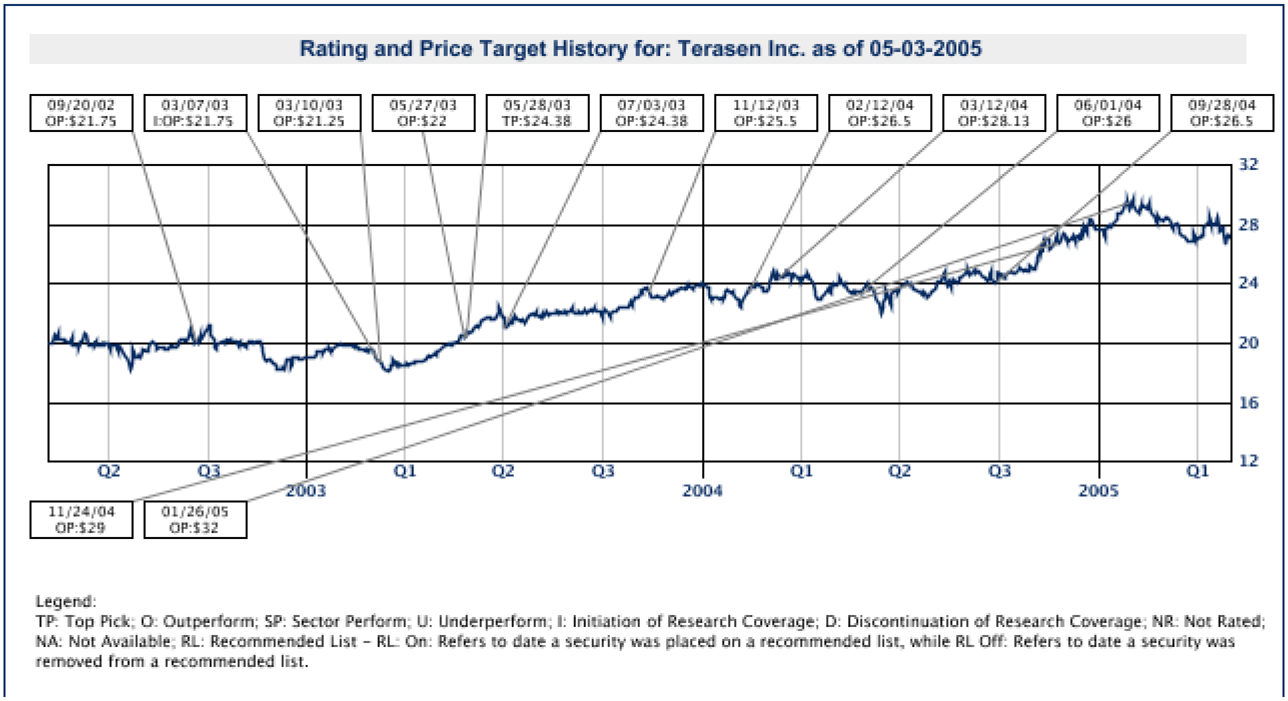
Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories–Buy, Hold/Neutral, or Sell–regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	398	43.45	132	33.17
HOLD [SP]	433	47.27	134	30.95
SELL [U]	85	9.28	25	29.41



In the event that this is a compendium report (covers more than six subject companies), RBC Capital Markets may choose to provide specific disclosures for the subject companies by reference. To access current disclosures, clients should refer to http://rbc2.bluematrix.com/bluematrix/Disclosure?f=34 Ydf8xF or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a member company of RBC Capital Markets or one of its affiliates. RBC Capital Markets Recommended Lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. RBC Dain Rauscher Inc. Recommended Lists include the Western Region Focus List (1), a former list called Model Utility Portfolio (2), and the Prime Opportunity List (3) (formerly called the Private Client Selects), Private Client Prime Portfolio (4), a former list called Private Client Portfolio (5), and the Prime Income List (6). The abbreviation "RL On" means the date a security was placed on a Recommended List. The abbreviation "RL Off" means the date a security was removed from a Recommended List.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.

Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

The author(s) of this report are employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

Maureen Howe is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Terasen Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.

RBC Capital Markets is currently providing Terasen Inc. with non-securities services.

RBC Capital Markets has provided Terasen Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Terasen Inc. with non-securities services in the past 12 months.

A household member or members of the analyst team hold(s) or exercise(s) investment discretion over a long position in the common shares of Terasen Inc.

A household member or members of the analyst team hold(s) or exercise(s) investment discretion over a long position in warrants, rights or securities convertible into the common shares of Terasen Inc.

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Terasen Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Terasen Inc.

Additional Disclosures

The information contained in this report has been compiled by RBC Capital Markets ("RBC CM") from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC CM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC Capital Markets is a business name used by subsidiaries of the Royal Bank of Canada including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. All opinions and estimates contained in this report constitute RBC CM's judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation of an offer to buy any securities. RBC CM and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, the entities constituting RBC CM or their affiliates may at any time have a long or short position in any such security or option thereon. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the particular circumstances or needs of any specific person who may read it. To the full extent permitted by law neither RBC CM or any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC CM. The entities comprising RBC Capital Markets are wholly owned subsidiaries of the Royal Bank of Canada and are members of the RBC Financial Group.

Additional information is available on request.

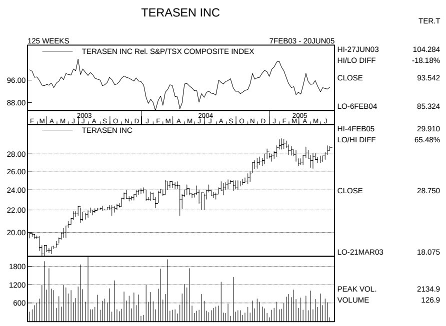
To U.S. Residents:
This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:
This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:
This publication has been approved by Royal Bank of Canada Europe Limited ("RBCEL") which is authorized and regulated by Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To Persons Receiving This Advice in Australia:
This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

To Hong Kong Residents:
This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).



Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Financial Estimates Revised to Reflect BC Hydro's Cancellation of the Duke Point Power Project

Fai Lee, CGA, CFA
(604) 257-7662
fai.lee@rbccm.com

Price:	$28.75	Price Target:	$32.50
52-Wk High:	$29.91	52-Wk Low:	$22.02
Float (MM):	105.4	Debt-to-Cap:	0.68
Shs O/S (MM):	114.6	Mkt Cap (MM):	$3,031
Dividend:	$0.90	Yield:	3.1%

Strategic Shareholders: Trans Mountain - 8.0%

(FY Dec 31)	2004A	2005E	2006E	2007E
EPS				
Old Basic	$1.40	$1.48	$1.57	$1.60
Old Diluted	$1.39	$1.47	$1.56	$1.59
Basic	$1.40	$1.48	$1.56	$1.58
Diluted	$1.39	$1.47	$1.55	$1.57
P/E	20.5	19.4	18.4	18.2
EPS	Q1	Q2	Q3	Q4
2003A	$0.62	$0.18	$0.03	$0.54
2004A	$0.63	$0.17	$0.08	$0.52
2005E	$0.60A	$0.22	$0.12	$0.54

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items

For Required Disclosures, please see page 2.

Maureen Howe, a member of the Canadian pipelines and utilities team, is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

Event

BC Hydro recently abandoned its Duke Point Power Project.

Investment Opinion

- **Unexpected decision from BC Hydro.** BC Hydro recently decided to abandon its proposed $285 million Duke Point Power Project. The provincially owned utility claimed that the B.C. Court of Appeal's decision to hear an appeal of the project by a number of intervenors resulted in a great risk that the plant would not be built in time. We had not expected this decision given the progress that had been made on the project.
- **Decision may mean potential delay for Terasen's LNG storage facility.** Terasen had been working with BC Hydro on finalizing a long-term Transportation Service Agreement that would have resulted in the construction of a LNG storage facility to serve the Duke Point Power Project. Notwithstanding BC Hydro's decision, Terasen's management believes that there still could be a need for its proposed LNG storage facility in the future. As a result, Terasen is considering the possibility of filing for regulatory approval to construct the facility at a later date.
- **EPS estimates reduced to reflect regulatory uncertainty**. Given the uncertainty regarding whether the provincial regulator will approve another application for a LNG storage facility on Vancouver Island, we have decided to exclude the potential impact of the LNG facility from our financial forecast. Accordingly, we have reduced our 2006 and 2007 EPS estimates for Terasen from $1.57 and $1.60, respectively, to $1.56 and $1.58.
- **Valuation.** Our target price of $32.50 (unchanged) reflects a 12-month dividend distribution one-year forward of $0.98 and a required dividend yield of 3.0%.

Details

BACKGROUND

BC Hydro recently decided to abandon its proposed $285 million Duke Point Power Project on Vancouver Island. The provincially owned utility claimed that the B.C. Court of Appeal's decision to hear an appeal of the project by a number of intervenors resulted in a great risk that the plant would not be built in time.

We were surprised by BC Hydro's decision, particularly given the progress that had been made on the project. BC Hydro had already spent $70 million on turbines and other equipment related to the project. This amount does not include the $50 million spent on the Georgia Strait Crossing (GSX) pipeline project that was cancelled in late 2004. The GSX project was designed to supply natural gas to BC Hydro's power plant and other facilities on Vancouver Island.

Following the cancellation of the GSX project, Terasen Gas Vancouver Island (TGVI) had been working with BC Hydro on finalizing a long-term Transportation Service Agreement (TSA) to serve the Duke Point Power Project. In February 2005, the British Columbia Utilities Commission (BCUC) approved Terasen's application to construct a liquefied natural gas storage facility on Vancouver Island subject to the execution of the TSA.

IMPLICATIONS

Notwithstanding BC Hydro's decision, Terasen's management believes that there still could be a need for its proposed LNG storage facility on Vancouver Island in the future. As a result, Terasen is considering the possibility of filing another application with the BCUC for the construction of the LNG storage facility at a later date.

Given the uncertainty regarding whether the BCUC will approve another application for a LNG storage facility on Vancouver Island, we have decided to exclude the potential impact of the LNG facility from our financial forecast. Accordingly, we have reduced our 2006 and 2007 EPS estimates for Terasen from $1.57 and $1.60, respectively, to $1.56 and $1.58.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $32.50 reflects a 12-month dividend distribution one-year forward of $0.98 and a required dividend yield of 3.0%.

Price Target Impediments

Factors that could have negative implications for Terasen's earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain's Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.
Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

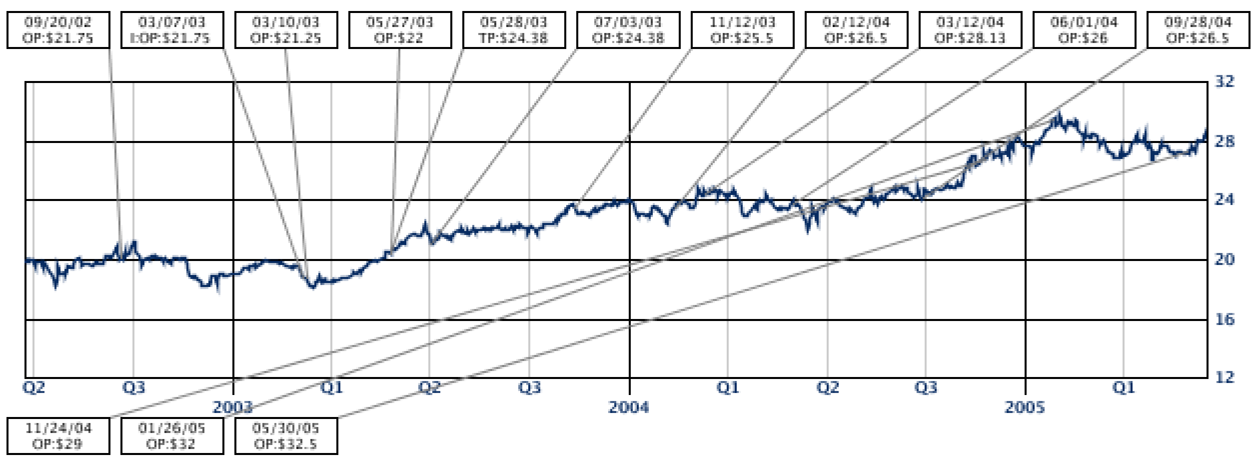
Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories–Buy, Hold/Neutral, or Sell–regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	398	43.50	138	34.67
HOLD [SP]	437	47.76	128	29.29
SELL [U]	80	8.74	28	35.00

Rating and Price Target History for: Terasen Inc. as of 06-17-2005



Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list.

In the event that this is a compendium report (covers more than six subject companies), RBC Capital Markets may choose to provide specific disclosures for the subject companies by reference. To access current disclosures, clients should refer to http://rbc2.bluematrix.com/bluematrix/Disclosure?f=34 Ydf8xF or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a member company of RBC Capital Markets or one of its affiliates. RBC Capital Markets Recommended Lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. RBC Dain Rauscher Inc. Recommended Lists include the Western Region Focus List (1), a former list called Model Utility Portfolio (2), and the Prime Opportunity List (3) (formerly called the Private Client Selects), Private Client Prime Portfolio (4), a former list called Private Client Portfolio (5), and the Prime Income List (6). The abbreviation "RL On" means the date a security was placed on a Recommended List. The abbreviation "RL Off" means the date a security was removed from a Recommended List.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.

Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

The author(s) of this report are employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

Maureen Howe is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Terasen Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.

RBC Capital Markets is currently providing Terasen Inc. with non-securities services.

RBC Capital Markets has provided Terasen Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Terasen Inc. with non-securities services in the past 12 months.

A household member or members of the analyst team hold(s) or exercise(s) investment discretion over a long position in the common shares of Terasen Inc.

A household member or members of the analyst team hold(s) or exercise(s) investment discretion over a long position in warrants, rights or securities convertible into the common shares of Terasen Inc.

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Terasen Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Terasen Inc.

Additional Disclosures

Additional information is available on request.

To U.S. Residents:

This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:

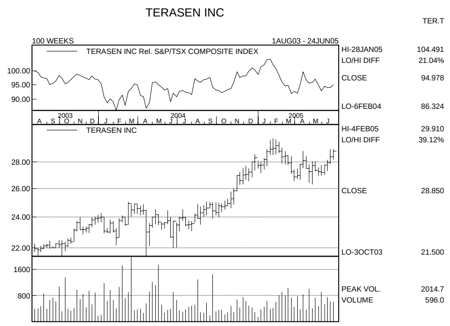
This publication has been approved by Royal Bank of Canada Europe Limited (“RBCEL”) which is authorized and regulated by Financial Services Authority (“FSA”), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).



Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Enbridge Tolling Agreement Encouraging for Terasen

Fai Lee, CGA, CFA
(604) 257-7662
fai.lee@rbccm.com

Price:	$28.85	Price Target:	$32.50
52-Wk High:	$29.91	52-Wk Low:	$23.05
Float (MM):	105.4	Debt-to-Cap:	0.68
Shs O/S (MM):	114.6	Mkt Cap (MM):	$3,042
Dividend:	$0.90	Yield:	3.1%

Strategic Shareholders: Trans Mountain - 8.0%

(FY Dec 31)	2004A	2005E	2006E	2007E
EPS				
Basic	$1.40	$1.48	$1.56	$1.58
Diluted	$1.39	$1.47	$1.55	$1.57
P/E	20.6	19.5	18.5	18.3
EPS	Q1	Q2	Q3	Q4
2003A	$0.62	$0.18	$0.03	$0.54
2004A	$0.63	$0.17	$0.08	$0.52
2005E	$0.60A	$0.22	$0.12	$0.54

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items and may not be consistent with GAAP.

For Required Disclosures, please see page 3.

Maureen Howe, a member of the Canadian pipelines and utilities team, is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

Event

Enbridge reached an agreement with the Canadian Association of Petroleum Producers (CAPP) on a new incentive tolling settlement.

Investment Opinion

- **No widespread rebasing of tolls.** CAAP did not seek a complete rebasing of Enbridge's tolls. Instead, Enbridge's earnings base was reduced to account for the difference between the 2005 National Energy Board Multi-Pipeline return on equity and the implied return reflected in Enbridge's 1994 base tolls. If we apply a similar adjustment for Terasen, we arrive at a $4 million reduction to the earnings base for Terasen's Trans Mountain system. After normalizing for the temporary decline in Trans Mountain's throughput in Q1/05, this level of reduction is consistent with our current 2006 financial forecast for Terasen.
- **Possible incentive opportunities.** Under its agreement with CAPP, Enbridge will have the opportunity to realize bonuses for improving batch quality, delivery predictability and capacity reliability. Through these bonuses and cost savings, Enbridge expects to partially mitigate the impact of the decline in its earnings base. Based on discussions with Terasen's management, we expect similar types of incentives to be incorporated into any agreement that Terasen may reach with CAPP.
- **Focus on service quality rather than cost reduction.** As observed in Enbridge's agreement, we expect CAPP to focus more on the issue of providing proper incentives to meet service targets instead of reducing overall pipeline tolls in its negotiations with Terasen.
- **Encouraged by Enbridge's agreement.** In recent months, Terasen's share performance has lagged behind other energy infrastructure stocks. We believe that Terasen's underperformance may be related to concerns over the renewal of its existing incentive toll settlement for Trans Mountain. We view Enbridge's agreement as encouraging and recommend investors consider increasing their weighting in Terasen at this time.
- **Valuation.** Our target price of $32.50 (unchanged) reflects a 12-month dividend distribution one-year forward of $0.98 and a required dividend yield of 3.0%.

Details

BACKGROUND

On Friday, Enbridge announced that it had reached an agreement with CAPP on the key terms of a new 5-year incentive tolling settlement effective January 1, 2005. The new incentive tolling settlement outlines the methodology for calculating base tolls on the Enbridge mainline system over the five-year period. For additional details on Enbridge's incentive tolling settlement, please refer to our June 27th *Morning Comment* for Enbridge.

Enbridge's previous incentive tolling settlement expired on December 31, 2004. Similar to Enbridge, Terasen has been in discussions with CAPP on renewing its incentive toll settlement (ITS) for the Trans Mountain system before it expires on December 31, 2005. Given the earlier expiry of Enbridge's incentive tolling settlement, CAPP has been more focused on completing its negotiations with Enbridge than negotiating with Terasen. With Enbridge's settlement finalized, we expect CAPP to focus its attention on reaching a new agreement with Terasen for the Trans Mountain system.

IMPLICATIONS FOR TERASEN

We should emphasize that Terasen's existing ITS for the Trans Mountain system is quite different from Enbridge's agreement with CAPP. For example, Terasen has some exposure to throughput risk under its agreement, whereas Enbridge does not. Given these differences, it is somewhat difficult to apply the terms of Enbridge's new agreement to arrive at an accurate prediction of a possible agreement for Terasen. Nevertheless, we will attempt to extrapolate some general implications for Terasen from Enbridge's new agreement with CAAP.

No Widespread Rebasing of Tolls

CAAP did not seek a complete rebasing of Enbridge's tolls. Instead, Enbridge's earnings base was only reduced by $10.9 million after taking into account $6 million of non-routine adjustments rolled into the earnings base. The reduction largely reflects an adjustment to account for the difference between the 2005 National Energy Board (NEB) Multi-Pipeline return on equity and the implied return reflected in Enbridge's 1994 base tolls. When Enbridge's original agreement was reached in 1994, the allowed return on equity implied by the base toll was 12.5%. In comparison, the 2005 NEB Multi-Pipeline ROE is 9.46%. According to Enbridge, the rate base for its mainline system is in the range of $1 billion. If we assume a rate base of $800 million and a 45% common equity component, the reduction in Enbridge's earnings base can be almost entirely accounted for by the difference between current NEB Multi-Pipeline ROE and the implied ROE in 1994 ($800 million X 45% X 300 bps ≈ $10.9 million).

If we applied a similar adjustment to Terasen using an assumed rate base of $300 million, a 45% common equity component and a 300 basis point differential, we would arrive at a reduction to Trans Mountain's earnings base of about $4 million. After normalizing for the temporary decline in Trans Mountain's throughput in Q1/05, this level of reduction is consistent with our current 2006 financial forecast for Terasen.

Opportunities to Offset Lower Earnings Base

Under its agreement with CAPP, Enbridge will have the opportunity to realize bonuses for improving batch quality, delivery predictability and capacity reliability. Through these bonuses and cost savings, Enbridge expects to partially mitigate the impact of the decline in its earnings base. Based on discussions with Terasen's management, we expect similar types of incentives to be incorporated into any agreement that Terasen may reach with CAPP.

We believe that improved service quality has a greater financial benefit to shippers than a small reduction in tolls. With oil prices at almost US$60 per barrel, the pipeline toll (approx. US$1.30/bbl for Trans Mountain) represents a small percentage of producers' revenue on a per barrel basis. To realize the benefit of high oil prices, producers need to have their product delivered in a timely and reliable fashion. As observed in Enbridge's agreement, we expect CAPP to focus more on the issue of providing proper incentives to meet service targets instead of reducing overall pipeline tolls in its negotiations with Terasen.

Conclusion

Based on the outcome of Enbridge's agreement with CAPP, we do not expect a significant negative financial impact for Terasen associated with its ITS renewal. In recent months, Terasen's share performance has lagged behind other energy infrastructure stocks. We believe that Terasen's underperformance may be related to concerns over the ITS renewal. We view Enbridge's agreement as encouraging and recommend investors consider increasing their weighting in Terasen at this time.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for

Terasen. Our target price of $32.50 reflects a 12-month dividend distribution one-year forward of $0.98 and a required dividend yield of 3.0%.

Price Target Impediments

Factors that could have negative implications for Terasen's earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain's Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

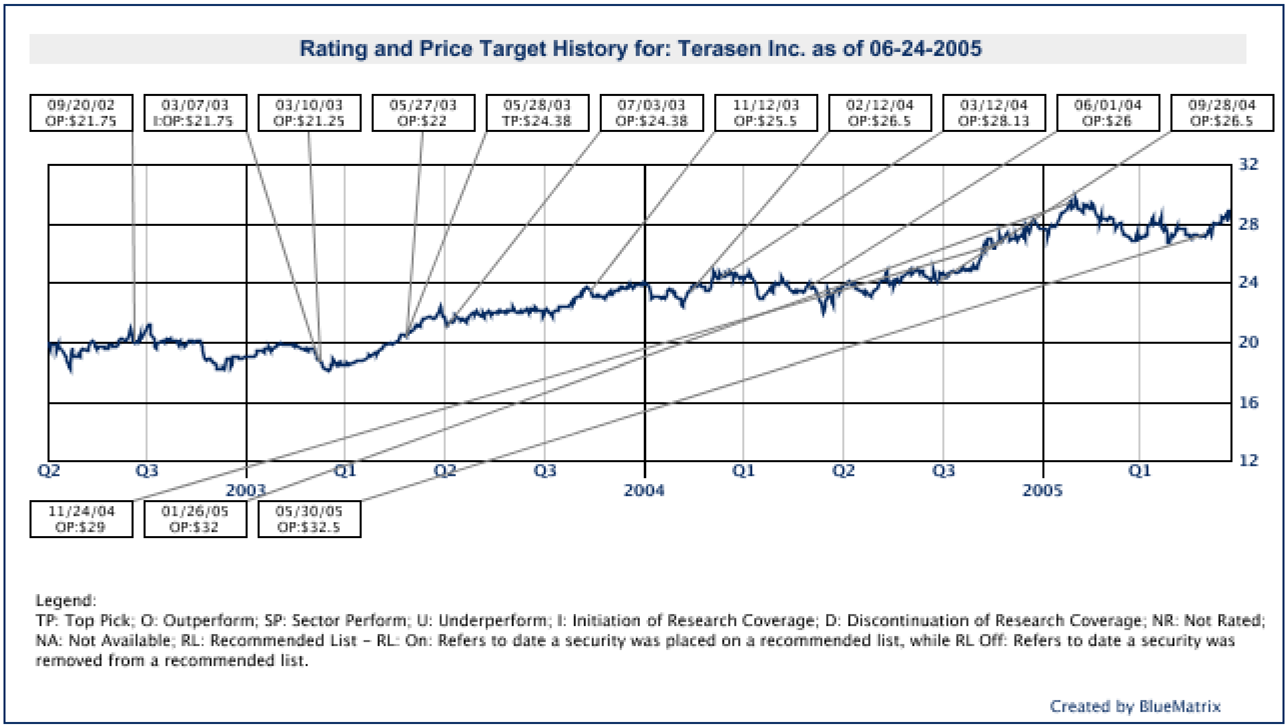
Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories–Buy, Hold/Neutral, or Sell–regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	394	42.92	138	35.03
HOLD [SP]	443	48.26	129	29.12
SELL [U]	81	8.82	28	34.57



In the event that this is a compendium report (covers more than six subject companies), RBC Capital Markets may choose to provide specific disclosures for the subject companies by reference. To access current disclosures, clients should refer to http://rbc2.bluematrix.com/bluematrix/Disclosure?f=34 Ydf8xF or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a member company of RBC Capital Markets or one of its affiliates. RBC Capital Markets Recommended Lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. RBC Dain Rauscher Inc. Recommended Lists include the Western Region Focus List (1), a former list called Model Utility Portfolio (2), and the Prime Opportunity List (3) (formerly called the Private Client Selects), Private Client Prime Portfolio (4), a former list called Private Client Portfolio (5), and the Prime Income List (6). The abbreviation "RL On" means the date a security was placed on a Recommended List. The abbreviation "RL Off" means the date a security was removed from a Recommended List.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.

Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

The author(s) of this report are employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Terasen Inc. in the past 12 months.

Maureen Howe is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Terasen Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Terasen Inc.

RBC Capital Markets is currently providing Terasen Inc. with non-securities services.

RBC Capital Markets has provided Terasen Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Terasen Inc. with non-securities services in the past 12 months.

Additional Disclosures

The information contained in this report has been compiled by RBC Capital Markets ("RBC CM") from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC CM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC Capital Markets is a business name used by subsidiaries of the Royal Bank of Canada including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. All opinions and estimates contained in this report constitute RBC CM's judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation of an offer to buy any securities. RBC CM and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, the entities constituting RBC CM or their affiliates may at any time have a long or short position in any such security or option thereon. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the particular circumstances or needs of any specific person who may read it. To the full extent permitted by law neither RBC CM or any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC CM. The entities comprising RBC Capital Markets are wholly owned subsidiaries of the Royal Bank of Canada and are members of the RBC Financial Group.

Additional information is available on request.

To U.S. Residents:

This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ("RBCEL") which is authorized and regulated by Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

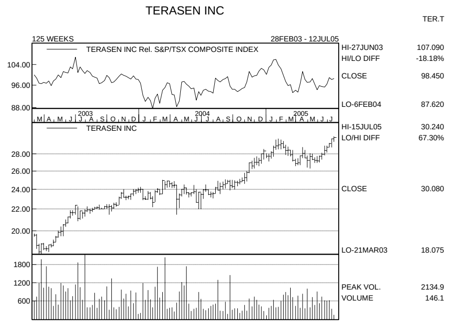
To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

RBC Capital Markets

Research Comment

July 13, 2005



Fai Lee, CGA, CFA (Analyst)
(604) 257-7662
fai.lee@rbccm.com

Price:	$30.08	Price Target:	$36.00
52-Wk High:	$29.91	52-Wk Low:	$23.07
Float (MM):	105.4	Debt-to-Cap:	0.68
Shs O/S (MM):	114.6	Mkt Cap (MM):	$3,171
Dividend:	$0.90	Yield:	3.0%

Strategic Shareholders: Trans Mountain - 8.0%

(FY Dec 31)	2004A	2005E	2006E	2007E
EPS				
Basic	$1.40	$1.48	$1.56	$1.58
Diluted	$1.39	$1.47	$1.55	$1.57
P/E	21.5	20.3	19.3	19.0
EPS	Q1	Q2	Q3	Q4
2003A	$0.62	$0.18	$0.03	$0.54
2004A	$0.63	$0.17	$0.08	$0.52
2005E	$0.60A	$0.22	$0.12	$0.54

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items and may not be consistent with GAAP.

For Required Disclosures, please see page 3.

Priced as of prior trading day's market close, EST (unless otherwise stated).

Maureen Howe, a member of the Canadian pipelines and utilities team, is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

Terasen Inc.

(TSX: TER)

Outperform

Average Risk

Regulatory Application Filed for Phase One of Trans Mountain Expansion Project

Event

Terasen Pipelines filed an application with the National Energy Board to expand the Trans Mountain pipeline system.

Investment Opinion

- **Trans Mountain capacity will increase from 225,000 bpd to 260,000 bpd.** The $210 million expansion will add 35,000 bpd of heavy crude oil capacity through new pump station facilities. Pending regulatory approval, the new capacity is expected to be in service by April 2007.
- **Shippers are supportive of expansion.** The Canadian Association of Petroleum Producers (CAPP) has expressed its support for the project subject to the successful negotiation of tolling and operational arrangements. The tolling treatment for the new facilities is expected to be linked to the discussions on the renewal of Trans Mountain's Incentive Toll Settlement (ITS), which expires at the end of 2005.
- **Expansion represents first step in multi-phased expansion project.** The next phase of expansion is expected to commence in August when Terasen will hold an open season for the construction of a 30-inch pipeline loop between Hinton, Alberta and Valemount, B.C. Subject to necessary approvals, the new loop would increase Trans Mountain's capacity from 260,000 bpd to 300,000 bpd by the end of 2008 at an estimated cost of $365 million.
- **EPS impact difficult to determine at this time.** On a standalone basis, we estimate a full-year EPS impact of approximately $0.06 to $0.07 per share from the pump station expansion project based on our assumptions. However, the ultimate EPS impact to Terasen is difficult to determine at this time given the linking of the negotiations on the tolling treatment for the new pump station facilities with discussions on the renewal of Trans Mountain's ITS. Pending additional information on the final tolling arrangements, we are maintaining our EPS estimates at this time.
- **Announcement very positive sign for Terasen.** We believe yesterday's announcement highlights the advantages of Terasen's phased expansion approach for Trans Mountain as opposed to a greenfield pipeline project that would take considerably longer to develop. Further, we believe the announcement is indicative of producers' support for significant new pipeline capacity from Alberta to the west coast of British Columbia.
- **Valuation.** Our target price of $36.00 (unchanged) reflects a 12-month dividend distribution one-year forward of $0.98 and a required dividend yield of 2.75%.

Details

Terasen Pipelines filed an application with the National Energy Board to increase the capacity of the Trans Mountain pipeline system from 225,000 barrels per day (bpd) to 260,000 bpd. The $210 million expansion will add 35,000 bpd of heavy crude oil capacity through new and upgraded pump stations along the pipeline system between Edmonton, Alberta and Burnaby, B.C. Pending regulatory approval, the new capacity is expected to be in service by April 2007.

The expansion project has the support of the shippers, as represented by the Canadian Association of Petroleum Producers, subject to the successful negotiation of tolling and operational arrangements for the project between CAPP and Terasen. Terasen expects the tolling treatment for the new facilities to be linked to the discussions on the renewal of Trans Mountain's Incentive Toll Settlement, which expires at the end of 2005. According to Terasen, it has made concrete progress on its ITS renewal negotiations with CAPP.

The pump station expansion represents the first step in Terasen's proposed multi-phased expansion of the Trans Mountain system. The next phase is expected to commence in August when Terasen will hold an open season for the construction of a 30-inch pipeline loop between Hinton, Alberta and Valemount, B.C. (the "Anchor Loop"). Subject to necessary approvals, the Anchor Loop would increase Trans Mountain's capacity from 260,000 bpd to 300,000 bpd by the end of 2008 at an estimated cost of $365 million.

Implications For Terasen

On a standalone basis, we estimate a full-year EPS impact of approximately $0.06 to $0.07 per share from the pump station expansion project based on our assumptions. In our analysis, we assumed a realized ROE of 12% and a deemed common equity component of 45%. In addition, we assumed financing of required project equity with an issuance of new shares under Scenario 1 and financing with internally generated funds at an after-tax opportunity cost of 4% under Scenario 2. Our analysis is outlined in Exhibit 1.

Exhibit 1 – Estimated EPS Impact on a Standalone Basis ($MM except per share amounts or otherwise indicated)

	2008E
Pump station expansion capital cost	$210.0
Deemed common equity component	45.0%
Deemed common equity	$94.5
Realized ROE	12.0%
Earnings contribution from expansion	$11.3
Scenario 1 - Financing with New Shares	
Shares outstanding before pump station expansion	104.9
Shares issued @ $36.00 per share to finance expansion	2.6
Total shares (MM)	107.5
EPS impact before dilution	$0.11
Dilution based on assumed 6% annual EPS growth	($0.04)
Estimated EPS Impact	$0.06
Scenario 2 - Financing with Internally Generated Funds	
Earnings impact before opportunity cost of equity	$11.3
After-tax opportunity cost of equity at 4.0%	(3.8)
Estimated earnings impact	$7.6
Estimated EPS impact	$0.07

Source: Company reports, RBC Capital Markets estimates

Notwithstanding our analysis, the ultimate EPS impact to Terasen is difficult to determine at this time given the linking of the negotiations on the tolling treatment for the new pump station facilities with discussions on the renewal of Trans Mountain's ITS. In our financial forecast, we had assumed a modest negative financial impact to Terasen in 2006 related to the renewal of the ITS. In its negotiations with CAPP, Terasen may forego some of the financial benefit associated with the pump station expansion project in order to mitigate any negative financial impact in 2006 related to the ITS renewal. According to Terasen, CAPP is receptive to the concept of stabilizing Trans Mountain's tolls over the next few years instead of having tolls decline in 2006 due to the ITS renewal and increase in 2007 and 2008 due to the pump station expansion project. Pending additional information on the final tolling arrangements, we are maintaining our EPS estimates at this time.

We believe yesterday's announcement highlights the advantages of Terasen's phased expansion approach for Trans Mountain as opposed to a greenfield pipeline project that would take considerably longer to develop. Further, we believe the announcement is indicative of producers' support for significant new pipeline capacity from Alberta to the west coast of British Columbia.

Valuation

Our valuation for Terasen is largely based on a dividend yield approach. When the current yield of the ten-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Terasen. Our target price of $36.00 reflects a 12-month dividend distribution one-year forward of $0.98 and a required dividend yield of 2.75%.

Price Target Impediments

Factors that could have negative implications for Terasen's earnings and our target price include unexpected increases in operating costs that are unrecoverable under its incentive agreements, failure to renew Trans Mountain's Incentive Toll Settlement after the end of 2005 and a significant and prolonged decline in Western Canadian petroleum production.

Company Description

Terasen is engaged in the transmission and distribution of natural gas and the transportation of crude oil and refined products.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

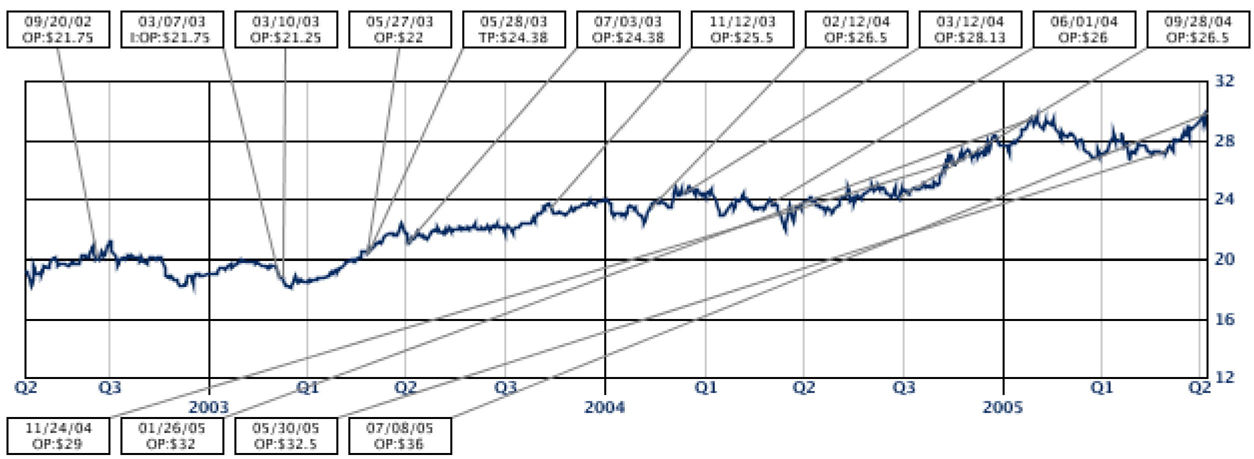
Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories–Buy, Hold/Neutral, or Sell–regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	393	43.14	140	35.62
HOLD [SP]	436	47.86	129	29.59
SELL [U]	82	9.00	26	31.71

Rating and Price Target History for: Terasen Inc. as of 07-08-2005



Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list.

In the event that this is a compendium report (covers more than six subject companies), RBC Capital Markets may choose to provide specific disclosures for the subject companies by reference. To access current disclosures, clients should refer to http://rbc2.bluematrix.com/bluematrix/Disclosure?f=34 Ydf8xF or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a member company of RBC Capital Markets or one of its affiliates. RBC Capital Markets Recommended Lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. RBC Dain Rauscher Inc. Recommended Lists include the Western Region Focus List (1), a former list called Model Utility Portfolio (2), and the Prime Opportunity List (3) (formerly called the Private Client Selects), Private Client Prime Portfolio (4), a former list called Private Client Portfolio (5), and the Prime Income List (6). The abbreviation "RL On" means the date a security was placed on a Recommended List. The abbreviation "RL Off" means the date a security was removed from a Recommended List.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.

Conflicts Disclosures

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request and is made available on our website at http://www.rbccm.com/cm/file/0,,63022,00.pdf. We reserve the right to amend or supplement this policy at any time. For the current policy, please check our website.

Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

The author(s) of this report are employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

Maureen Howe is an associate of an insider of Terasen Inc., a component of the pipelines and utilities sector.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Terasen Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Terasen Inc. in the past 12 months.

RBC Capital Markets is currently providing Terasen Inc. with non-securities services.

RBC Capital Markets has provided Terasen Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Terasen Inc. with non-securities services in the past 12 months.

A household member or members of the analyst team hold(s) or exercise(s) investment discretion over a long position in the common shares of Terasen Inc.

A household member or members of the analyst team hold(s) or exercise(s) investment discretion over a long position in warrants, rights or securities convertible into the common shares of Terasen Inc.

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Terasen Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Terasen Inc.

Additional Disclosures

The information contained in this report has been compiled by RBC Capital Markets ("RBC CM") from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC CM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC Capital Markets is a business name used by subsidiaries of the Royal Bank of Canada including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. All opinions and estimates contained in this report constitute RBC CM's judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation of an offer to buy any securities. RBC CM and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. Accordingly, the entities constituting RBC CM or their affiliates may at any time have a long or short position in any such security or option thereon. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the particular circumstances or needs of any specific person who may read it. To the full extent permitted by law neither RBC CM or any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC CM. The entities comprising RBC Capital Markets are wholly owned subsidiaries of the Royal Bank of Canada and are members of the RBC Financial Group.

Additional information is available on request.

To U.S. Residents:

This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ("RBCEL") which is authorized and regulated by Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

Equity Research

DAILY Edge

Company Comment
Friday, July 30, 2004

Terasen Inc.

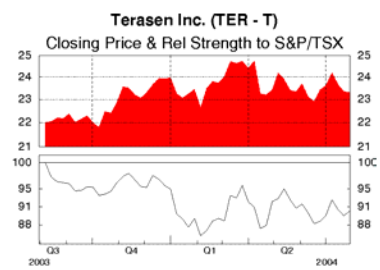
(TER-T C$23.44)

Sam Kanes, CA, CFA – 416-863-7798
sam_kanes@scotiacapital.com

Turan Quettawala, CFA – 416-863-7846
turan_quettawala@scotiacapital.com

Rating: 2-Sector Perform	**Target**	1-Yr:	$24.50	**ROR**	1-Yr:	8.1%
Risk Ranking: Low		2-Yr:	$25.00		2-Yr:	13.7%

Valuation: 1-yr target based on 16x P/E on 2005E EPS



Source: Global Insight, Inc.

Q2/04 EPS In-Line

Event

- TER's Q2/04 EPS of $0.10/share was in-line with our estimate of $0.09/share and lower than the First Call average of $0.12/share. Also a small $0.6M gain on price risk management activities at 44% owned Clean Energy.

What It Means

- The petroleum transportation business (up 25% YOY) drove earnings growth while all other segments were relatively flat. Total petroleum transportation volumes were up 15%. Cost efficiencies at Terasen Gas more than offset the negative impact of lower 2004 ROE leading to flat earnings YOY.
- We upgraded TER's stock to a 2-Sector Perform rating in late April after it had corrected from $25/share to $23/share. TER's P/E multiple target on 2005 EPS is 16.0x due to a) near certain longer-term oil pipeline growth prospects and visible 6% plus per year organic EPS growth through 2005.

Qtly EPS (FD)	Q1	Q2	Q3	Q4	Year	P/E
2002A	0.82 A	0.02 A	-0.22 A	0.62 A	1.22	15.64
2003A	0.71 A	0.08 A	-0.08 A	0.57 A	1.28	18.73
2004E	0.77 A	0.10 A	-0.08	0.63	1.42	16.51
2005E	0.80	0.10	-0.06	0.66	1.50	15.63

(FY-Dec.)	2001A	2002A	2003A	2004E	2005E
Earnings	$1.11	$1.22	$1.28	$1.42	$1.50
Cash Flow	$2.31	$2.75	$2.75	$2.81	$2.97
Price/Earnings	15.0	15.6	18.7	16.5	15.6
Relative P/E	-0.3	0.4	1.0	0.9	0.8
Revenues	$1666	$1707	$1877	$1968	$1992
EBITDA	$390	$452	$505	$512	$537
Current Ratio	0.6	0.6	0.6	0.7	0.6
EBITDA/Int. Exp	2.6	2.8	2.9	2.9	3.0

I/B/E/S Estimates	**Dividend**	$0.83	**Shares O/S (M)**	104.8
EPS 2004E: $1.41	**Yield**	3.5%	**Float O/S (M)**	104.8
EPS 2005E: $1.50	**BVPS**	$14.86	**Total Value ($M)**	2,456
Next Reporting Date	**ROE**	9.8%	**Float Value ($M)**	2,456
Oct-04			**TSX Weight**	0.32%
Credit Ratings	S&P: BBB/Stable			

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

SC Online Analyst Link

For important disclosure information see Appendix A of this report.

Valuation

- **Neutral on Q2/05 EPS, No Change to Forecast or Target:** We did not make any changes to our 2H/04 or 2005 forecasts after the Q2/04 results. We set TER's P/E multiple target at an unchanged 16x due to near certain longer-term oil pipeline growth prospects and visible 6% plus per year organic EPS growth through at least 2005. This 2004-05 organic growth rate level is one of the best in Canadian Energy Utilities and superior to both TRP and ENB. Our unchanged one- and two-year targets of $24.50 and $25.00 are premised on Scotia Capital Economics expectation of 70 bps increase to 5.50% in 10-year Canada yields by Q3/05.

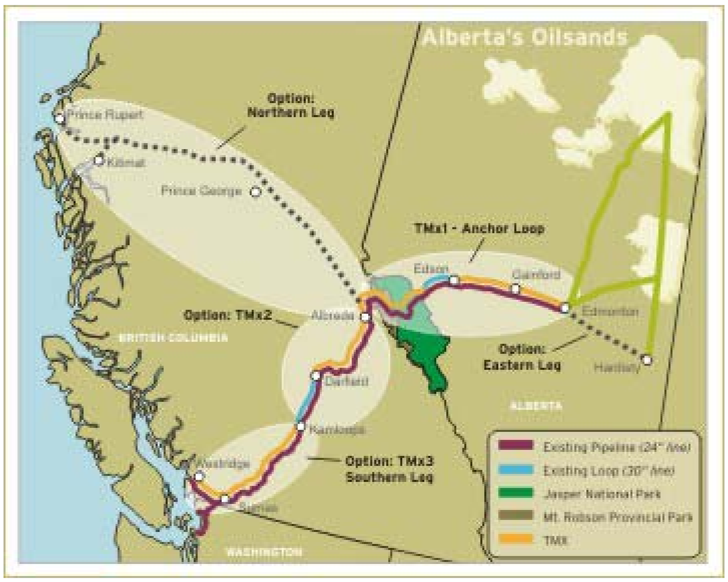
Q2/04 Highlights

- **Q2/04 EPS:** TER reported Q2/04 EPS of $0.10 per share that included about half a penny of non-cash unrealized mark to market gas price gains at 44% owned Clean Energy (Q1/04 had $0.015 per share). Strong petroleum transportation results due to a 15% volume increase more than offset flat earnings from all other segments and higher other activities costs. Cost efficiencies at the gas distribution utility helped to overcome a 30 basis point fall in its 2004 allowed ROE. TER repeated its 2004 guidance of 6% per year EPS growth to the high $1.30's per share.
- **Q2/04 Petroleum Transportation Strong:** Petroleum transportation earnings rose to $16.2M from $12.2M in Q2/03 based on strong volume growth due to strong demand from the U.S. refiners. Total revenues were up 9% to $54.9M in Q2/04 despite revenue sharing with shippers under Trans Mountain's incentive toll settlement and lower effective tolls due to higher short-haul volumes. Higher overheads at Trans Mountain and the inclusion of Corridor led to higher O&M (up 21% YOY) and depreciation (up 26% YOY). Financing costs fell by $1M due to refinancing of debt.
- **Q2/04 Gas Distribution:** The loss from natural gas distribution improved by $0.3M to $2.2M. Net customer additions remained strong at 1.3% during the first six months of 2004. Revenues and costs of gas fell by similar amounts due to lower commodity costs and lower consumption on account of warmer weather. However, this does not have a material impact on earnings. The BCUC approved a 4.3% commodity rate increase for Terasen Gas that is effective July 1, 2004. Total operating costs were up $1.6M YOY due to higher insurance and pipeline maintenance expenses. These will be collected in rates. Depreciation rose due to a higher rate base and interest expenses declined due to lower interest rates. A 30 basis point drop in allowed ROE due to lower 2004 forecast interest rates and the impact of 50:50 cost efficiency sharing with customers were offset by organic growth and synergies of merging the Mainland and Island gas utilities. TER has also filed a request with BCUC to consider ROE and capital structure adjustments based on the July 2004 genera EUB decision.
- **Water & Utility Services and Other:** Earnings from the small water and utility services segment were up 24% to $2.6M ($0.02 per share). The 26% YOY growth in revenues reflects organic growth and small acquisitions. TER stated that in 2003, results from this new water and utility services segment were: Q1 of ($0.005 per share), Q2 of $0.02 per share, Q3 of $0.02 per share and Q4 of $0.005 per share. TER expects this seasonal pattern to continue. Losses from the other activities segment increased by $2.4M due to higher corporate and financing costs.
- **Growth Outlook:** TER provided a detailed review of various growth initiatives on its Q2/04 conference call.
    - High oil prices are bullish for oil sands development and for TER's oil pipelines. TER mentioned that there is strong demand growth in the Rockies and Platts system for Alberta oil sands production. TER is building a 110,000 bpd expansion on its Express Pipeline that is budgeted to cost US$110M. It should add $0.10 per share when finished in Q1/05. A 30,000 bpd project on the Trans Mountain system ($16M) should be on-stream by September 2004.
    - TER continues to propose an LNG storage facility and gas compression capacity to fire gas cogeneration power plants on Vancouver Island. TER also stated that they will file a CPCN for this LNG facility in the next week or so with the BCUC.

- On April 20, 2004, TER announced that it is buying 50% of the Fairbanks sewer and water utility for US$30M (that will be slightly accretive to EPS immediately upon closing) with an option to buy the remaining 50% as of 2009 subject to State regulatory approval. This transaction is expected to close shortly. This Fairbanks water utility has 80,000 customers and is regulated by Alaska State regulators in a similar fashion to TER's BCUC regulations of its B.C. gas utility.
- TER's Bison oil gathering pipeline project (paralleling TER's Corridor oil pipeline) has not yet found any shippers willing to commit to long term shipping contracts but efforts continue to firm up the project.

- **Oil Sands Outlook/TMX Looping:** TER continues to lobby for shipper support for its three phase looping of its Mainline (TMX project). Although TER has always portrayed that the TMX project is more flexible than ENB's Gateway oil export pipeline, we were surprised to hear that one option now being suggested by TER is a northern leg that will transport oil sands crude to Prince Rupert for export to Asia via VLCC tankers (see exhibit 1). Before, TER had always suggested a looping proposal that would transport crude to Vancouver for delivery to U.S. refineries in California. TER also stated that despite delays in some oil sands projects there was still a requirement for a phased increase in transportation capacity that is well suited to their TMX looping project.

Exhibit 1 - TMX Project



Source: Terasen Inc.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Enbridge Inc.	ENB	H3, S
Terasen Inc.	TER	H3
TransCanada Corporation	TRP	H3, S

Each research analyst named in this report or any subsection of this report certifies that (1) the views expressed in this report in connection with securities or issuers that he or she analyzes accurately reflect his or her personal views; and (2) no part of his or her compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by him or her in this report.

The Research Analyst's compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

This report may include articles or content prepared by Scotia Economics as a resource for the clients of Scotiabank and Scotia Capital.

For Scotia Capital Research analyst standards and disclosure policies, please visit http://www.scotiacapital.com/disclosures

* *Legend*

H 3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

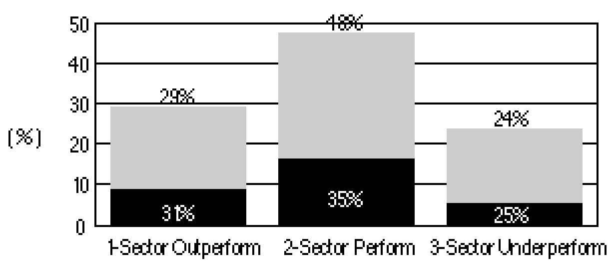
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



Percentage of companies covered by Scotia Capital Equity Research within each rating category.

Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at June 30, 2004.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Equity Research DAILY Edge

Company Comment
Friday, November 05, 2004

Terasen Inc.

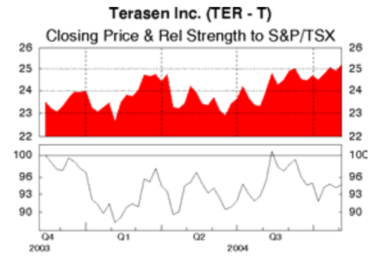
(TER-T C$25.50)

Sam Kanes, CA, CFA – 416-863-7798
sam_kanes@scotiacapital.com

Turan Quettawala, CFA – 416-863-7846
turan_quettawala@scotiacapital.com

Rating: 3-Sector Underperform	**Target**	1-Yr:	$25.50	**ROR**	1-Yr:	3.5%	**Est. NTM Div.**	$0.88
Risk Ranking: Low		2-Yr:	$26.00		2-Yr:	8.9%	**Div. (Current)**	$0.84
Valuation: 1-yr target based on 16x P/E on avg. 05E/06E EPS							**Yield**	3.3%

Q3/04 EPS Strong



Source: Global Insight, Inc.

Event

- TER reported a Q3/04 loss of $0.01/share that was better than our expectation of a loss of $0.08/share and the First Call average of a loss of $0.07/share. There was a $0.02/share mark-to-market gain at 45% owned Clean Energy that could be viewed as non-recurring.

What It Means

- TER's petroleum transportation business (up 14% YOY) was the primary driver in YTD 2004 and Q3/04 EPS growth and TER's water and utility services also posted strong results. Cost efficiencies at Terasen Gas offset the negative impact of a lower 2004 ROE.
- We downgraded TER to a 3-Sector Underperform on Sept 16/04 due to its relatively expensive P/E valuation. TER's unchanged target P/E multiple on average 05/06 EPS of 16x matches our Enbridge and TransCanada P/E multiples.

Qtly EPS (FD)	Q1	Q2	Q3	Q4	Year	P/E
2003A	0.71 A	0.08 A	-0.08 A	0.57 A	1.28	18.73
2004E	0.77 A	0.10 A	-0.01 A	0.59	1.45	17.59
2005E	0.80	0.11	-0.05	0.66	1.52	16.78
2006E	0.85	0.12	-0.04	0.69	1.62	15.74

(FY-Dec.)	2002A	2003A	2004E	2005E	2006E
Earnings	$1.22	$1.28	$1.45	$1.52	$1.62
Cash Flow	$2.75	$2.75	$2.86	$3.01	$3.19
Price/Earnings	15.6	18.7	17.6	16.8	15.7
Relative P/E	0.4	1.0	1.0	0.9	0.9
Revenues	$1707	$1877	$1853	$2102	$2160
EBITDA	$452	$505	$554	$585	$618
Current Ratio	0.6	0.6	0.6	0.6	0.6
EBITDA/Int. Exp	2.8	2.9	3.2	3.3	3.4

I/B/E/S Estimates	**BVPS**	$14.88	**Shares O/S (M)**	104.8
EPS 2004E: $1.40	**ROE**	10.0%	**Float O/S (M)**	104.8
EPS 2005E: $1.49			**Total Value ($M)**	2,672
			Float Value ($M)	2,672
Next Reporting Date	Feb-05		**TSX Weight**	0.30%
Credit Ratings	S&P: BBB/Stable			

Pertinent Revisions

	New	Old
Target:		
1-Yr	$25.50	$24.50
2-Yr	$26.00	$25.00
EPS04E	$1.45	$1.42
EPS05E	$1.52	$1.50

SC Online Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

For important disclosure information see Appendix A of this report.

Valuation

- **Modestly Increased 2005-06 EPS forecasts, Targets up $1/share:** We increased our 2005 and 2006 EPS estimates for TER by $0.02 per share and $0.04 per share for better than expected future petroleum transportation earnings. Meanwhile, our Q4/04 estimate has been lowered by $0.04 per share based on management's unchanged 2004 guidance of "high $1.30's" for 2004 EPS. Therefore, all the analysts were too pessimistic on Q3/04 estimates and too optimistic on TER's Q4/04. We set TER's P/E multiple target at an unchanged 16x due to a) longer-term oil pipeline growth prospects that are more certain with high crude oil prices and visible 6% plus per year organic EPS growth through at least 2005. This 2004-05 organic growth rate level is similar to Enbridge. Our one- and two-year targets were increased by $1 per share to $25.50 and $26.00 to reflect slightly higher forecast EPS.

Q3/04 Highlights

- **Q3/04 EPS:** TER's Q3/04 loss of $0.01 per share in a seasonally weak quarter included $0.02 per share of non-cash unrealized mark to market natural gas price gains at 45% owned Clean Energy so recurring was a loss of $0.03 per share. TER's CEO called the quaerter "very strong overall." Petroleum transportation results were stronger than expected with a 9% YOY volume increase that led to 14% YOY increase in earnings from that segment. Cost efficiencies at Terasen Gas helped to overcome a 30 basis point fall in its 2004 allowed ROE.
- **Q3/04 Petroleum Transportation Strong:** Petroleum transportation earnings rose to $16.5M from $14.5M in Q3/03 based on 9% volume growth. The solid results were mainly due to robust volumes on both Trans Mountain and Express. There were also some operating cost efficiencies at Trans Mountain that contributed to the overall improvement in earnings. Earnings from Corridor were flat YOY at $3.9M. O&M expenses were up 4% YOY and depreciation was up 5% YOY. Financing costs fell by a significant $6.1M (13% YOY) due to repayment of debt. TER has some foreign exchange hedges that have reduced the earnings impact of balance sheet translation. On the Q3/04 conference call, management stated that a C$0.10 swing would impact TER's income statement by only $1.5M ($0.01/share) based on current hedges in place. TER did not elaborate on currency hedge duration like ENB. TER is also waiting on ENB to complete negotiations with its shippers for a five-year extension agreement that will influence TER's extension negotiations.
- **Q3/04 Gas Distribution:** The Q3/04 loss from natural gas distribution improved by $0.4M to $18.0M on strong 2004 net customer additions of 1.7% YOY (14,760 net additions), double that of previous years. TER's CEO estimated that $40M per year would need to be spent if this growth rate is maintained. Natural gas volumes sold increased by 5% to 12.6 PJ. A 30 basis point drop in allowed ROE due to lower 2004 forecast interest rates and the impact of 50:50 cost efficiency sharing with customers were offset by organic growth and synergies of merging the Mainland and Island gas utilities. TER has also filed a request with BCUC to consider ROE and capital structure adjustments based on the July 2004 generic EUB decision.
- **Water & Utility Services and Other:** Earnings from the small water and utility services segment were up 50% to $3.3M ($0.03 per share). Some of this growth is attributable to the US$30M Fairbanks Alaska water utility acquisition that started contributing effective August 1, 2004. The Fairbanks water utility has 80,000 customers and is regulated by Alaska State regulators in a similar fashion to TER's BCUC regulations of its B.C. gas utility. **TER expects that 33% of its 6% per year EPS growth target will come from this segment**. Losses from the other activities segment fell by $2.7M - $2M from the natural gas price mark to market gain at 45% owned Clean Energy and the balance due to lower interest costs. TER management continues to look for opportunities to exit from its investment in Clean Energy as the business does not fit with the company's overall strategy.
- **Growth Outlook:** TER is finally benefiting from stronger customer/volume growth in B.C. as economic activity has increased. On November 3, 2004, BC Hydro announced that Duke Point Power Energy has been selected to build a 250MW gas-fired power project on

Vancouver Island. TER hopes that its proposal to build an LNG storage facility and gas compression capacity will be accepted as the source of gas for this project. On the petroleum transportation front, the 108,000 bpd Express expansion is targeted for April 2005 ($0.05 per share EPS impact post split based on current tolling agreements). A 27,000 bpd project on the Trans Mountain system ($16M) is now on-stream. Half of the $30M costs will go into a rate base calculation and half will work on incentive volumes shipped. TER hopes to get expressions of interest for its TMX looping project by year-end with a possible Open Season to take place by mid-2005. TER has capitalized approximately $2M of expenses with regard to this project. It is proposing two options:

- **Option 1:** A looping proposal that would transport crude to Vancouver for delivery to U.S. refineries in California.
- **Option 2:** A northern leg that will transport oil sands crude to Prince Rupert for export to Asia via VLCC tankers. This is identical to ENB's Gateway Oil Pipeline proposal.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Enbridge Inc.	ENB	H3, S
Terasen Inc.	TER	H3
TransCanada Corporation	TRP	H3, S

Each research analyst named in this report or any subsection of this report certifies that (1) the views expressed in this report in connection with securities or issuers that he or she analyzes accurately reflect his or her personal views; and (2) no part of his or her compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by him or her in this report.

The Research Analyst's compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

This report may include articles or content prepared by Scotia Economics as a resource for the clients of Scotiabank and Scotia Capital.

For Scotia Capital Research analyst standards and disclosure policies, please visit http://www.scotiacapital.com/disclosures

---

* *Legend*

H 3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

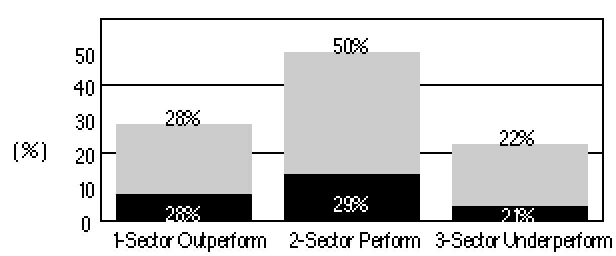
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at October 29, 2004.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Equity Research DAILY Edge

Company Comment
Friday, December 03, 2004

Terasen Inc.

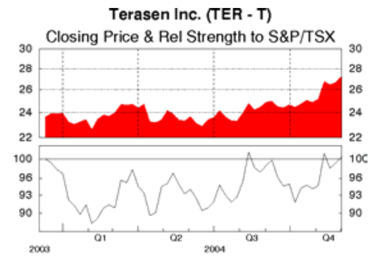
(TER-T C$26.94)

Sam Kanes, CA, CFA – 416-863-7798
sam_kanes@scotiacapital.com

Turan Quettawala, CFA – 416-863-7846
turan_quettawala@scotiacapital.com

Rating: 3-Sector Underperform	**Target**	1-Yr:	$25.50	**ROR**	1-Yr:	-2.1%	**Est. NTM Div.**	$0.88
Risk Ranking: Low		2-Yr:	$26.00		2-Yr:	3.0%	**Div. (Current)**	$0.84
Valuation: 1-yr target based on 16x P/E on avg. 05E/06E EPS							**Yield**	3.1%

Consistent at 6%/year EPS Growth



Source: Global Insight, Inc.

Event

- TER held a half-day investor conference in Toronto on December 2, 2004 for about 35 people. The message was consistent with previous conference calls and a 6% per year EPS growth target was maintained.

What It Means

- TER's petroleum transportation business has the best upside opportunities through 2010 but all of its future projects are in competition with Enbridge's.
- Gas demand growth has been better in B.C. lately but still trails the growth in Washington State and Oregon. It is possible to see TER get involved in consolidating some U.S. gas utilities in that corridor.
- We downgraded TER to a 3-Sector Underperform on September 16, 2004 due to its increasingly expensive P/E valuation in Energy Utilities. This has not changed while TER's stock has gotten even more expensive lately.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2003A	0.71 A	0.08 A	-0.08 A	0.57 A	1.28	18.73
2004E	0.77 A	0.10 A	-0.01 A	0.59	1.45	18.58
2005E	0.80	0.11	-0.05	0.66	1.52	17.72
2006E	0.85	0.12	-0.04	0.69	1.62	16.63

(FY-Dec.)	2002A	2003A	2004E	2005E	2006E
Earnings	$1.22	$1.28	$1.45	$1.52	$1.62
Cash Flow	$2.75	$2.75	$2.86	$3.01	$3.19
Price/Earnings	15.6	18.7	18.6	17.7	16.6
Relative P/E	0.4	1.0	1.0	1.0	0.9
Revenues	$1707	$1877	$1853	$2102	$2160
EBITDA	$452	$505	$554	$585	$618
Current Ratio	0.6	0.6	0.6	0.6	0.6
EBITDA/Int. Exp	2.8	2.9	3.2	3.3	3.4

I/B/E/S Estimates	**BVPS**	$14.88	**Shares O/S (M)**	104.8
EPS 2004E: $1.41	**ROE**	10.0%	**Float O/S (M)**	104.8
EPS 2005E: $1.51			**Total Value ($M)**	2,823
			Float Value ($M)	2,823
Next Reporting Date	Feb-05		**TSX Weight**	-
Credit Ratings	S&P: BBB/Stable			

SC Online Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Valuation

- **Neutral:** Management did not address its previously unchanged 2004 guidance of "high $1.30's" for 2004 EPS that we assume is still appropriate. Management did reiterate its 6%/year EPS growth target. This can't be stretched given that TER's balance sheet is 67% debt while its payout ratio is 60%. We set TER's P/E multiple on 2005-6 EPS averaged for now (soon to be 2006 only) at 16x (matching Enbridge and TransCanada's P/E multiples). We or Enbridge or TER do not know who the oil producers of Canada will choose for West Coast oil pipeline expansions now that TER has finished its final low cost horsepower expansion in Q4/04. Our sense has been that Enbridge would get the large Gateway project if oil prices stay above $40 while TER would get its more modular expansions on TransMountain if oil recedes to $30 or below.

Q3/04 Highlights

- **CEO Strategy: Value, focus, reliable and growing was how TER's CEO described his company.** TER has grown its asset base to $5B from $2.5B in the past 5 years through organic (16%), greenfield (50%) and M&A transactions (33%). With all of TER's pipelines running full, the majority of TER's opportunities remain in oil pipelines and possibly one gas pipeline. More acquisitions of water-based utilities are to be expected as well. TER does not have a target business mix. It hopes to achieve a 10%-11% annual return for shareholders with a 3%-4% dividend yield and a 6%-7% EPS growth rate. It is mathematically not possible to grow past 7% EPS annually with a 60% payout ratio and 67% debt without taking on material risk investments that differ from TER's low risk core businesses. Over 95% of TER's existing business is correlated to a generic regulatory model. TER will sell 45% owned Clean Energy as it does not fit with the company's overall strategy.
- **Petroleum Transportation:** Trans Mountain's small horsepower related expansion is complete (27,000bpd) while the Express Pipeline expansion will be complete by Q2/05 ($0.05/share EPS impact). TER believes that its 5-year agreement with shippers on Trans Mountain will not reset to zero on accumulated savings net to TER. There will be some form of risk sharing continuation with incentives for TER for running its line efficiently and/or expanding volumes. Enbridge's negotiations with CAPP are STILL ongoing (expiry at 2004 year-end). The Enbridge conclusions will affect TER's agreement next year. Expressions of interest for its TMX looping project have now been formally requested with a possible Open Season to take place by mid-2005. TER has capitalized approximately $2M of expenses with regard to this project. It is proposing two options:
    - **Option 1:** A looping proposal that would transport crude to Vancouver for delivery to U.S. refineries in California. TER hopes to dredge around its Westshore terminal to allow for another 100,000 bbl to be loaded per ship. The total cost over time of three stages would be $2.2B.
    - **Option 2:** A northern leg that will transport oil sands crude to Prince Rupert for export to Asia via VLCC tankers (1,000,000 bbls). This is identical to ENB's Gateway Oil Pipeline proposal. The total cost would be $2.9B.
- **Gas Distribution:** There will be a late 2005 generic rate hearing that will look at TER Gas Distribution's cost of capital. For 2005, TER received 9.03% ROE on a 33% equity base. This is well below ATCO Gas that received 9.5% ROE on a 38% equity base in Alberta. There are material differences in deferral accounts that benefit the risk profile of TER's gas utility but this probably does not account for 100% of the difference in regulatory treatment between Alberta and B.C. The 2004 1.7% YOY growth in customers (14,760 net additions) is double that of 2002-3. TER's CEO estimated that $40M per year would need to be spent if this growth rate is maintained. Merging the Mainland and Island gas utilities saved $11M per year. TER is studying the I-5 corridor west of the Rockies for possible U.S. acquisitions as specific Northwest gas and electric utilities are somewhat fragmented.

- **Water & Utility Services and Other:** The US$30M Fairbanks Alaska water utility acquisition (80,000 customers) is regulated by Alaska State regulators in a similar fashion to TER's BCUC regulations of its B.C. gas utility. TER expects that a material portion of its 6% per year EPS growth target will come from this new segment. TER is looking at 100 projects with an acquisition capacity to do about 30. The potential market is huge, estimated at a $100B requirement in Canada's water infrastructure and $400B in U.S. water infrastructure. TER now serves 40 communities with 75 water systems so it is gaining traction in this mostly government-owned market.
  - **Other Growth Possibilities:** On pipeline acquisitions, TER stated that they have now been priced "almost to a zero point of added value." TER is looking at $30M-$120M of oil storage in Alberta and a possible $40M gas line from Squamish to Whistler to replace the propane system used there today. TER hopes that its proposal to build a $100M LNG storage facility and gas compression capacity will get a favourable ruling in Q1/05 now that zoning approval has been received.
  - **Equity Requirements:** Any major acquisition or oil pipeline expansion success on TransMountain would require new equity. Organic growth should be covered off until 2007 based on free cash flow of about $95M post dividend and maintenance capital.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Enbridge Inc.	ENB	H3, S
TransCanada Corporation	TRP	H3, S

Each research analyst named in this report or any subsection of this report certifies that (1) the views expressed in this report in connection with securities or issuers that he or she analyzes accurately reflect his or her personal views; and (2) no part of his or her compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by him or her in this report.

The Research Analyst's compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

This report may include articles or content prepared by Scotia Economics as a resource for the clients of Scotiabank and Scotia Capital.

For Scotia Capital Research analyst standards and disclosure policies, please visit http://www.scotiacapital.com/disclosures

---

* *Legend*

H 3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

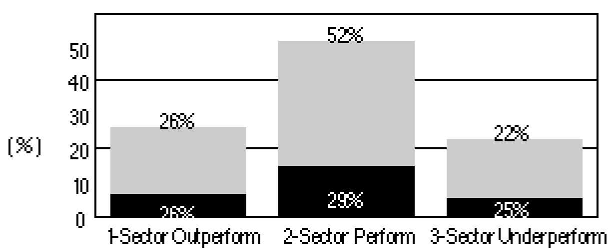
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at November 30, 2004.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Equity Research **DAILY Edge**

Company Comment
Tuesday, February 01, 2005

Terasen Inc.

(TER-T C$29.35)

Sam Kanes, CA, CFA – 416-863-7798
sam_kanes@scotiacapital.com

Turan Quettawala, CFA – 416-863-7846
turan_quettawala@scotiacapital.com

Rating: 3-Sector Underperform	**Target**	1-Yr:	$27.00	**ROR**	1-Yr:	-5.0%	**Est. NTM Div.**	$0.88
Risk Ranking: Low		2-Yr:	$28.00		2-Yr:	1.4%	**Div. (Current)**	$0.84
Valuation: 1-yr target based on 17x P/E on 2006E EPS							**Yield**	2.9%

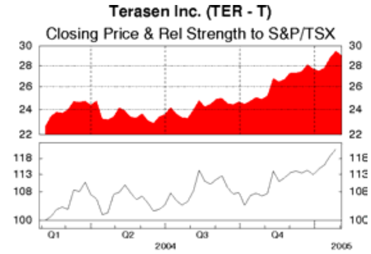
TMX Project Announcement

Event

- Terasen announced "strong support" by 17 different parties for its initial TMX oil pipeline expansion of 75,000 bbl/d.

What It Means

- Long term EPS growth from expanding its oil pipeline system appears more assured based on the press release. It is, however, the first step of several more that have to lead to long-term take-or pay shipper contracts for the project to go ahead.
- Terasen still does not believe that there is sufficient oil available before 2010 for both the Enbridge $2.5B Gateway and Terasen's TMX oil pipeline expansion projects to proceed at the same time.



Source: Global Insight, Inc.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2003A	0.71 A	0.08 A	-0.08 A	0.57 A	1.28	18.73
2004E	0.77 A	0.10 A	-0.01 A	0.59	1.45	19.11
2005E	0.80	0.11	-0.06	0.66	1.50	19.57
2006E	0.85	0.12	-0.05	0.69	1.60	18.34

(FY-Dec.)	2002A	2003A	2004E	2005E	2006E
Earnings	$1.22	$1.28	$1.45	$1.50	$1.60
Cash Flow	$2.75	$2.75	$2.86	$2.99	$3.16
Price/Earnings	15.6	18.7	19.1	19.6	18.3
Relative P/E	0.4	1.0	1.0	1.1	1.0
Revenues	$1707	$1877	$1853	$2098	$2156
EBITDA	$452	$505	$554	$581	$614
Current Ratio	0.6	0.6	0.6	0.6	0.6
EBITDA/Int. Exp	2.8	2.9	3.2	3.3	3.3

I/B/E/S Estimates	**BVPS**	$15.50	**Shares O/S (M)**	104.8
EPS 2004E: $1.41	**ROE**	9.9%	**Float O/S (M)**	104.8
EPS 2005E: $1.51			**Total Value ($M)**	3,075
			Float Value ($M)	3,075
Next Reporting Date	17-Feb-05		**TSX Weight**	0.33%
Credit Ratings	S&P: BBB/Stable			

Pertinent Revisions

	New	Old
Target:		
2-Yr	$28.00	$27.50

SC Online Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

For important disclosure information see Appendix A of this report.

Expression of Interest Information

- Terasen's management stated that the proposed confidentiality agreements limit the information it could provide to date. What Terasen asked for was:
  "1. Please provide incremental oil volumes that you plan to ship westbound to either the U.S., Canada or Asia over the next 10 years on a year by year basis and
  2. Please break out these incremental oil volumes you plan to ship by location, i.e. Burnaby, Washington State, Northern B.C. or Southern B.C. "
- **Next Steps:** Terasen stated that the response has led to an "obvious" need to proceed with a 2-3 month effort with the 17 parties to work out commercial arrangements. If successful, Terasen would then proceed to an Open Season to try to contract most/all of the initial 75,000 bbl/d of the TMX looping project. Terasen is targeting for a July 2005 completion.
- The first 75,000 bbl/d of Terasen's TMX expansion (phase 1) will be the costliest of the three phases that could lift volume shipped by 500,000 bbl/d over time. Terasen's TMX project is in direct competition with Enbridge's $2.5 B Gateway oil export project (See page 63-67 of our January 2005 *Gas and Electric Utilities Outlook*).
- The initial expressions of interest on any major pipeline project are not that significant as many pipeline projects have become "paper pipelines" if solid take-or-pay shipper contracts are not ultimately signed to support project financing. Enbridge stated that it was very close to getting several anchor shipper contracts from Asian shippers. If Enbridge is successful, it could delay Terasen's TMX project if it materially reduces Terasen's 17 expressions of interest into fewer than expected shipper contracts.

Valuation

- Both Terasen's and Enbridge's stocks have hit all-time highs many times in the past 4-5 weeks on their oil pipeline expansion prospects and huge flow of funds into defensive higher yielding equity products. We value Terasen one-year out at $27 per share using a 17x P/E on 2006 EPS of $1.60 per share. The only energy utility stock that we attribute a higher P/E multiple to is Enbridge at 18x. Terasen's stock at over $29 per share is currently trading at over 18x 2006 EPS. While we did not change our one-year target, we are increasing our two-year target by $0.50 per share for relatively better longer-term TMX looping pipeline prospects.
- We believe the stock market is paying a lot for Terasen's stock and EPS growth prospects of 6% per year. Terasen's debt to total cap is 67% which limits its EPS growth rate, while Enbridge is 700 bp lower at a 60% debt to total cap, which allows for a marginally higher EPS growth rate of about 8% per year. However, Terasen has many regulatory deferred accounts at its gas utility that protect its equity shareholders and allow for higher than normal debt leverage that is fully passed through to customers.
- Terasen's senior unsecured debt rating is BBB minus at S&P while ENB has an A minus credit rating from S&P. However, Terasen's rating under Moody's of A3/Stable is identical to Enbridge's. We understand that Terasen's debt trades at 15-20 basis points above Enbridge's so the market views Enbridge's debt as superior by one notch, not the three notches implied by S&P nor Moody's parity assumption.
- Terasen's dividend yield has gone under 3%, representing another record low for the interest sensitive energy utility sector. We believe that Terasen will raise its dividend by $0.06 per share in 2005 or 5%. Enbridge's dividend was raised by 9.3% recently to $2.00 per share. Our preference therefore remains Enbridge.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Enbridge Inc.	ENB	H3, S
Terasen Inc.	TER	H3
TransCanada Corporation	TRP	H3, S

Each research analyst named in this report or any subsection of this report certifies that (1) the views expressed in this report in connection with securities or issuers that he or she analyzes accurately reflect his or her personal views; and (2) no part of his or her compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by him or her in this report.

The Research Analyst's compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

This report may include articles or content prepared by Scotia Economics as a resource for the clients of Scotiabank and Scotia Capital.

For Scotia Capital Research analyst standards and disclosure policies, please visit http://www.scotiacapital.com/disclosures

* *Legend*

H 3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

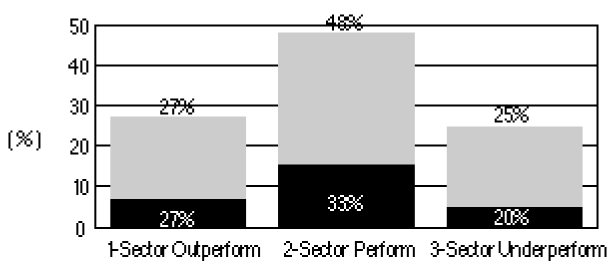
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



■ Percentage of companies covered by Scotia Capital Equity Research within each rating category.

■ Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at December 31, 2004.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Equity Research DAILY Edge

Company Comment

Friday, February 18, 2005

Terasen Inc.

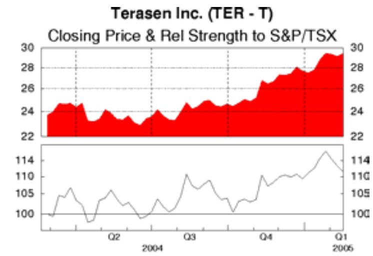
(TER-T C$29.34)

Sam Kanes, CA, CFA – 416-863-7798
sam_kanes@scotiacapital.com

Turan Quettawala, CFA – 416-863-7846
turan_quettawala@scotiacapital.com

Rating: 3-Sector Underperform	**Target**	1-Yr:	$29.00	**ROR**	1-Yr:	1.9%	**Est. NTM Div.**	$0.90
Risk Ranking: Low		2-Yr:	$28.00		2-Yr:	1.6%	**Div. (Current)**	$0.90
Valuation: 1-yr target based on 18x P/E on 2006E EPS							**Yield**	3.1%

Q4/04 EPS Lower Than Expected



Source: Global Insight, Inc.

Event

- TER reported Q4/04 EPS of $0.51/share that was lower than our and consensus estimates of $0.59/share. There were no non-recurring items, however, a change in accounting for income taxes in Q4/04 cost about $0.06/share and led to a restatement of quarterly earnings in prior periods such that the net effect on annual earnings was nil.

What It Means

- Earnings from gas distribution declined by 5% YOY mainly due to a lower allowed ROE that was only partly offset by cost efficiencies due to the integration of the mainland and Vancouver Island operations. Earnings from petroleum transportation were up 11% YOY driven by Trans Mountain and Express. TER's water and utility services also posted strong results.
- TER maintained its guidance of 6% growth in recurring EPS that implies 2005 EPS of $1.48/share.
- We downgraded TER to a 3-Sector Underperform on Sept 16, 2004 due to its relatively expensive P/E valuation. TER's unchanged target P/E multiple on 2006 EPS of 18x yields a one-year target of $29/share.

Qtly EPS (Basic) ($)	Q1	Q2	Q3	Q4	Year	P/E
2003A	0.62 A	0.14 A	0.03 A	0.49 A	1.28	18.73
2004A	0.65 A	0.17 A	0.10 A	0.51 A	1.43	19.38
2005E	0.68	0.18	0.05	0.58	1.48	19.82
2006E	0.72	0.19	0.06	0.61	1.58	18.57

(FY-Dec.)	2002A	2003A	2004A	2005E	2006E
Earnings	$1.22	$1.28	$1.43	$1.48	$1.58
Cash Flow	$2.75	$2.75	$2.90	$2.97	$3.14
Price/Earnings	15.6	18.7	19.4	19.8	18.6
Relative P/E	0.4	1.0	1.0	1.1	1.0
Revenues	$1707	$1877	$1957	$2068	$2126
EBITDA	$452	$504	$520	$551	$584
Current Ratio	0.6	0.6	0.5	0.6	0.6
EBITDA/Int. Exp	2.8	2.9	3.1	3.2	3.2

I/B/E/S Estimates	**BVPS**	$14.17	**Shares O/S (M)**	105.0
EPS 2005E: $1.51	**ROE**	10.7%	**Float O/S (M)**	105.0
EPS 2006E: N/A			**Total Value ($M)**	3,081
			Float Value ($M)	3,081
Next Reporting Date	May-05		**TSX Weight**	-
Credit Ratings	S&P: BBB/Stable			

Pertinent Revisions

	New	Old
EPS05E	$1.48	$1.50
EPS06E	$1.58	$1.60

SC Online Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

For important disclosure information see Appendix A of this report.

Valuation

- **Shaved 2005-06 EPS forecasts, Targets unchanged:** We reduced our 2005 and 2006 EPS estimates for TER by $0.02 per share as our earlier estimates appear slightly optimistic on petroleum transportation earnings. Furthermore, expected low forecast 2006 interest rates will remain a headwind for gas distribution earnings and the risk that contribution from Trans Mountain may initially decline once the current Incentive Toll Settlement (ITS) expires at the end of 2005. It is modeled after ENB's five-year agreement that has expired and has an April 2005 deadline for resettlement. TER's management also guided to 6% growth in EPS (unchanged) in 2005 (from a base of $1.40 per share in 2004) and implied that growth is likely to be similar in 2006 if the Trans Mountain settlement is not unfavourable. We increased TER's target P/E multiple from 17x to 18x on February 2, 2005 when we moved up our valuation multiples for all Canadian gas and electric utilities due to faltering economic data in Canada, weak earnings outlook in Canada and continued strong inflow in dividend and income funds ($2.7B in Q4/04 and $1B in Jan 2005). We continue to value TER at a premium multiple (second only to ENB) due to a) longer-term oil pipeline growth prospects that are more certain with high crude oil prices and visible 6% plus per year organic EPS growth through at least 2005. Our one- and two-year targets are unchanged at $29 per share and $28 per share.

Q4/04 Highlights

- **Q4/04 EPS:** TER's Q4/04 earnings of $0.51 per share appeared to be clean. However, changes in recording income tax at Terasen Gas had a negative impact of about $0.06 per share that was not expected. This change has impacted all the quarterly earnings which net out on an annual basis. The quarterly dividend was increased to $0.225 per share from $0.21 per share, however, the increase came one quarter earlier than usual. The annualized divided for 2005 will be $0.90 per share compared to our forecast of $0.89 per share. Capital expenditures are expected to rise significantly to $350M in 2005 from $154M in 2004. Management expects to fund this capex via internal cash flows and subsidiary-level debt. Most of this capex will be in gas distribution ($240M) that includes $50M for putting Coastal Facilities buildings into the rate base from its present lease arrangement, the Fraser river crossing ($20M) and initial expenditures for LNG storage at Vancouver Island ($23M). The capital budget also includes $40M at Trans Mountain and $10M mainly for de-bottlenecking at Corridor.
- **Q4/04 Petroleum Transportation Strong:** Petroleum transportation earnings rose to $19.9M from $17.9M in Q4/03 despite a 2.5% decline in revenue due to lower tolls at Trans Mountain. Operating efficiencies at Trans Mountain and better contributions from Express led to the rise in earnings despite a 5% ($0.2M) YOY decline in earnings from Corridor. Trans Mountain had strong volume growth in both Canada and U.S. while volumes at Express remained flat YOY. TER management stated that Trans Mountain volumes were lower in December 2004 and remained so in Q1/05 mainly due to outages at several oil sands facilities (Shell, Suncor) and refinery turnarounds. A $2.5M decline in O&M expenses was partially offset by a $0.7M rise in depreciation. Financing costs continued to fall due to debt repayment and were down 6% and 5% in Q4/04 and 2004 respectively. TER has some foreign exchange hedges that have reduced the earnings impact of balance sheet translation. A C$0.10 swing would impact TER's income statement by only $1.1M ($0.01/share). TER is currently negotiating a new ITS with Trans Mountain shippers as the current incentive-based agreements are expiring at the end of 2005. We believe that this is a material risk to 2006 earnings.
- **Q4/04 Gas Distribution:** Gas distribution earnings were down 5% and 3% in Q4/04 and 2004 mainly due to lower allowed ROEs and earnings sharing. Customer additions remained strong during Q4/04 and total additions during 2004 were 15,983, double that of previous

years. Q4/04 natural gas sales volumes were down 6% to 41.4 PJ while 2004 volumes were also down 3% to 121.6 PJ. A drop in allowed ROE due to lower 2004 forecast interest rates and the impact of 50:50 cost efficiency sharing with customers were partly offset by organic growth and synergies of merging the Mainland and Island gas utilities. Allowed ROE's will fall further by 12 bps in 2005 to 9.03% at Terasen Gas and 9.53% at TGVI. TER has also filed a request with BCUC to consider ROE and capital structure adjustments based on the July 2004 generic EUB decision. TER's CEO estimated that a decision on this application is not likely before Q3/05.

- **Water & Utility Services and Other:** Earnings from the small water and utility services segment were up 75% to $0.7M in a seasonally weak quarter. Most of this growth is attributable to the US$30M Fairbanks Alaska water utility acquisition that started contributing effective August 1, 2004. TER has allocated $50M in its 2005 capital plan for acquisition (20%-50%) and organic growth (50%-80%) in this segment. Management stated that they were currently considering a few small acquisitions in this segment and maintained their expectation that about 33% of its 6% per year EPS growth target will come from this segment. Losses from the other activities segment increased to $9.3M from $8.8M mainly due to lower tax recovery.
- **Growth Outlook:** TER has a few growth opportunities under consideration at present.

1. **LNG Storage:** On November 3, 2004, BC Hydro announced that Duke Point Power Energy has been selected to build a 250 MW gas-fired power project on Vancouver Island. In the Q4/04 release TER announced that BCUC had approved TER's proposed $100M LNG storage and gas compression facility subject to several conditions including a long-term transportation service agreement with BC Hydro on Feb 16, 2005. On Feb 17, 2005, BCUC approved a PPA between BC Hydro and Duke Point Power that is contingent on a natural gas procurement contract with TER, so this project looks like it is likely to go ahead. TER's board has approved $94.4M (excluding gas compression) for this project.
2. **Express Expansion:** The 108,000 bpd Express expansion is targeted for April 2005 and is on-time and under budget ($0.05 per share EPS impact post split based on current tolling agreements). TER is also working with shippers such as Shell for the Corridor expansion.
3. **TMX Project:** TER hopes to get expressions of interest for its TMX looping project by year-end with a possible Open Season to take place by mid-2005 as initial EOIs suggest strong shipper support. TER has capitalized approximately $4M of expenses with regard to this project in 2004 and expects to spend between $7M-12M in 2005 (all capitalized). It is proposing two options:
    - **Option 1:** A looping proposal that would transport crude to Vancouver for delivery to U.S. refineries in California.
    - Option 2: A northern leg that will transport oil sands crude to Prince Rupert for export to Asia via VLCC tankers. This is identical to ENB's Gateway Oil Pipeline proposal.

The Canadian Association of Petroleum Producers estimated that 600,000 bpd of new pipeline capacity will be required to service incremental oil sands production over the next decade. There are various projects including TER's TMX (625,000 bpd), ENB's Gateway (400,000 bpd), TRP's Keystone pipeline (435,000 bpd), Koch's Minnesota pipeline (350,000 bpd) and Southern Access (250,000 bpd) that are competing for this incremental oil production. We believe that only one pipeline will be successful in the short-term and continue to view ENB's Gateway oil proposal as having better chances of success compared to TER's TMX looping proposal and TRP's recently announced US$1.7B Keystone oil pipeline proposal from Alberta to Illinois. Strategically, it appears to make political sense for both the Alberta and Federal Governments to support Alberta oil exports to China to keep the U.S. honest in trade matters. ENB has seeded the Chinese refinery market for several years and has a materially larger balance sheet than TER's that could tip the project in ENB's favour. There is only room for one project in the mid-term and both companies continue to point this out to investors. We believe that ENB is in advanced talks with Asian shippers like Sinopec and Petrochina for contracts on its Gateway pipeline.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Enbridge Inc.	ENB	H3, S
Terasen Inc.	TER	H3
TransCanada Corporation	TRP	H3, S

Each research analyst named in this report or any subsection of this report certifies that (1) the views expressed in this report in connection with securities or issuers that he or she analyzes accurately reflect his or her personal views; and (2) no part of his or her compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by him or her in this report.

The Research Analyst's compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

This report may include articles or content prepared by Scotia Economics as a resource for the clients of Scotiabank and Scotia Capital.

For Scotia Capital Research analyst standards and disclosure policies, please visit http://www.scotiacapital.com/disclosures

---

* *Legend*

H 3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

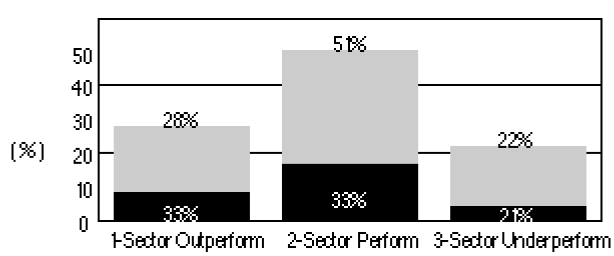
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at January 31, 2005.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

This report has been prepared by SCOTIA CAPITAL INC. (SCI), a subsidiary of the Bank of Nova Scotia. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither SCI nor its affiliates accepts any liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts. The securities mentioned in this report may not be suitable for all investors nor eligible for sale in some jurisdictions. This research and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of SCI. SCI is authorized and regulated by The Financial Services Authority. U.S. Residents: Scotia Capital (USA) Inc., a wholly owned subsidiary of SCI, accepts responsibility for the contents herein, subject to the terms and limitations set out above. Any U.S. person wishing further information or to effect transactions in any security discussed herein should contact Scotia Capital (USA) Inc. at 212-225-6500.

Company Comment
Thursday, May 05, 2005

Terasen Inc.

(TER-T C$27.45)

Sam Kanes, CA, CFA – 416-863-7798
sam_kanes@scotiacapital.com

Matthew Protti, MBA – 416-863-7846
matthew_protti@scotiacapital.com

Rating: 2-Sector Perform	**Target** 1-Yr:	$29.00	**ROR** 1-Yr:	8.9%	**Est. NTM Div.**	$0.90
Risk Ranking: Low	2-Yr:	$29.00	2-Yr:	12.2%	**Div. (Current)**	$0.90
Valuation: 1-yr target based on 18x P/E on 2006E EPS					**Yield**	3.3%

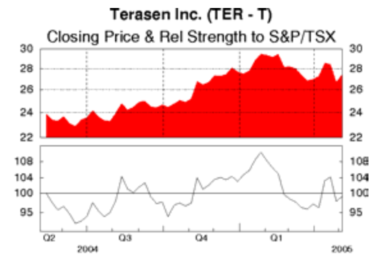
Q1/05 EPS Temporarily Off, 2005 Still OK

Event

- TER reported Q1/05 EPS of $0.63/share that was lower than our $0.68/share estimate and the First Call Average of $0.64/share (eased from $0.66/share recently). 2006 EPS of 6% growth was unchanged.

What It Means

- We discount the temporary shortfall of $0.05/share that Trans Mountain lost due to major oil sands problems as a one time event. (Suncor plant fire, Syncrude problems).
- Earnings from gas distribution firmed $0.01/share to $0.47/share from $0.46/share even though 2005 allowed ROE fell due to cost efficiencies and strong customer growth. TER's water and utility services added $0.01/share as well and Corporate activities lost $0.03/share (a $0.02/share improvement due to mark to market gains at Clean Power).
- We decided to upgrade TER to a 2-Sector Perform as it has corrected 8% since early February on some concern of temporary throughput loss and possibly some improved prospects for Enbridge's Gateway oil pipeline export project that competes against TER's TMX project.



Source: Global Insight, Inc.

Qtly EPS (Basic) ($)	Q1	Q2	Q3	Q4	Year	P/E
2003A	$0.62 A	$0.14 A	$0.03 A	$0.49 A	$1.28	18.73
2004A	$0.65 A	$0.17 A	$0.10 A	$0.51 A	$1.43	19.38
2005E	$0.63 A	$0.18	$0.10	$0.58	$1.48	18.55
2006E	$0.72	$0.19	$0.06	$0.61	$1.58	17.37

(FY-Dec.)	2002A	2003A	2004A	2005E	2006E
Earnings	$1.22	$1.28	$1.43	$1.48	$1.58
Cash Flow	$2.75	$2.75	$2.90	$2.97	$3.14
Price/Earnings	15.6	18.7	19.4	18.5	17.4
Relative P/E	0.4	1.0	1.0	1.1	1.0
Revenues	$1707	$1877	$1957	$2068	$2126
EBITDA	$452	$504	$520	$551	$584
Current Ratio	0.6	0.6	0.5	0.6	0.6
EBITDA/Int. Exp	2.8	2.9	3.1	3.2	3.2

I/B/E/S Estimates	**BVPS**	$14.17	**Shares O/S (M)**	105.0
EPS 2005E: $1.49	**ROE**	10.7%	**Float O/S (M)**	105.0
EPS 2006E: $1.56			**Total Value ($M)**	2,882
			Float Value ($M)	2,882
Next Reporting Date	04-May-05		**TSX Weight**	0.30%
Credit Ratings	S&P: BBB/Stable			

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Pertinent Revisions

	New	Old
Rating:	2-SP	3-SU
Target:		
2-Yr	$29.00	$28.00

SC Online Analyst Link

For important disclosure information see Appendix A of this report.

Valuation

- **2005-06 EPS Forecasts, Targets Unchanged:** TER's management kept its 6% growth target in EPS intact for 2005 from a base of $1.40 per share in 2004. There is some risk from Trans Mountain in 2006 regarding an Incentive Toll Settlement (ITS) that expires at the end of 2005. ENB's five-year agreement expired in April 2005 without a resettlement so TER has yet to negotiate its renewal. We increased TER's target P/E multiple from 17x to 18x on February 2, 2005 when we moved up our valuation multiples for all Canadian gas and electric utilities due to faltering economic data in Canada, weak earnings outlook in Canada and continued strong inflow into dividend and income funds. We continue to value TER at a premium multiple (second only to ENB) due to a) its longer-term oil pipeline growth prospects that are more certain with high crude oil prices and consistent track record of 6% per year organic EPS growth. Our one year target is unchanged at $29 per share but with the stock correcting towards $27 per share from just under $30 per share in February 2005, we upgraded TER to a 2-Sector Perform.

Q1/05 Highlights

- **Q1/05 EPS:** TER's Q1/05 earnings of $0.63 per share included a $0.02/share mark to market gain in its 30% go forward equity interest in Clean Energy. However, on its Q1/05 Conference call, TER management stated that its 6% 2005 EPS growth guidance excluded mark to market gains. When questioned how TER will make up the modest Q1/05 EPS shortfall in several different ways, TER's management kept coming back to tighter cost control and efficiency improvements.
- **2005 Capital Expenditures:** Capital expenditures may rise to $350M in 2005 from $154M in 2004. Management expects to fund this capex via internal cash flows and subsidiary-level debt. Most of this capex will be in regulated gas distribution ($240M) that includes $50M for putting Coastal Facilities buildings into the rate base from its present lease arrangement, the Fraser river crossing ($20M) and initial expenditures for approved LNG storage at Vancouver Island ($23M) that is going through a final appeal process next month. The capital budget also includes $40M at Trans Mountain and $10M mainly for de-bottlenecking at Corridor.
- **Q1/05 Petroleum Transportation Temporarily Weak:** Petroleum transportation earnings fell to $12.7M from $18.3M in Q1/05 due mainly to Trans Mountain losing 29% and 52% of its YOY oil throughput volume respectively on its Canadian mainline (down to 170,000 bbl/day) and U.S. mainline (down to 44,500 bbl/day). This was more of a drop than we expected and was due to the fire at Suncor, problems at Syncrude and several refinery turnarounds. Both Express and Corridor Q1/05 earnings eased just under $0.01 per share each. Express suffered a temporary volume hit as well while Corridor's 2005 allowed return fell with forecast 2005 interest rates. TER management stated that Trans Mountain oil nominations for May were at a record 400,000 bbl/day so apportionment is in effect. TER is currently negotiating the framework for a new long term operation deal with Trans Mountain shippers. The Enbridge settlement is due imminently and will set the parameters for the TER deal. In general, both Enbridge and TER have earned materially above regulated ROE levels on their oil pipeline investment under long term operating contracts due to success in managing costs and/or higher volumes. It is therefore likely that the initial year of their new agreements may be low for both companies.
- **Q1/05 Gas Distribution:** Gas distribution earnings were up $1M or $0.01 per share to $49M or $0.47 per share. A 22 basis point lower allowed ROE for 2005 (9.03%) was more than offset by strong customer additions and tag end synergies of merging the Mainland and Island gas utilities. Allowed ROE for 2005 is 9.53% at TGVI. TER has also filed a request with BCUC to consider ROE and capital structure adjustments based on the July 2004 generic EUB decision. TER's CEO estimated that a decision on this application is not likely before Q3/05.

- **Water & Utility Services and Other:** Q1/05 earnings from the small water and utility services segment were up 75% to $0.8M in a seasonally weak quarter. Most of this growth is attributable to the US$30M Fairbanks Alaska water utility acquisition that started contributing effective August 1, 2004. TER has allocated $50M in its 2005 capital plan for acquisition (20%-50%) and organic growth (50%-80%) in this segment.
- **Other Activities:** Losses from the other activities segment decreased to $2.9M from $5.1M mainly due to higher mark to market gains of $2.6M from $1.7M in Q1/05 at 30% owned Clean Energy.
- **Growth Outlook:** TER has more than a few growth opportunities under consideration at present.

    1. **LNG Storage:** The BCUC had approved TER's $100M LNG storage and gas compression facility subject to a final appeal in June 2005.
    2. **Express Expansion:** The 108,000 bbl/day Express expansion was finished on time and $10M under budget at the end of April 2005 ($0.05 per share EPS impact post split based on current tolling agreements).
    3. **Alberta Gathering Oil Line:** TER is working in an exclusive negotiation with Shell for a possible $700M oil gather pipeline expansion in Alberta.
    4. **TMX Project:** TER hopes to go to an Open Season to get firm contract for TMX 1 pumping ($570M) by mid-2005. As a stand-alone economic project, it does not appear to work but it is a pre-cursor to TMX 2 and TMX 3 stages that in total, could add 625,000 bbl/day. TER capitalized $4M of TMX expenses in 2004 and expects to spend between $7M-$12M in 2005 (all to be capitalized). It is proposing two options:
        - **Option 1:** A looping proposal that would transport crude to Vancouver for delivery to U.S. refineries in California.
        - **Option 2:** A northern leg that will transport oil sands crude to Prince Rupert for export to Asia via VLCC tankers. This is identical to ENB's Gateway Oil Pipeline proposal.

    The Canadian Association of Petroleum Producers estimated that 600,000 bbl/day of new pipeline capacity will be required to service incremental oil sands production over the next decade. There are various projects including TER's TMX (625,000 bbl/day), ENB's Gateway (400,000 bbl/day), TRP's Keystone pipeline (435,000 bbl/day), Koch's Minnesota pipeline (350,000 bbl/day) and Southern Access (250,000 bbl/day) that are competing for this incremental oil production.

    We believe that only one pipeline will be successful in the short-term and have viewed ENB's Gateway oil proposal as having better chances of success compared to TER's TMX looping proposal. TRP's recently announced US$1.7B Keystone oil pipeline proposal from Alberta to Illinois also initially appeared to be too little too late.

    Strategically, it appears to make political sense for the Alberta, B.C. and Federal Governments to support Alberta oil exports to China to help keep the U.S. honest in trade matters. ENB has a Memorandum of Understanding for 50% of its proposed capacity from PetroChina. Our confidence in ENB's Gateway pipeline prospects improved materially after seeing PetroChina in Beijing on the Scotia Capital China tour in 2004.

    Suncor's View of TMX: We can speculate all we want on which project will win but companies like Suncor that are adding up to 300,000 bbl/day to its existing 250,000 bbl/day of Alberta oil sand capacity by 2012 may have a different view. We listened to Rick George, CEO of Suncor who presented at a Scotia Capital Luncheon on Wednesday May 3, 2005. His thoughts are:

1) **Gateway was handicapped at only 10% by Suncor in May 2004.** Mr. George raised that handicap to 50/50 recently based on Enbridge's success to date with PetroChina on preliminary terms to take 50% of the throughput.
2) He initially thought that TransCanada's Keystone project had no chance but Suncor's marketing people have convinced him that this alternative route has some merit and should be looked at further.
3) He initially thought that Trans Mountain's TMX looping project that can be done in stages had the most logical and highest probability of success but points 1 and 2 negate that somewhat lately.
4) When asked what would make him get excited about aggressively participating on Enbridge's Gateway project, **Mr. George stated that if China committed to paying WTI plus prices for equivalent Alberta crude and put up $1B-$2B of firm commitments for Gateway, he would get excited in supplying it.** This of course, would negate his interest in TMX until later in the decade or into the next decade. Therefore, to speculate on Enbridge's prospects over Terasen's, one has to take a view on China's desire to commit to Alberta oil sands crude with billions and not words to satisfy Alberta oil sand producers that they are serious. **After watching China's growth in oil imports to 3M bbl/day from nothing in 5 years with forecasts as wild as 20M bbl/day of imports in 20 years, we suggest China had better hurry and commit prior to Terasen's Open Season for TMX 1 if it wants any significant Alberta crude by 2010. Our speculative sense from Enbridge is that they will commit.**

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Enbridge Inc.	ENB	H3, S
Terasen Inc.	TER	H3
TransCanada Corporation	TRP	H3, S

Each research analyst named in this report or any subsection of this report certifies that (1) the views expressed in this report in connection with securities or issuers that he or she analyzes accurately reflect his or her personal views; and (2) no part of his or her compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by him or her in this report.

The Research Analyst's compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

This report may include articles or content prepared by Scotia Economics as a resource for the clients of Scotiabank and Scotia Capital.

For Scotia Capital Research analyst standards and disclosure policies, please visit http://www.scotiacapital.com/disclosures

* *Legend*

H 3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

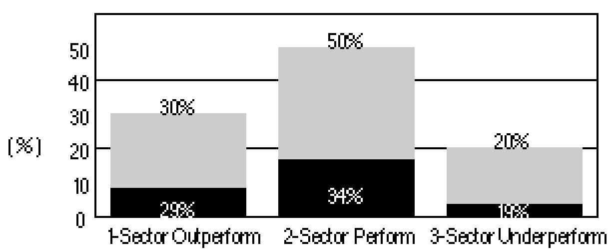
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at April 29, 2005.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Scotia Capital

Equity Research DAILY Edge

Company Comment
Friday, May 20, 2005

Terasen Inc.

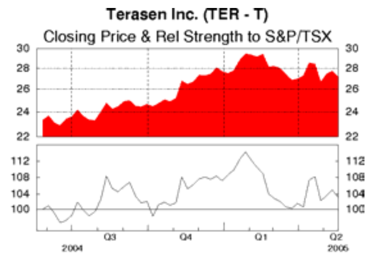
(TER-T C$27.20)

Sam Kanes, CA, CFA - 416-863-7798
sam_kanes@scotiacapital.com

Matthew Protti, MBA - 416-863-7846
matthew_protti@scotiacapital.com

Rating: 2-Sector Perform	**Target** 1-Yr:	$29.00	**ROR** 1-Yr:	9.9%	**Est. NTM Div.**	$0.90
Risk Ranking: Low	2-Yr:	$29.00	2-Yr:	13.2%	**Div. (Current)**	$0.90
Valuation: 1-yr target based on 18x P/E on 2006E EPS					**Yield**	3.3%

Terasen Presentation



Source: Global Insight, Inc.

Event

- Terasen (TER) presented at Scotia Capital's Spring Issuer's Bond Conference on May 19, 2005 where management updated bond investors on its prospects and credit quality features.

What It Means

- TER stated that it uses the exact same presentation for both equity and debt audiences. Beside its more obvious oil pipeline growth opportunities, TER spent some time explaining its water and sewer activities as well as the status of B.C. LNG and thoughts of possible acquisition of certain assets if Duke Energy becomes a seller.
- We recently upgraded TER to a 2-Sector Perform on an 8% stock price correction from peak and less certainty that Enbridge wins the next major oil pipeline expansion (Gateway) over TER's TMX due to possible native issues that emanate from Mackenzie Valley.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2003A	$0.62 A	$0.14 A	$0.03 A	$0.49 A	$1.28	18.73
2004A	$0.65 A	$0.17 A	$0.10 A	$0.51 A	$1.43	19.38
2005E	$0.63 A	$0.18	$0.10	$0.58	$1.48	18.38
2006E	$0.72	$0.19	$0.06	$0.61	$1.58	17.22

(FY-Dec.)	2002A	2003A	2004A	2005E	2006E
Earnings/Share	$1.22	$1.28	$1.43	$1.48	$1.58
Cash Flow/Share	$2.75	$2.75	$2.90	$2.97	$3.14
Price/Earnings	15.6	18.7	19.4	18.4	17.2
Relative P/E	0.4	1.0	1.0	1.1	1.0
Revenues	$1707	$1877	$1957	$2068	$2126
EBITDA	$452	$504	$520	$551	$584
Current Ratio	0.6	0.6	0.5	0.6	0.6
EBITDA/Int. Exp	2.8	2.9	3.1	3.2	3.2

SC Online Analyst Link

I/B/E/S Estimates	**BVPS**	$14.17	**Shares O/S (M)**	105.0
EPS 2005E: $1.49	**ROE**	10.7%	**Float O/S (M)**	105.0
EPS 2006E: $1.57			**Total Value ($M)**	2,856
			Float Value ($M)	2,856
Next Reporting Date	Jul-05		**TSX Weight**	0.30%
Credit Ratings	S&P: BBB/Stable			

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Presentation Highlights

- **Growth Outlook:** Terasen (TER) presented at Scotia Capital's Spring Issuer's Bond Conference on May 19, 2005. TER's annual EPS growth target of 6% was reiterated. It has realized 8.1% annual average EPS growth since 1999. TER mentioned the status of several major growth prospects that have been known for a while:

  1. **LNG Storage:** The BCUC has approved TER's $150M LNG storage and gas compression facility on Vancouver Island subject to a fourth and final leave to appeal that should be concluded one way or another in June 2005. TER's LNG tank project would freeze natural gas for injection in summer months and withdraw gas for peak shipping demand in winter months.
  2. **Alberta Gathering Oil Line:** TER is currently working on a negotiation with Shell for a possible $700M - $800M oil gathering pipeline expansion in Alberta. This 110,000 bbl/day pipeline project was described by TER as Phase 2 of the Corridor Expansion/Bison project. TER stated that it would continue negotiations with Shell into early 2006 while also looking for third party shipper opportunities to augment the project. Tentative in-service date is 2009.
  3. **TMX Project Open Season:** TER hopes to go to an open season to get firm contracts for the TMX 1 pumping expansion and anchor loop project by mid-2005. During this open season TER would also be looking for commitments by shippers for the base load for the entire TMX expansion project. TER indicated that the pumping station expansion on Trans Mountain would cost $205M and add 35,000 bbls/day in 2006 while the anchor loop project would cost $365M for an additional 40,000 bbls/day capacity in 2008. TER would then have to assess:

     - **TMX Option 1:** A looping proposal that would transport crude to Vancouver for delivery to U.S. refineries in California or to Asia through small (550,000 bbls per ship) tankers. TER's estimated cost is $2.3B for 550,000 bbls/day.
     - **TMX Option 2:** A northern leg that will transport oil sands crude to Prince Rupert for export to Asia via VLCC tankers (1M+ bbls per ship). This is similar to ENB's Gateway oil pipeline proposal. TER's estimated cost is $2.6B for 550,000 bbls/day.

     The Canadian Association of Petroleum Producers estimated that 600,000 bbl/day of new pipeline capacity will be required to service incremental Alberta oil sands production over the next decade while TER estimates 800,000 bbl/day.
  4. **Water and Utility Service:** TER management spoke about its expansion potential in water and utility services and explained the four fragmented services it offers: 1) sell plumbing products, 2) operate water and sewer systems (90 utility systems to date in over 50 communities around North America), 3) operate a blend of utilities including water and 4) outsource services via 30% owned CustomerWorks like billing, meter reading etc. Management continues to see small (~$25M) acquisition potential in this area, where regulated returns are slightly higher than what TER achieves from a regulated gas utility rate.

     - **Whistler Utility Infrastructure Project (New):** TER is working with the municipality of Whistler to develop a hybrid gas/ground source heat pump (GSHP) utility for the town prior to the 2010 Olympics. It would include a $35M gas pipeline from Squamish to Whistler to replace the existing propane bases system there.
  5. **Inland Pacific Connector:** TER still believes that its $300 to $500M Inland Pacific Connector gas transmission line project connecting its Southern Crossing Pipeline to the Lower Mainland and Sumas area has merit but no further progress was announced. TER said this line would require major third party support with other utilities in the Pacific Northwest.

- **TER Financial Objectives**: TER reiterated its 6% per year EPS growth guidance while maintaining a strong balance sheet that would allow for low cost of capital acquisition and investment opportunities. When asked about the potential for an acquisition of some of the Duke/Westcoast assets if they became available in B.C. and/or Ontario, TER said its was a "natural acquirer" for those assets should the opportunity arise, particularly the T South gas pipeline in B.C. as TER has contracts for 40% of that transmission line's capacity. TER said it would likely be going to the equity market in late 2007 or 2008 assuming the above growth prospects go forward. TER stated that if partners become involved in the list of projects presented (possible) then equity may not be required.

Valuation

- **2005-06 EPS Forecasts, Targets Unchanged:** TER's 6% EPS growth target is based on a $1.40 per share normalized 2004 level. There remains some risk that Trans Mountain's earnings fall significantly in 2006 at the beginning of a new 5 year Incentive Toll Settlement (ITS) that expires at the end of 2005. ENB's five-year agreement expired in April 2005 without a resettlement so TER has yet to negotiate its renewal. ENB stated on its Q1/05 EPS conference call that is took an undisclosed provision against its Q1/05 EPS for a likely lower initial return. Both ENB and TER have at times, earned ROE's on their oil pipeline assets that approached 15% over the past several years from their 5 year incentive tolling arrangements.
- We use an 18x P/E for TER to establish our $29 per share one year target. This is a premium multiple (second only to ENB at 20x) due to a) TER's longer-term oil pipeline growth prospects that are more certain with high crude oil prices and oil sands developments and b) consistent track record of 6% plus per year organic EPS growth. We value ENB at 20x due to a consistent historical EPS growth rate of closer to 10% per year with a superior balance sheet, a more global footprint of energy infrastructure assets, greater liquidity and a New York listing.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Enbridge Inc.	ENB	H3, S
Terasen Inc.	TER	H3
TransCanada Corporation	TRP	H3, S

Each research analyst named in this report or any subsection of this report certifies that (1) the views expressed in this report in connection with securities or issuers that he or she analyzes accurately reflect his or her personal views; and (2) no part of his or her compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by him or her in this report.

The Research Analyst's compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

This report may include articles or content prepared by Scotia Economics as a resource for the clients of Scotiabank and Scotia Capital.

For Scotia Capital Research analyst standards and disclosure policies, please visit http://www.scotiacapital.com/disclosures

* *Legend*

H3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

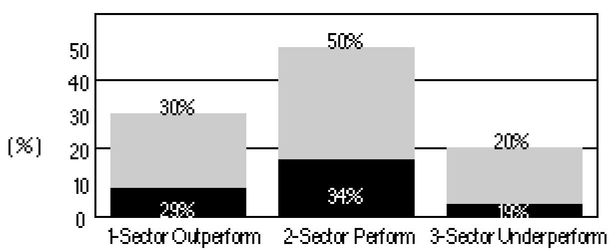
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at April 29, 2005.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Buy. Debt levels remain the principal knock in the credit markets against **Terasen Inc. (A(low)/ BBB-(pi)/ A3)** and its operating subsidiaries. The very thin deemed equity capitalization of its regulated gas distribution operations is the main driver of consolidated leverage. This leverage translates into weak credit ratios, with FFO interest coverage of just 2.8x in 2004, and only moderate prospects for improvement. Leverage appears to be the principal reason for the lowly "public information only" rating from S&P, which we think is far too conservative, but which we also acknowledge is unlikely to change. Apart from leverage, however, we see much to like in Terasen's businesses. All of its operating units exhibit very good stability of earnings, which is crucial to managing with leverage. Diversification is increasingly broad, with 2004 earnings split 56% from gas distribution, 40% from petroleum transportation, and 5% from water utility services. Compared to peers Enbridge and TransCanada PipeLines, we think Terasen's event risk is slightly lower, as we see Terasen management as less aggressive with acquisitions, and Terasen has a much lower likelihood of major participation in the big-ticket Alaska or Mackenzie Valley gas pipeline construction projects. Even if the big TMX project proceeds, it has distinct stages, and thus in our view less risk, than a one-shot line from Alberta to the West Coast of B.C. We see Terasen management's 6% earnings growth target as achievable with low-risk, incremental growth. In our judgement, these credit-positive features of Terasen compensate for most of its leverage handicap, and the roughly 10 bps of spread pickup over its peers make it, in our view, good value, in the context of today's expensive corporate market.

Gas Distribution

Terasen's current thrust in the gas distribution business is towards achieving operational efficiency gains. In particular, the company has already declared progress on "…improved operating efficiencies … through the ongoing integration of Terasen Gas and Terasen Gas Vancouver Island." This initiative brings to our mind a Toronto operations centre facilities tour staged in 2003 by sectoral peer Enbridge Gas Distribution, which left us very favourably impressed. The tour demonstrated what we see as solid, practical potential for operational efficiency gains in the gas distribution sector, opened up by the innovative application of modern information and communications technology, as well as other technical innovations. We believe similar applications are available to Terasen Gas Inc. and Terasen Gas Vancouver Island Inc. (TGVI), beyond the more direct synergies available on operational amalgamation of the two organizations. We note that an increasing amount of the efficiency gains must be shared with consumers under the multi-year performance based regulation settlement approved for 2004-2008 by the BCUC. The risk that efficiency gains could fail to meet targets, thereby lowering ROEs and interest coverage ratios, is a risk we take seriously, and it has been mentioned most recently by DBRS in its report on Terasen Gas this week. However, we think this risk is tempered by the ability to use technology to drive productivity in the sector.

TGVI has for some time pursued a project to increase natural gas capacity on Vancouver Island. TGVI's current proposal is for a compression facility with an adjacent LNG storage facility, with up to 1 billion cubic feet storage capacity. This would allow storage of gas shipped to the island during the off-peak season, and allow more efficient use of existing pipeline transmission capacity to the island. In February, the British Columbia Utilities Commission gave conditional approval to the LNG facility. The conditions included signing a long-term transportation service agreement with BC Hydro. BC Hydro, in turn, was to be the offtaker of the proposed Duke Point gas-fired power plant on Vancouver Island. Last week, BC Hydro abandoned the Duke Point project, as legal impediments achieved by the opposition of environmental activist groups had introduced delays that jeopardized the project's targeted 2007-2008 availability date. At present, it appears that the cancellation of Duke Point will delay TGVI's proposed LNG facility, perhaps by one to three years. TGVI will thus have a scaled-back capex program over the next few years, though some amounts (we believe less than $50 million) will probably be spent to allow the island's existing natural gas-fired electricity generation plant to shift towards base load operation (from peaking operation), to help meet electricity demand prior to BC Hydro's installation of a new electric transmission cable, probably in 2008. Part of BC Hydro's back-up plan to ensure electric system reliability on the Island until the new transmission cable is operative may include curtailment of industrial loads, though we understand that this curtailment will probably not stimulate near-term natural gas demand. Terasen believes that the LNG facility remains desirable to meet medium-term demand for natural gas on Vancouver Island, and we think the company will approach the regulator with a similar storage facility proposal at some future date.

Petroleum Transportation

Terasen has a one-third share in the Express pipeline, and is the operating partner. The Express expansion was completed on time, and a little under budget, in April, representing a capacity increase (on Express) of over

60%. The capital cost was about US$100 million, and was entirely debt financed through the $110 million US market debt issue last July. The earnings impact should be evident in Q2 results, and should annualize to about $5 million, or a 3% increase in Terasen's consolidated earnings. Express earnings are sensitive to changes in throughput, subject to a floor provided by ship-or-pay contracts for most of its capacity. Q1 throughputs on Express were weak, affected by temporary interruptions in Albertan oil sands production, notably at Suncor, though Q2 should show improvement.

The Trans-Mountain pipeline also saw lower volumes in Q1 due to Alberta production outages, but should also rebound in Q2. The Corridor pipeline is contracted (primarily to Shell Canada) on a ship-or-pay basis, and its earnings are not sensitive to throughput. Terasen continues to work with Shell towards a capacity expansion of Corridor from the current 155,000 bpd, which would occur in stages. The first of these, already approved by shippers, is a simple pumping capacity upgrade, good for an incremental 35,000 bpd for only $6.5 million. The second is a much larger expansion, for roughly $800 to $900 million. It is as yet unapproved, but could be available for service as soon as 2009.

Terasen management continues development work on the TMX proposal. Should Enbridge's Gateway proposal prevail, we would not view the "loss" as negative for Terasen credit quality. Nonetheless, we continue to think the staged nature of TMX probably makes it a less risky project from a credit perspective than a single-stage Edmonton to West Coast B.C. alternative (subject, of course, to financing, contracting, and other details).

Water

Terasen's water segment's second and third quarters (the strongest quarters seasonally) should see materially higher earnings this year, reflecting the inclusion of the Fairbanks, Alaska water utility's results. The Fairbanks acquisition, for US$30 million, closed on August 1, 2004. Management expects about one-third of Terasen's targeted average 6% future earnings growth will come from water utilities. We continue to think that the acquisition of assets in the sector is at present politically contentious among some interest groups in Canada, and even in the U.S. Nonetheless, we also think that Terasen should be able to appeal to some municipal councils by offering efficient, effective, consistently high-quality facility management, and thus expand its business gradually, with fairly small, low-risk capital or operating contracts, or acquisitions. Terasen has allocated up to $50 million of its capital plan for 2005 to the sector, though the availability and attractiveness of opportunities will always be hard to predict, and we anticipate "lumpy" growth for the segment. We note EPCOR's valuable water utility business (which contributed 27% of 2004 earnings), and we continue to view the water business line as a very attractive, diversifying complement to Terasen's gas distribution and petroleum transportation core business lines.

Equity Research DAILY Edge

Company Comment
Friday, July 29, 2005

Terasen Inc.

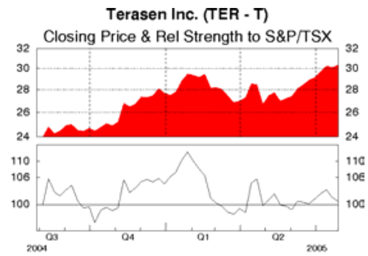
(TER-T C$31.64)

Sam Kanes, CA, CFA - 416-863-7798
sam_kanes@scotiacapital.com

Matthew Protti, MBA - 416-863-7846
matthew_protti@scotiacapital.com

Rating: 2-Sector Perform	**Target**	1-Yr:	$32.00	**ROR**	1-Yr:	4.0%	**Est. NTM Div.**	$0.90
Risk Ranking: Low		2-Yr:	$33.00		2-Yr:	10.0%	**Div. (Current)**	$0.90
Valuation: 1-yr target based on 19x P/E on averaged 2006E 2007E EPS							**Yield**	2.8%

Higher Q2/05 EPS and 2006 EPS



Source: Global Insight, Inc.

Event

- TER reported Q2/05 EPS of $0.28/share that was higher than our $0.18/share estimate and the First Call Average of $0.21/share as Trans Mountain ran at 100% of capacity, the Express expansion added more than expected, and non-recurring mark to market gains continued.

What It Means

- We discounted the temporary Q1/05 shortfall at Trans Mountain due to oil sands problems at Suncor and Syncrude and were surprised Trans Mountain ran full in Q2/05 since Suncor was short 90,000bpd.
- Earnings from gas distribution firmed $0.02/share on strong customer growth and cost efficiencies but half was simply deferred. Stronger Water and utility services results added $0.01/share while non-recurring mark to market gains at 40% owned Clean Power added $0.03/share.
- The bigger positive surprise was an extra $4M/year of tax related benefits from the Express Pipeline expansion ($0.02/share taken in Q2/05) that are viewed as "permanent".

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2004A	$0.65 A	$0.17 A	$0.10 A	$0.51 A	$1.43	19.38
2005E	$0.63 A	$0.28 A	$0.10	$0.53	$1.54	20.55
2006E	$0.74	$0.20	$0.07	$0.62	$1.63	19.41
2007E	$0.77	$0.22	$0.09	$0.65	$1.73	18.29

(FY-Dec.)	2003A	2004A	2005E	2006E	2007E
Earnings/Share	$1.28	$1.43	$1.54	$1.63	$1.73
Cash Flow/Share	$2.75	$2.90	$3.03	$3.20	$3.30
Price/Earnings	18.7	19.4	20.5	19.4	18.3
Relative P/E	1.0	1.0	1.1	1.0	0.9
Revenues	$1877	$1957	$2077	$2134	$2155
EBITDA	$504	$520	$560	$592	$608
Current Ratio	0.6	0.5	0.6	0.6	0.6
EBITDA/Int. Exp	2.9	3.1	3.3	3.3	3.4

I/B/E/S Estimates	**BVPS**	$14.22	**Shares O/S (M)**	105.0
EPS 2005E: $1.49	**ROE**	11.1%	**Float O/S (M)**	105.0
EPS 2006E: $1.56			**Total Value ($M)**	3,322
			Float Value ($M)	3,322
Next Reporting Date	03-Nov-05		**TSX Weight**	0.31%
Credit Ratings	S&P: BBB/Stable			

Pertinent Revisions

	New	Old
Target:		
1-Yr	$32.00	$30.00
2-Yr	$33.00	$30.00
EPS05E	$1.54	$1.48
EPS06E	$1.63	$1.58
EPS07E	$1.73	$1.68

New Valuation:
1-yr target based on 19x P/E on averaged 2006E 2007E EPS

Old Valuation:
1-yr target based on 18.5x P/E on averaged 2006E 2007E EPS

SC Online Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

For important disclosure information see Appendix A of this report.

Valuation

- **2005 EPS Forecast Unchanged, 2006-07 $0.05 per share Higher:** TER's management kept its 6% growth target in EPS intact for 2005 from a 2004 base of $1.40 per share adding that several small acquisition in the water business in Q3/5 are still required to make its 6% target and that mark to market gains are not part of the target. **However, 2006 and forward EPS will rise a "permanent" $0.04 per share due to better than expected results from the Express Pipeline expansion than previously estimated.** We also awarded $0.01 per share more for TER's water business that is growing better than expected. There is still some risk from Trans Mountain to 2006 EPS regarding its new 5 year Incentive Toll Settlement (ITS) but management appeared satisfied that good progress is being made now that Enbridge signed its 5 year CAPP agreement. We last increased TER's target P/E multiple from 18x to 18.5x on July 7, 2005 instead of 1x for all Alberta based utilities including Enbridge due to the strength of Alberta's economy at $60/bbl oil, lower than expected interest rates (4.2% 10 year Canada forecast) non-existent inflation in Canada, negative retail sales in May 2005 and record funds flow into dividend and income funds.
- **Raise P/E by 0.5x:** Given TER's increasingly likely success on several oil pipeline projects with a) the upgrade in CAPP's Canadian oil production and imminent Shell Corridor prospects, we are adding 0.5x to TER's P/E to 19x. Our one year target at 19x on $0.05 per share higher 2006-07 EPS adds $2 per share so our new 1 year target is $32 per share, up from $30 per share. The stock market instantly reacted to the Q2/05 EPS release and added $1.40 per share to TER's stock price so we maintain our 2-Sector Perform rating.

Q2/05 Highlights

- **Q2/05 EPS:** TER's Q2/05 earnings of $0.28 per share beat our $0.18 per share and the First Call Average of $0.21 per share. The number included 1) a $0.04 per share non-recurring mark to market gain at its 40.4% equity interest in Clean Energy, 2) $0.01 per share for Q1/05 taken in Q2/05 from the higher tax related Express earnings of $1M per quarter and 3) $0.01 per share of deferred maintenance. The rest was mildly better than expected water and utility services contribution on a 30% revenue increase and the Trans Mountain pipeline system running flat out in Q2/05 versus our view that it would not. TER's line is volume sensitive under its expiring 5 year agreement with CAPP while Enbridge's previous 5 year agreement was not volume sensitive to the downside.
- **2005 Capital Expenditures Unchanged:** Capital expenditures may rise to $325M in 2005 from $154M in 2004. Management expects to fund this capex via internal cash flows and subsidiary-level debt. Most of this capex will be in regulated gas distribution ($240M) that includes $50M for putting Coastal Facilities buildings into the rate base from its present lease arrangement, the Fraser river crossing ($20M) and includes $40M at Trans Mountain and $10M mainly for de-bottlenecking at Corridor. TER's capital structure is currently about 66% debt to total capitalization so any major incremental project will likely require equity.
- **Q2/05 Petroleum Transportation:** Q2/05 petroleum transportation earnings increased YOY to $20.9M from $16.2M in Q2/04 due mainly to the Trans Mountain pipeline running full again after losing Q1/05 oil sands production from the Suncor fire and Syncrude problems. TER did not elaborate on its $1M/quarter of permanent or near permanent tax structuring benefits from its non-taxable partners ($1M per quarter for the foreseeable future, $2M taken in Q2/05 for Q1/05 catch-up) from the Express expansion starting up in April 2005.Express Q2/05 earnings therefore increased to $0.07 per share from $0.03 per share in Q2/04. Corridor Q2/05 earnings were flat YOY at $0.04 per share.
  - TER is currently negotiating the framework for a new long term operation deal with Trans Mountain shippers, which will likely be impacted by Enbridge's (ENB) new Incentive Tolling Settlement (ITS). TER stated that there is good progress on the ITS now that ENB has settled and TER's ITS is expected to be completed by the end of 2005.

- **Q3/05 EPS**: TER stated on the conference call that in Q3/05 there was a small spill on a Trans Mountain pipeline lateral which caused 600 bbls to leak that may cost $0.5M and $1M. TER also noted that due to a customer's plant problem in Edmonton, July throughput on Trans Mountain was down to 200,000 bbls/day from 242,000 bbls/day in Q2/05. However, in August, the pipeline system was on apportionment again.

- **Q2/05 Gas Distribution:** Q2/05 Gas distribution earnings were up $2.6M or $0.02 per share to $0.07 per share from $0.05 per share in Q2/04. A 22 basis point lower allowed ROE for 2005 (9.03%) was more than offset by strong customer growth and remaining operating efficiencies of merging the Mainland and Island gas utilities. Allowed ROE for 2005 is 9.53% at TGVI.
- **Water & Utility Services and Other:** Q2/05 earnings from the small water and utility services segment were up $0.01 per share or $1.2M to $3.8M or $0.03 per share from $2.6M in Q2/04. Most of this growth is from the Waterworks business which continues to capitalize on the strength in the Alberta and B.C. economies as well as increased earnings from Fairbanks Sewer and Water (acquired July 2004). TER has allocated $50M in its 2005 capital plan for acquisition (20%-50%) and organic growth (50%-80%) in this segment.
- **Other Activities:** Losses from the other activities segment decreased to $2.9M (loss of $0.02 per share) from a loss of $6.0M in Q2/04 due to higher Q2/05 mark to market gains of $3.9M up from $0.6M in Q2/04 at 40.4% owned Clean Energy.
- **Regulatory:** In Q2/05, TER filed a rate application with the BUC in which it requested a 5% increase in equity thickness (from 33% to 38% for Terasen Gas) and an increase to ROE of 1.75%. TER believes that it has a good chance of receiving these increases as gas prices have increased considerably recently relative to more stable local power prices and that the current rates are out of synch with Alberta based ROEs. We are not as optimistic on the ROE request, as it is questionable that TER's risk profile has actually increased materially. While TER may receive some amount of equity thickness increase, it would likely be required to inject more equity at the corporate level similar to what Emera experienced at its 100% owned Nova Scotia Power Inc regulated entity. TER also stated that it has filed to extend its existing TGVI settlement so that it better aligns with the requested Terasen Gas regulatory settlement.

Growth Outlook

- **TMX:** TER's growth opportunities improved in Q2 and Q3 2005. On July 12, 2005 TER filed an application with the National Energy Board (NEB) to increase the capacity of the Trans Mountain pipeline by 35,000 bbls/day from 225,000 bbls/day to 260,000 bbls/day for an estimated $210M (TMX Phase I) for Q1/07. The TMX Phase I was also included by the Canadian Association of Petroleum Producers (CAPP) in the ongoing TER ITS discussions. TER stated that the next TMX system expansion request will occur late in Q3/05 when TER will hold an open season for the $365M TMX 30 inch pipeline loop in Alberta and eastern BC (Phase II), which could lead to an eventual twinning of the entire Trans Mountain system (Phase III) that would transport crude to Vancouver for delivery to U.S. refineries in California or a northern leg into Prince Rupert that will transport oil sands crude to Prince Rupert for export to Asia via VLCC tankers. The northern leg option is identical to ENB's Gateway Oil Pipeline proposal. TMX 2 and 3 could add 625,000bbls/day.
  - **CAPP Increases Canadian Oil Production Forecast:** On July 19, 2005, CAPP raised its total Canadian crude oil production forecast from 3.6M bbls/day to 3.9M bbls/day in 2015. CAPP increased forecast 2015 conventional oil production in Western Canada by 125K bbls/day and oil sands production by 100K bbls/day from the 2004 numbers. CAPP had previously estimated that 600K bbls/day of new pipeline capacity will be required to service incremental oil sands production over the next decade. **We believe that with CAPP's latest revision, 825K bbls/day may be necessary.** There are various projects including TER's TMX (625K bbls/day), ENB's Gateway (400K

bbls/day), TRP's Keystone pipeline (435K bbls/day), Koch's Minnesota pipeline (350K bbls/day) and Southern Access (250K bbls/day) that are competing.

- ENB's $2.5B Gateway oil export pipeline project and $1.7B condensate import line (less $600m if built together) are claimed to be ahead of Terasen's TMX project at this time. TRP's US$1.7B Keystone oil pipeline proposal from Alberta to Illinois initially appears to be too little too late.

- **LNG Storage Delay:** The BCUC had approved TER's $100M LNG storage and gas compression facility, however in Q2/05 B.C. Hydro announced it was not going to be proceeding with the power plant on Vancouver Island that the storage facility was set up to serve. **The BCUC approval was contingent on that power plant being constructed.** TER stated that it thinks there is still a need for LNG storage on Vancouver Island and is in the process of resubmitting the application (est. Q4/05) and expects a 1-2 year delay in construction.
- **Corridor Expansion:** TER is in an exclusive negotiation with Shell for the $800M Corridor pipeline expansion in Alberta with an estimated in service date of 2009. TER stated that it is currently working on engineering and environmental plans for the 42 inch expansion from Muskeg River to Edmonton which could carry 1M bbls/day. Shell will likely have a minimum take or pay contract to guarantee TER a certain minimum return on the investment, but TER noted there would be significant capacity left for third party shippers. The benefit from allowing third party shippers will be split somehow between Shell and TER.
- **Water Operations:** TER stated that it has more opportunities to grow its water business based on its bidding in Alaska and Southern Alberta for water operations. It expects to close on a couple of small deals in Q3/05, one in B.C. and one in Alberta. The earnings lift from these deals will be small and is already included in the 6% 2005 EPS growth guidance.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Enbridge Inc.	ENB	H3, S
Terasen Inc.	TER	H3
TransCanada Corporation	TRP	H3, S

Each research analyst named in this report or any subsection of this report certifies that (1) the views expressed in this report in connection with securities or issuers that he or she analyzes accurately reflect his or her personal views; and (2) no part of his or her compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by him or her in this report.

The Research Analyst's compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

This report may include articles or content prepared by Scotia Economics as a resource for the clients of Scotiabank and Scotia Capital.

For Scotia Capital Research analyst standards and disclosure policies, please visit http://www.scotiacapital.com/disclosures

---

* *Legend*

H3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

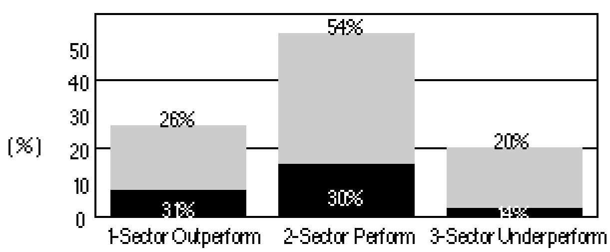
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at June 30, 2005.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Equity Research DAILY Edge

Industry Comment
Thursday, August 04, 2005

Electric & Gas Utilities

Terasen Takeover Valuation Impacts Sector

Sam Kanes, CA, CFA - 416-863-7798
sam_kanes@scotiacapital.com
Matthew Protti, MBA - 416-863-7846
matthew_protti@scotiacapital.com

SC Online Analyst Link

Event

- Terasen (TER) announced on August 1, 2005 after market close that it had entered into an agreement where it may be 100% purchased by Kinder Morgan Inc. (KMI.N) with a targeted year-end close.

What It Means

- We continue to suggest TransAlta (TA), Enbridge (ENB), and ATCO (ACO.nv.x) as the best risk-reward alternatives to Terasen in Canadian Energy Utilities with Enbridge being the closest comp to TER. All three also benefit from $60/bbl plus oil in different ways: TA through higher power margins in the U.S., ENB through oil pipeline expansions like TER is pursuing and ATCO through housing/infrastructure for oil sands projects.
- California called two stage 2 power supply emergencies in July 2005 which highlights the tight California power market. Total also announced it was purchasing Deer Creek Energy which, along with the TER/KMI deal will have the effect of increasing Alberta's oil sands' visibility further.
- We increased our one- and two-year targets on all stocks in our coverage universe on July 7, 2005 due to a) $60/bbl oil that heavily favours Alberta energy utilities in Canada's highest growth and wealthiest province and b) record dividend and income funds flow that doubled YOY in May 2005.

Universe of Coverage

	Price	Rating	Risk	1-Yr	ROR	2-Yr	ROR
ACO.NV.X	C$76.00	1-SO	Med	$82.00	9.9%	$82.00	11.9%
BLX.A	C$7.70	3-SU	High	$6.85	-11.0%	$7.25	-5.8%
CU.NV	C$72.60	2-SP	Med	$76.00	7.7%	$79.00	14.9%
CUP.U	C$11.22	2-SP	Med	C$12.50	19.2%	C$13.50	35.9%
EMA	C$18.02	3-SU	Low	$18.50	7.6%	$19.00	15.3%
ENB	C$36.08	1-SO	Low	$39.00	10.9%	$39.50	15.0%
FTS	C$84.00	2-SP	Med	$82.50	0.9%	$82.50	3.6%
KHD	C$4.08	3-SU	High	$4.20	2.9%	$4.70	15.2%
TA	C$21.66	1-SO	High	$25.00	20.0%	$27.00	33.9%
TER	C$36.25	3-SU	Low	$32.00	-9.2%	$33.00	-4.0%
TRP	C$33.60	2-SP	Low	$35.50	9.3%	$37.00	17.4%

KMI/TER Transaction Details

- **Offer Valuation:** Kinder Morgan Inc. (KMI.N) will acquire 100% of the shares of Terasen Inc. (TER) for a purchase price, including debt of US$5.6B or C$6.9B. The transaction represents about 24x P/E on 2005 Terasen consensus estimate earnings and 2.6x book, smashing previous Canadian energy utility takeover records by 20%+ on both metrics. The takeover premium is 14% over Terasen's closing share price on July 29, 2005, 20% over TER's 20 day average closing price and an additional 2% for the positive reaction to KMI's stock price that rose 6% on August 2, 2005 as 35% of any increase/decrease in KMI's stock will be added to/subtracted from TER's stock. For further KMI offer details, see our August 2, 2005 TER note.
- **Westcoast/Duke 2001 Transaction:** This transaction served as a proxy to the proposed KMI-TER deal. In September, 2001 Duke offered to purchase Westcoast Energy (W) for similar stock premiums of 14.8% one day prior, 18.5% on 20 days average. The W deal size was larger at C$13B (including C$7.2B in net debt and preferred). Due to a perceived scarcity premium on Canadian pipeline companies after Duke's bid for Westcoast, we upgraded the shares of Enbridge and TransCanada on future pipeline stock scarcity value as well as BC Gas (Terasen) due to its expanding oil pipeline position in Western Canada (See Exhibit 1 for historic transaction details). While we are not raising our P/E multiples yet again although we are tempted, KMI's bid for TER at 24x P/E on current 2005 EPS is confirmation of our record high P/E multiples that we currently use on 2006-7 EPS averaged to set our one year stock targets.

Exhibit 1- Historic Regulated Asset/Company Transactions

Sellers	Asset/Company	Buyer	Date	Est. P/B Regulated Equity	Est. Share Takeover Premium
Terasen	**100% of Company**	**Kinder Morgan**	**Q4/05**	**2.6x**	**14 - 20%**
TransAlta Utilities	Alberta Transmission	OTPP/SNC Lavalin	Q2/02	1.85x	n/a
Westcoast Energy	100% of Company	Duke Energy	Q1/02	1.85x	15%
Westcoast Energy	Centra B.C	BC Gas (Terasen)	Q1/02	1.3x	n/a
TransAlta Utilities	Alberta Electricity Distribution	Utilicorp	Q1/01	1.8x	n/a
Westcoast Energy	Centra Manitoba Gas Distribution	Manitoba Hydro	Q3/99	2.1x	n/a
Westcoast Energy	Centra Alberta Gas Distribution	AltaGas	Q2/98	1.8x	n/a
British Gas	Consumers Gas	Enbridge	Q2/94	1.8x	30%
Maritime Electric	100% of Company	Fortis	Q3/94	1.4x	28%
Union Energy	100% of Company	Westcoast	Q4/92	1.5x	32%

Source: Company Reports, Scotia Capital.

What does the TER takeover mean for:

- **Enbridge (ENB):** We value ENB at a 1x-3x premium multiple over the rest of the Canadian energy utility sector at 21x for the following reasons:
    1. ENB has had the best management team in the business for the past 20 years. This is evidenced by their double digit EPS and dividend growth record and stock price performance over the past 10 years.
    2. We continue to believe that ENB wins the Gateway oil export pipeline race with Terasen although Kinder Morgan will be a formidable competitor.
    3. ENB is the owner of the best Canadian gas LDC (Toronto) that has the third best growth rate in North America behind Las Vegas and Phoenix-Scottsdale.
    4. Its balance sheet remains under-levered even after its $600M acquisition of Shell's gas pipelines in the Gulf of Mexico (60% debt to total cap, A- credit).

5. The proposed TER takeover by Kinder Morgan leaves ENB as the remaining way for major international companies to play the Canadian oil sands on the pipeline plane. ENB has exposure to the upside of the oil sands production without the same downside commodity risk as a pure-play oil sands company. In our view, ENB will continue to experience a pipeline scarcity premium going forward as it becomes more difficult to invest in either Canadian pipelines or pipelines with a focus on the Alberta oil sands. We do not believe that ENB is a takeover candidate for the likes of Duke or Warren Buffett at its premium P/E multiple.

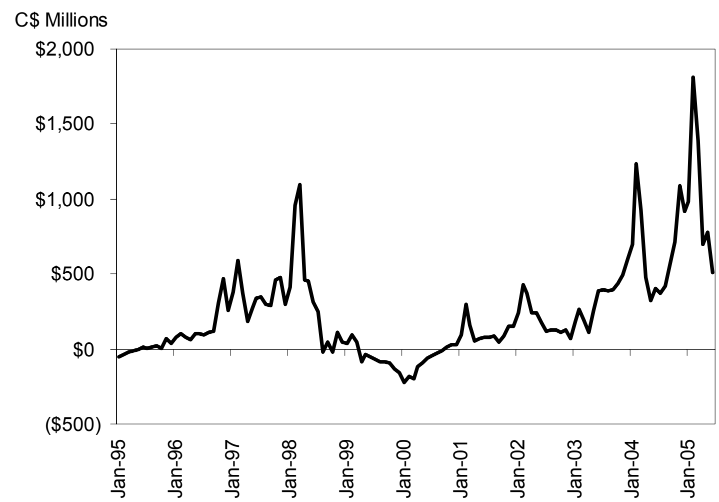
- **TransCanada (TRP):** Like ENB, TRP may benefit from the KMI deal, but somewhat less than ENB from a pipeline scarcity premium in Canada as 100% of TRP's current pipelines are gas based and do not serve the oil sands. TRP may receive some of the re-allocation of TER equity from Canadian institutional shareholders, especially since the KMI/TER transaction will not have exchangeable shares offered. In the short term, TRP's stock was buffeted a little by a poor Q2/05 EPS number due to unplanned Bruce nuclear plant outages.
- **TransAlta (TA):** Terasen's business profile is less correlated to TA, which benefits more directly from $60/bbl plus oil through higher forecast forward power contract renewals in the deregulated Pacific Northwest (PNW) U.S. power market. Higher PNW prices are TA's greatest EPS upside as its 9M MWh of contracts roll over from $30/MWh today to sharply higher levels ($50/MWh plus?) based partly on high oil and gas costs. We listened to both Duke Energy's and Calpine's conference calls on August 3, 2005. Both spoke to the sharp increase in forward contract power prices in Western U.S. markets but did not quantify them. TA estimated PNW power prices of $50-$55/MWh for 2008 base-load contracts on its Q2/05 EPS conference call. Oil over $60/bbl has meant U.S. natural gas over $8/mcf. Even at that price, Calpine announced another gas based power plant for California with GE this week to be built for 2008. It will need power prices closer to $80/MWh to make a full return at today's gas prices.
- **ATCO:** $60/bbl plus oil means more Alberta oil sand projects, particularly now that Total has also decided to enter the fray via its acquisition of an oil sands junior. ATCO's non-regulated expertise and EPS sensitivity lies in housing/sheltering large construction support facilities for major multi-year projects. ATCO has the Nexen-OPTI 2,500 person camp infrastructure contract and is pursuing the 6,000 working Horizon project for Canadian Natural Resources for 2006.
- **Alberta Based Utilities at a Premium:** We wrote at the beginning of July that the stock revaluation mania that has gripped the oil and gas sector had spilled over into the second best TSX sub-sector this year, oil and gas infrastructure utilities. This trend continues, particularly for those stocks that are Alberta based, due to $60/bbl plus oil prices and now the TER/KMI and Total/Deer Creek deals.
- **Mid-Cap Comps:** For investors that held Terasen as a mid-cap growth play, Fortis, ATCO and Canadian Utilities would be appropriate mid-cap replacements as all 3 have expected EPS growth of 5% plus per year.
- **Other Canadian Utilities:** The remaining Canadian utilities that are not related to Alberta (Emera, Caribbean Utilities) will see the least increase in value should the deal go through, due to there being one less Canadian utility in the space.

Stay Overweight Energy Utilities

- Our Overweight Energy Utilities recommendation since December 2004 was/is still predicated on:
  - **Strong C$/Weak Economic Data:** Scotia Economics' C$ forecast of US$0.90 continues albeit with a lag. This signals weaker Canadian manufacturing and current account surplus data going forward. In 1990, the last time the C$ approached US$0.90, interest sensitive stocks such as TRP outperformed the slumping S&P/TSX index by about 20%.
  - **Lower Interest Rates:** Interest rates are at 1958 levels with 10-year Canada yields at about 3.9% at present. Our 1 year forecast for 10 year Canada rates is a benign 4.2%.

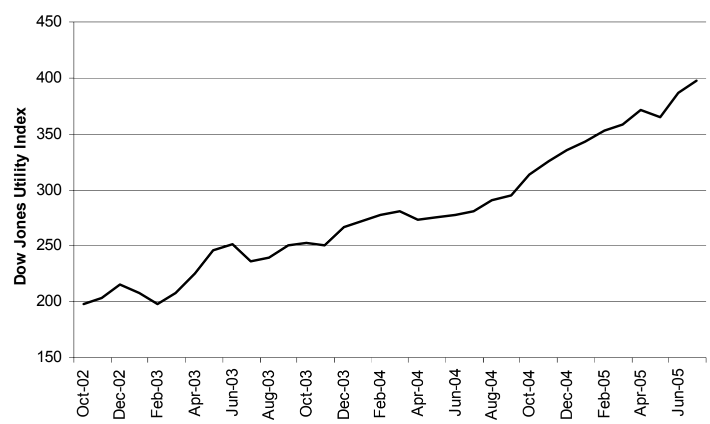
- **Outstanding Dividend and Income Funds Flow:** Funds flow into dividend and income funds remains at record levels that are about double normal levels. June 2005 dividend and income funds inflows were \$508M. YTD June 2005 (\$6.173B) is 52% up over YTD June 2004 (See Exhibit 2). **If it wasn't for record 2005 income trust IPO's and conversions, Canadian Energy Utility P/E multiples would be higher.**
- **Dow Jones Utilities Soaring:** The Dow Jones Utilities index has just hit 405, **up 27% from November 1, 2004** and up 100% since November 1, 2002 (See Exhibit 3). One of President Bush's major re-election promises was to maintain a reduced 15% dividend tax rate for at least another four years. The Dow Utilities trade more off after tax yield values than any other equity class, similar to Canadian energy utilities. By cutting the U.S. individual dividend tax rate to 15% from as high as 40% in some states, **President Bush effectively raised the value of high dividend paying stocks by as much as 25%!** This makes the New York Inter-listed Canadian Energy utilities (TA, ENB and TRP) more attractive to U.S. investors than any other energy utilities in Canada as U.S. inter-listed foreign stocks that pay dividends are not prejudiced by the 15% U.S. dividend tax rate.
- New is the agreed upon U.S. Energy Bill that will repeal the restrictive energy utility takeover rules in place since the 1930's in the U.S. (known as PUHCA) that President Bush will sign into law later this month. This opens the playing field to numerous takeovers that are already beginning to line up (MidAmerica-Pacificorp, Duke-Cinergy and Exelon-PSEG). This may lead to higher P/E multiples on U.S. takeover targets.

Exhibit 2 - Canadian Dividend & Income Funds - Monthly Net Sales



Source: IFIC, Scotia Capital.

Exhibit 3 - Dow Jones Utility Index



Source: Bloomberg, Scotia Capital.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
ATCO Ltd.	ACO.NV.X	H3
Canadian Utilities Limited	CU.NV	H3, S
Emera Incorporated	EMA	H3, S
Enbridge Inc.	ENB	H3, S
Fortis Inc.	FTS	H3, S, U
Terasen Inc.	TER	H3
TransAlta Corporation	TA	H3, S
TransCanada Corporation	TRP	H3, S

Each research analyst named in this report or any subsection of this report certifies that (1) the views expressed in this report in connection with securities or issuers that he or she analyzes accurately reflect his or her personal views; and (2) no part of his or her compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by him or her in this report.

The Research Analyst's compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

For Scotia Capital Research analyst standards and disclosure policies, please visit http://www.scotiacapital.com/disclosures

* *Legend*

H 3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

U Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability with respect to equity securities of, or has provided advice for a fee with respect to, this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

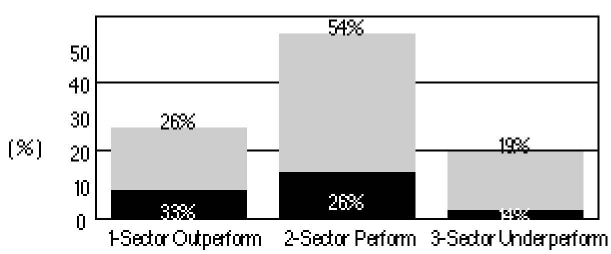
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at July 29, 2005.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Scotia Capital

Equity Research DAILY Edge

Company Comment

Wednesday, August 03, 2005

Terasen Inc.

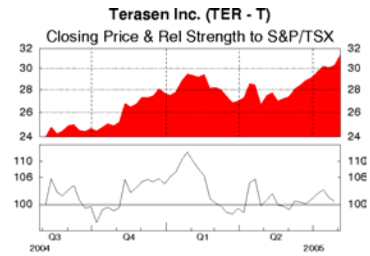
(TER-T C$36.00)

Sam Kanes, CA, CFA - 416-863-7798
sam_kanes@scotiacapital.com

Matthew Protti, MBA - 416-863-7846
matthew_protti@scotiacapital.com

Rating: 3-Sector Underperform	**Target**	1-Yr:	$32.00	**ROR**	1-Yr:	-8.6%	**Est. NTM Div.**	$0.90
Risk Ranking: Low		2-Yr:	$33.00		2-Yr:	-3.3%	**Div. (Current)**	$0.90
Valuation: 1-yr target based on 19x P/E on averaged 2006E 2007E EPS							**Yield**	2.5%

Kinder-Morgan to Purchase TER



Source: Global Insight, Inc.

Event

- Terasen (TER) announced on August 1, 2005 after market close that it had entered into an agreement where it may be 100% purchased by Kinder Morgan Inc. (KMI.N) with a targeted year-end close.

What It Means

- The 14% 1 day and 20% 20 trailing day trading premium bid for TER's stock at $35.75/TER share takes us to a 3-Sector Underperform from 2-Sector Perform.
- This will over time, release most of the $3.75B 65% cash 35% Kinder equity total bid for TER's equity to mostly Canadian income oriented individuals and funds to re-deploy.
- We continue to suggest TransAlta, Enbridge, and ATCO (our 1-Sector Outperforms) as the best risk-reward alternatives in Canadian Energy Utilities with Enbridge being the closest comp to TER. All three also benefit from $60/bbl plus oil in different ways.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2004A	$0.65 A	$0.17 A	$0.10 A	$0.51 A	$1.43	19.38
2005E	$0.63 A	$0.28 A	$0.10	$0.53	$1.54	23.38
2006E	$0.74	$0.20	$0.07	$0.62	$1.63	22.09
2007E	$0.77	$0.22	$0.09	$0.65	$1.73	20.81

(FY-Dec.)	2003A	2004A	2005E	2006E	2007E
Earnings/Share	$1.28	$1.43	$1.54	$1.63	$1.73
Cash Flow/Share	$2.75	$2.90	$3.03	$3.20	$3.30
Price/Earnings	18.7	19.4	23.4	22.1	20.8
Relative P/E	1.0	1.0	1.2	1.2	1.1
Revenues	$1877	$1957	$2077	$2134	$2155
EBITDA	$504	$520	$560	$592	$608
Current Ratio	0.6	0.5	0.6	0.6	0.6
EBITDA/Int. Exp	2.9	3.1	3.3	3.3	3.4

I/B/E/S Estimates	**BVPS**	$14.22	**Shares O/S (M)**	105.0
EPS 2005E: $1.50	**ROE**	11.1%	**Float O/S (M)**	105.0
EPS 2006E: $1.60			**Total Value ($M)**	3,780
			Float Value ($M)	3,780
Next Reporting Date	03-Nov-05		**TSX Weight**	0.32%
Credit Ratings	S&P: BBB/Stable			

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Pertinent Revisions

	New	Old
Rating:	3-SU	2-SP

SC Online Analyst Link

For important disclosure information see Appendix A of this report.

Terasen's Take-over Transaction Details

- **Offer Details:** Kinder Morgan Inc. (KMI.N) will acquire 100% of the shares of Terasen Inc. (TER) for a purchase price, including debt of US$5.6B or C$6.9B. TER's equity in the offer is valued at about $3.75B (105M at $35.75 per TER share). The agreement was unanimously approved by both companies' boards. The transaction yields a premium of 14% over Terasen's closing share price on July 29, 2005 and 20% over TER's 20 day average closing price. Since the deal is forecast to be 6%-8% EPS accretive to Kinder Morgan in year 1, its shares immediately reacted favourably, moving up as much as 10% at one point yesterday to $98.45 per share. KMI also stated that its annual $3 per share dividend is expected to rise to $3.50 per share in 2006 but did not state that the deal closing is conditional to the KMI dividend increase. TER shareholders have the choice to elect for 1) C$35.75 per share in cash, 2) 0.3331 shares of KMI per TER share or 3) C$23.25 in cash (65%) plus 0.1165 shares of KMI (35%).
- All elections to KMI's offer will be subject to pro-ration in the event total cash elections exceed 65% or share elections exceed 35%. **Therefore, TER's stock will move at 35% of the rate of the move in Kinder Morgan's stock price until the deal closes.** Non-electing shareholders will receive option 3, the 65%/35% cash/shares split. There were **no** exchangeable shares offered for Canadian shareholders. The termination fee of C$75M is 1.9% of the deal price. KMI's offer is above our 1-year target price of C$32 and represents about 23.8x 2005E consensus earnings of $1.49 per share.
- **Timeline:** Steps to deal completion include: 1) regulatory filings in Q3/05, 2) end-October 2005 TER shareholder vote (75% approval required) 3) Canadian regulatory approvals from the BCUC, Investment Canada and the Canadian Competition Act, and 4) U.S. regulatory approvals from Hart-Scott-Radino. Both companies expect the deal to close by year-end 2005.
- **Valuation:** We raised our TER valuation on July 29, 2005 given TER's increasingly likely success on several oil pipeline projects with the upgrade in CAPP's Canadian oil production and imminent Shell Corridor prospects by adding 0.5X P/E to TER's target P/E. The stock market immediately reacted to TER's Q2/05 EPS release by adding $1.40 per share to TER's stock price so we maintained our 2-Sector Perform rating. The 14% 1 day and 20% 20 trailing day trading premium bid by KMI for TER's stock at $35.75 per TER share now takes us to a 3-Sector Underperform from 2-Sector Perform.

Exhibit 1 – Combined Kinder Morgan and Terasen Metrics

Kinder Morgan Inc. (KMI.N)	(US$B)
Market Equity	$11.2
Debt	$2.7
Enterprise Value	$13.9

Terasen Inc. (TER)	(US$B)
Market Equity	$2.7
Debt	$2.4
Enterprise Value	$5.1

Pro Forma Combined Entity	(US$B)
Market Equity	$12.0
Debt	$7.2
Enterprise Value	$19.2
KMP E.V.	$15.9
E.V. Total	$35.1

Source: Company Reports, Scotia Capital.

Exhibit 2 – Combined Kinder Morgan and Terasen Operations

Kinder Morgan Operations	% of EBITDA
Kinder Morgan Partners	50%
Natural Gas Pipelines	41%
Retail Gas Distribution	7%
Other	2%
2006E EBITDA	$1.3 billion

Terasen Operatios	% of EBITDA
Retail Gas Distribution	65%
Petroleum Pipelines	29%
Other	6%
2006E EBITDA	$0.5 billion

Pro Forma Combined Operations	% of EBITDA
Kinder Morgan Partners	36%
Natural Gas Pipelines	30%
Retail Gas Distribution	23%
Petroleum Pipelines	8%
Other	3%
2006E EBITDA	$1.8 billion

Note: EBITDA excludes corporate G&A before cost savings.

Source: Company Reports, Scotia Capital.

Developments

- **Kinder Morgan's Strategic Rationale:** KMI is a U.S. based midstream energy company (enterprise value of US$30B) based in Houston and founded by Richard Kinder, who continues on as CEO and Chairman. Mr. Kinder owns 19.68% of KMI's shares outstanding and pays himself $1 per year in salary. KMI has 35,000 miles of natural gas and product pipelines and 145 terminals. It also owns 16% and is the General Partner of Kinder Morgan Energy Partners (KMP.N), a large public pipeline master partnership. KMP also owns petroleum product pipelines, terminals, natural gas and C02 pipelines. KMI focuses on fee-based businesses where it collects fees on the transportation and storage of energy products, avoiding direct commodity price risk. On its conference call, KMI stated that the TER deal featured stable, low risk assets receiving reasonable regulated rates, giving 6% - 8% 2006 earnings accretion for KMI in the first year following the acquisition and provides "hellacious" large growth opportunities from Alberta's oil sands. TER's backlog of opportunities around crude oil export pipelines total $3B according to TER's conference call. (See Exhibits 1 and 2).
  - KMI also stated that since both companies were BBB rated, the combined company should receive a BBB rating. After the call S&P placed KMI's BBB rating on Watch Negative based on the increased leverage necessary to fund the purchase, while Moody's reaffirmed KMI's Baa2/Stable rating. Moody's placed TER's senior unsecured A3 debt on review for possible downgrade due to KMI's debt being lower rated than TER's
  - KMI's CEO said on the conference call that Canadian oil sand production growth over the next 5 - 7 years was analogous to incremental supply from an entirely new Permian basin (1M bbls/day - the largest oil basin in the U.S.). This analogy should allow U.S. investors to better correlate the size of the oil sands opportunities to a U.S. equivalent deposit. There is further room for supply increases beyond the next 1M bbls/day after 2010/12 (See CAPP discussion below).
- **Regulatory Issues:** Both KMI and TER stated on their respective conference calls that there shouldn't be any substantial regulatory issues with the deal. TER stated that it had already notified several regulatory stakeholders about the deal and will bring the transaction up with the BCUC on August 3, 2005 when it convenes the latest TER rate hearing. **We assume regulatory approvals will be received in the 5-month timeline given.**
-

Exhibit 3 – Historical Regulated Asset/Company Transactions

Sellers	Asset/Company	Buyer	Date	Est. P/B Regulated Equity	Est. Share Takeover Premium
Terasen	**100% of Company**	**Kinder Morgan**	**Q4/05**	**2.6x**	**14 - 20%**
TransAlta Utilities	Alberta Transmission	OTPP/SNC Lavalin	Q2/02	1.85x	n/a
Westcoast Energy	100% of Company	Duke Energy	Q1/02	1.85x	15%
Westcoast Energy	Centra B.C	BC Gas (Terasen)	Q1/02	1.3x	n/a
TransAlta Utilities	Alberta Electricity Distribution	Utilicorp	Q1/01	1.8x	n/a
Westcoast Energy	Centra Manitoba Gas Distribution	Manitoba Hydro	Q3/99	2.1x	n/a
Westcoast Energy	Centra Alberta Gas Distribution	AltaGas	Q2/98	1.8x	n/a
British Gas	Consumers Gas	Enbridge	Q2/94	1.8x	30%
Maritime Electric	100% of Company	Fortis	Q3/94	1.4x	28%
Union Energy	100% of Company	Westcoast	Q4/92	1.5x	32%

Source: Company Reports, Scotia Capital.

Duke/Westcoast Deal Precedent: On September 23, 2001 Duke Energy offered a 15% share price premium for 100% of Westcoast Energy at that time. This is likely the precedent transaction which formed the structure of the KMI/TER deal. The Duke/Westcoast deal took just over 5 months to complete, with the closing coming in a few weeks late due to a specific U.S. FERC regulatory issue with one of the assets (Maritimes & Northeast Pipeline). We believe that the KMI/TER deal will fit into this precedent timeline (See Exhibit 3 for precedent transaction details).

- **Other Possible Suitors:** The only Canadian company that could takeover Terasen and enjoy material synergies is Enbridge (ENB). Other U.S. or international companies (including China's) could be interested in TER's growth prospects and oil sands exposure; however, KMI has already paid a record sector premium. KMI noted that the deal was done for its growth prospects and that cost savings were likely going to be limited to some minor operating redundancies. This is typical of most utility acquisitions.
- **Financing Terasen:** KMI did specify its debt to total cap after closing the Terasen deal would be 56% versus 53.9% as of June 30, 2005. We speculate that KMI will issue a Canadian debt instrument through a wholly owned Canadian sub similar to a Dominion Resources' Canadian issue that used a Nova Scotia incorporated subsidiary.

Background: TER's Growth Outlook

- **TMX:** On July 12, 2005 TER filed an application with the National Energy Board (NEB) to increase the capacity of the Trans Mountain pipeline by 35,000 bbls/day from 225,000 bbls/day to 260,000 bbls/day for an estimated $210M (TMX Phase I) for Q1/07. The TMX Phase I was also included by the Canadian Association of Petroleum Producers (CAPP) in the ongoing TER ITS discussions. TER stated that the next TMX system expansion request will occur late in Q3/05 when TER will hold an open season for the $365M TMX 30 inch pipeline loop in Alberta and eastern BC (Phase II), which could lead to an eventual twinning of the entire Trans Mountain system (Phase III) that would transport crude to Vancouver for delivery to U.S. refineries in California or a northern leg into Prince Rupert that will transport oil sands crude to Prince Rupert for export to Asia via VLCC tankers. The northern leg option is identical to ENB's Gateway Oil Pipeline proposal. TMX 2 and 3 could add 625,000bbls/day.
  - **CAPP Increases Canadian Oil Production Forecast:** On July 19, 2005, CAPP raised its total Canadian crude oil production forecast from 3.6M bbls/day to 3.9M bbls/day in 2015. CAPP increased forecast 2015 conventional oil production in Western Canada by 125K bbls/day and oil sands production by 100K bbls/day from the 2004 numbers. CAPP had previously estimated that 600K bbls/day of new pipeline capacity will be required to service incremental oil sands production over the next decade. **We believe that with CAPP's latest revision, 825K bbls/day may be necessary.** There are various projects including TER's TMX (625K bbls/day), ENB's Gateway (400K bbls/day), TRP's Keystone pipeline (435K bbls/day), Koch's Minnesota pipeline (350K bbls/day) and Southern Access (250K bbls/day) that are competing.
  - ENB's $2.5B Gateway oil export pipeline project and $1.7B condensate import line (less $600m if built together) are claimed to be ahead of Terasen's TMX project at this time. TRP's US$1.7B Keystone oil pipeline proposal from Alberta to Illinois initially appears to be too little too late.

- **Corridor Expansion:** TER is in an exclusive negotiation with Shell for the $800M Corridor pipeline expansion in Alberta with an estimated in service date of 2009. TER stated that it is currently working on engineering and environmental plans for the 42 inch expansion from Muskeg River to Edmonton which could carry 1M bbls/day. Shell will likely have a minimum take or pay contract to guarantee TER a certain minimum return on the investment, but TER noted there would be significant capacity left for third party shippers. The benefit from allowing third party shippers will be split somehow between Shell and TER.
- Additionally, for more information on Canadian crude oil pipelines please see pages 59 - 63 from our July 2005 *Gas & Electric Utilities Outlook.*

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Enbridge Inc.	ENB	H3, S
Terasen Inc.	TER	H3
TransCanada Corporation	TRP	H3, S

Each research analyst named in this report or any subsection of this report certifies that (1) the views expressed in this report in connection with securities or issuers that he or she analyzes accurately reflect his or her personal views; and (2) no part of his or her compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by him or her in this report.

The Research Analyst's compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

This report may include articles or content prepared by Scotia Economics as a resource for the clients of Scotiabank and Scotia Capital.

For Scotia Capital Research analyst standards and disclosure policies, please visit http://www.scotiacapital.com/disclosures

* *Legend*

H 3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

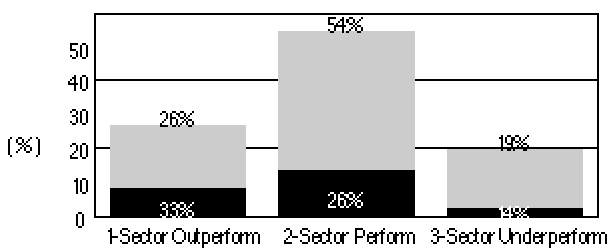
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at July 29, 2005.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

This report has been prepared by SCOTIA CAPITAL INC. (SCI), a subsidiary of the Bank of Nova Scotia. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither SCI nor its affiliates accepts any liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts. The securities mentioned in this report may not be suitable for all investors nor eligible for sale in some jurisdictions. This research and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of SCI. SCI is authorized and regulated by The Financial Services Authority. U.S. Residents: Scotia Capital (USA) Inc., a wholly owned subsidiary of SCI, accepts responsibility for the contents herein, subject to the terms and limitations set out above. Any U.S. person wishing further information or to effect transactions in any security discussed herein should contact Scotia Capital (USA) Inc. at 212-225-6500.

TD Newcrest

Action Notes

July 30, 2004
Equity Research

Pipelines, Power & Utilities

Recommendation: HOLD
Unchanged
12-Month Target Price: C$25.00
Unchanged
12-Month Total Return: 10.2%

Market Data (C$)	
Current Price ($)	23.44
52-Wk Range ($)	21.50 - 25.00
Mkt Cap (f.d.)($mm)	2,451.8
Dividend ($)	0.84
Yield (%)	3.6

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	104.6
Float (mm)	104.6
BVPS (basic)($)	13.01
Net Debt/Tot Cap (%)	65.1
ROE (%)	10.8

Estimates (C$)			
Year	**2003A**	**2004E**	**2005E**
EPS (f.d.)($)	1.32	1.40	1.49
CFPS (basic)($)	2.82	2.71	2.89
DI ($)	0.77	0.83	0.89

Valuations			
Year	**2003A**	**2004E**	**2005E**
P/E (f.d.)(x)	17.8	16.7	15.7
P/CFPS (basic)(x)	8.3	8.6	8.1

Linda Ezergailis, P.Eng.
416 983 7784
linda.ezergailis@tdsecurities.com

Notes:
All figures in Canadian dollars, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Terasen Inc.

(TER-T; C$23.44)

Lower Effective Pipeline Tolls Soften Q2 Earnings

Event

Terasen's Q2/2004 earnings of $10.6 million, $0.10 per share, were a bit lighter than our estimate of $12.7 million, $0.12 per share, largely as a result of lower effective tolls on both the TransMountain and Express pipelines, as well as some timing of provisions for sharing overearnings with customers. Earnings were $1.9 million lower, $0.02 per share, than the comparable period in 2003.

Impact of the Quarter is Neutral to Our Outlook

We have not changed our outlook on the company based on the quarterly financial results or new information on the conference call. In addition, management's guidance for the year of EPS in the "high one-thirties" did not change.

The company is progressing with energy infrastructure projects; new information provided on the call did not result in any material changes to our long term outlook.

Design details on Terasen's $2.5 billion TMX proposal to ship crude oil to the west coast from Alberta were provided, and we noted two major changes with respect to potential routing and timing. Terasen now provides an option for a northern leg to a deepwater port on B.C.'s north coast to accommodate very large tankers for the Asia market. The Phase I in-service date has now been pushed back to late 2008 (from potentially 2006). Producers will likely value the optionality embedded in the proposal, however, the most recent iteration of TMX suggests to us that Terasen is reacting to Enbridge's Gateway project proposal, especially with respect to accessing the Asian markets.

Details

The **Natural Gas Distribution** division loss of $2.2 million increased by $0.2 million over the adjusted loss of $2.0 million in Q2/2003. A 27 bps decline in allowed ROE year-over-year and a new mechanism for sharing overearnings 50/50 with customers was partially offset by cost synergies due to the integration of Terasen Gas and Terasen Gas Vancouver Island (TGVI). (Note that we have allocated $0.53 million applicable to Q2/2003 of the Q3/2003 decision to adjust TGVI's RDDA amortization for FY 2003.)

The **Petroleum Transportation** division's earnings of $16.2 million increased by $0.2 million. Earnings benefited from a full quarter contribution from the Corridor pipeline, put in service May 1 2003, as well as stronger throughput on both the TransMountain and Express pipelines. Partially offsetting this was lower effective tolls on 1) TransMountain as a result of a change in destination mix and increased proportion of lighter crude oil and 2) Express as a result of shorter average hauls. TransMountain also booked a $1.2 million, or $0.01 per share, provision for sharing higher 2004 earnings with shippers; similar provisions for sharing in 2003 were first booked in the second half resulting in some timing differences.

The **Water and Utility Services** division earnings of $2.6 million increased by $0.5 million YoY as a result of both organic growth and minor acquisitions. The **Corporate** loss of $6 million increased by $2.4 million due to increased debt levels, income taxes, and several other corporate expenses. This was partially offset by a $0.6 million mark-to-market gain associated with hedging activity at Clean Energy.

Outlook

EPS growth of 6 to 8% is on track. We expect Terasen to be busy over the next year pushing forward its pipeline expansion and extension projects, which should drive EPS growth of between 6 to 8%. We do not perceive any major acquisitions to be imminent, instead we expect incremental consolidation of the water utility industry in the region over the next decade.

The "Cost of Capital Review" trend has swept into B.C. Terasen has informally requested that the BCUC review Terasen Gas and TGVI's allowed ROE and capital structure in light of the recent cost-of-capital decision in Alberta. The company is still waiting for a reaction to its request. If Terasen is successful in achieving returns commensurate with its peers, we estimate that it could add five cents to our 2005E EPS. Realistically, given the high level of regulatory activity in B.C., any sort of step change in cost-of-capital would more likely only be implemented in 2006. Please see our industry bulletin dated July 5, 2004 titled " *EUB Generic Cost of Capital Decision Balances Arguments of Companies and Customers* " for more information on the recent Alberta decision.

Valuation and Target Price Justification

Our $25.00 target price is based on our 2005 estimates, 10-year bond yield assumption of 5.0%, and the following blended valuation: 1) 50% relative earnings yield to 10-year bond of 119% (vs. historical average of 123%); 2) 25% relative dividend yield to 10-year bond of 71% (in line with the historical average of 71%); and 3) 25% price-to-book value of 1.8 times (vs. the historical average of 1.7x). It implies a 16.8x price-to-earnings multiple and 3.5% dividend yield, compared to historical averages of 14.1x and 4.2%, respectively. The stock is currently trading at a 16.3x P/E and 3.6% dividend yield.

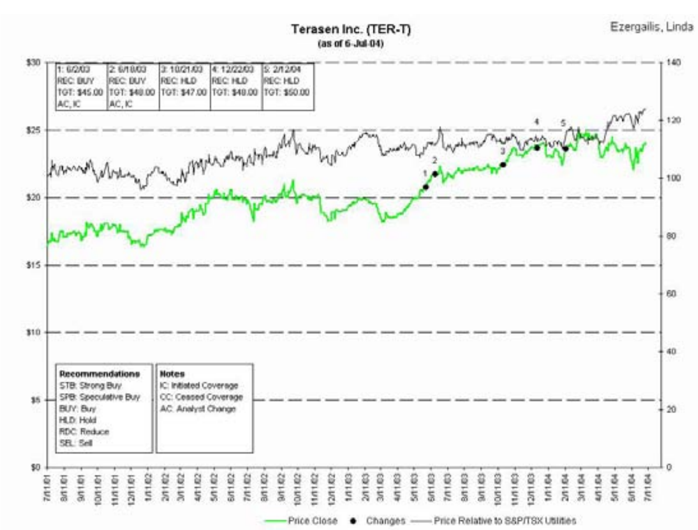
Key Risks to Target Price

Key risks to our target price include: 1) materially different bond yields versus our estimate, 2) potential reduction in the historical valuation premium vs. the sector, 3) tougher-than-expected competition for new oil transmission pipeline capacity, 4) unexpected negative surprises on the regulatory front, and 5) substantial delays and/or cancellations of oil sands projects.

Conclusion

We believe Terasen deserves a premium versus the sector due to management's track record of value creation, our expectation of above-utility-average growth, and strong fundamentals of its oil pipeline business. Terasen is currently trading at a premium to the sector, and therefore we believe that our expectations are already reflected in the stock.

Price Graph



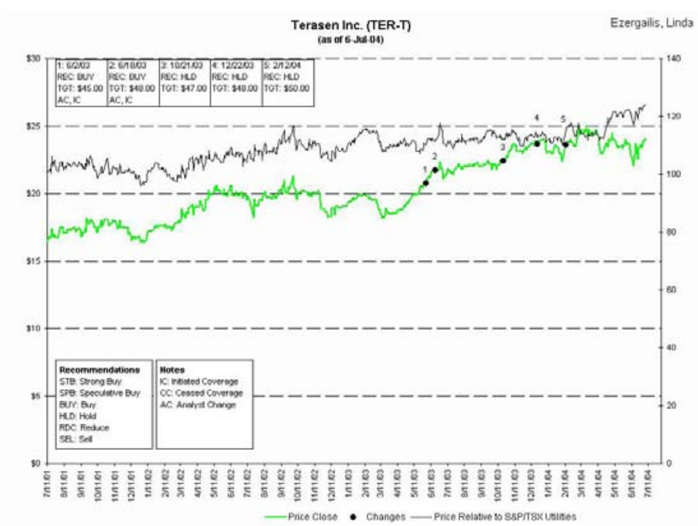
For full disclosures, please see the final page(s) of this document.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Terasen Inc.	TER-T	2, 4, 14

1. TD Securities Inc., TD Securities (USA) Inc. or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) Inc. or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) Inc. or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) Inc. has provided investment banking services within the last 12 months with respect to the subject company.
5. TD Securities Inc. or TD Securities (USA) Inc. has provided non-investment banking securities-related services within the last 12 months with respect to the subject company.
6. TD Securities Inc. or TD Securities (USA) Inc. has provided non-securities-related services within the last 12 months with respect to the subject company.
7. TD Securities Inc. or TD Securities (USA) Inc. has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
8. The research analyst knows that an affiliate to TD Securities Inc. or TD Securities (USA) Inc. has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
9. A long position in the shares of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
10. A short position in the shares of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
11. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
12. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
13. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
14. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
15. A partner, director or officer of TD Securities Inc. or TD Securities (USA) Inc., or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
16. Subordinate voting shares.
17. Restricted voting shares.
18. Non-voting shares.
19. Common/variable voting shares.

Price Graphs



Distribution of Research Ratings

Buy: 42%, Speculative Buy: 25%, Hold: 28%, Reduce: 43% Of the subject companies, TD Securities Inc. has provided investment banking services within the last 12 months for the following percentages of companies within each of the four categories: Buy: 53%, Speculative Buy: 5%; Hold: 31%, Reduce: 12%.

Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF and text form on First Call Notes, First Call Research Direct, Bloomberg and Reuters. Research Reports and Bulletins are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports and Bulletins are available on Reuters and First Call Research Direct. Summaries are available on First Call Notes and Bloomberg. All research is available by password to entitled institutional clients at www.tdsecurities.com.

Definition of Research Ratings

BUY: The stock's total return is expected to exceed a minimun of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 40% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Directorships

n/a

Analyst Certification

Each analyst of TD Securities Inc. whose name appears on this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

Disclaimer

TD Newcrest
The Equity Division of TD Securities

Peter Haynes, CFA
416 944 5385
peter.haynes@tdsecurities.com

Marty Gillespie
416 307 7664
marty.gillespie@tdsecurities.com

Lou Mouaket
416 308 1572
lou.mouaket@tdsecurities.com

Chris Finora
416 308 2499
chris.finora@tdsecurities.com

Rena Moundroukas
416 944 6832
rena.moundroukas@tdsecurities.com

Trevor Johnson, CFA
902 461 0103
trevorjohnson@eastlink.ca

S&P/TSX BULLETIN

AUGUST 23, 2004

TABLE OF CONTENTS

AFTER 6 YEARS, IT'S TIME FOR A CHANGE - NEW FORMAT FOR OUR INDEX BULLETIN!

"I need a new prescription for my glasses to read your bulletin"

We heard the constructive criticism – "you are jamming too much on one page…I need a new prescription for my glasses to read your bulletin…Microsoft had to create a new font size for your bulletin" – and we are listening. Today we unveil a new format for our weekly index bulletin. For over 6 years and 330 bulletins, we published our weekly index report in the same format, so a change was long overdue. Specific changes include: no longer limiting the index bulletin to one page (although we have failed miserably on that goal of late); increasing body text font size to a more readable ten font size; making the format more readable with left side margin including highlights of each article (similar to TD Newcrest traditional equity research) – note: you can click on the headings in the Table of Contents to navigate directly to the subject. Down the road, we plan to add links to previous bulletins to make navigating through TD Newcrest Index research easier and more efficient. We hope you find the new format an improvement and would appreciate any feedback positive or negative.

MSCI ALL-COUNTRY INDEX QUARTERLY REVISION CHANGES – EFFECTIVE AT THE CLOSE ON AUGUST 31ST

This quarter's MSCI Index revision is pretty much a "non-event".

On Tuesday after the close, MSCI announced the changes resulting from the Quarterly Revision of its All-Country index series. For the Canadian component of the index, the revision is pretty much a "non-event", with no new names being added to the index and no current constituents being removed. We had predicted that there was a fairly high probability that Ballard Power (BLD) would be removed from the index for failing the minimum float cap test (US$1 billion). However, for some reason MSCI has decided that BLD's float cap of US$450 million is not "significantly" enough below the threshold to warrant removal (we don't get it). There are also a few small changes to current member's floats – we have included the larger ones in the table below. From a global perspective, this is also a mainly insignificant rebalancing event with only 4 additions and no removals worldwide. As well, with no major changes to individual country weights, global indexer flows should have a minimal impact on the Canadian names. Keep in mind that international indexers tend to be quite aggressive in trading on the close on the effective date (in this case August 31st).

Please see MSCI website for details of all global changes to MSCI Indices at http://www.msci.com/pressreleases/index.html

Name	Symbol	Float Change	*FIF	Weight Old	Weight New	Estimated Demand/ (Supply)	Reason
NORTEL NETWORKS CORP	NT	106,025,763	1	2.95%	3.02%	770,000	Shares issued for forward purchase agreements not adjusted for at the Annual Review in may
COGNOS INC	CSN	376,004	1	0.51%	0.57%	70,000	FIF increase of 0.1
MANULIFE FINANCIAL CORP	MFC	5,635,207	1	6.77%	6.81%	30,000	Shares issued on John Hancock acquisition
CELESTICA SV	CLS	(14,073,835)	1	0.59%	0.55%	-110,000	Issuer Bid
ROYAL BANK OF CANADA	RY	(2,719,787)	1	6.36%	6.32%	-30,000	Issuer Bid
ENCANA CORP	ECA	(2,540,000)	1	3.95%	3.92%	-30,000	Issuer Bid
NATIONAL BANK OF CANADA	NA	(3,417,702)	1	1.22%	1.20%	-30,000	Issuer Bid
BANK NOVA SCOTIA	BNS	(2,313,837)	1	5.84%	5.81%	-40,000	Issuer Bid

Manitoba Tel. (MBT) Issuer Bid May Result in BCE Control Block…But Not Likely

It is possible that indexers would need to sell up to 1.6 million MBT shares

Last week, Manitoba Tel. released the Information Circular for its previously announced 18.6 million-share issuer bid (via Dutch auction). The document states that BCE must, in accordance to a previous settlement agreement, tender its MBT shares to the bid in the amount of at least 15.96% of the total number to be purchased by Manitoba Tel. BCE currently owns 13.6 million common shares representing 17.7% of the outstanding MBT common shares (16.2% of the common and Class B preference shares combined). The big question is, at what price (or prices) will BCE tender? Assuming the whole 18.6 million MBT shares are bought back through the auction (for this calculation, we assume that BCE will buy back pro rata of each class - 91% common and 9% Class Bs), BCE must have at least 2.4 million of its MBT shares taken up or it will own 20% or more of Manitoba Tel.'s outstanding common shares. If this were to happen, BCE's entire holdings would be removed from Manitoba Tel.'s float in the S&P/TSX Composite, resulting in a decrease in MBT's index weight of approximately 7 bps (depending on how many of BCE's shares are purchased). Combine this with a 10 bp weighting decrease due to the issuer bid (assuming a max buy back) and you have a fairly significant index event. We estimate that S&P/TSX indexers would need to sell a combined 1.6 million shares (700,000 if a control block arises and 900,000 from the issuer bid). Keep in mind that many indexers may participate in the auction, thereby reducing that supply number. Note: in our opinion, BCE will likely tender its shares at reasonable levels to ensure that a good portion of them is taken up. Given that they must dispose of their entire stake in Manitoba Tel eventually, why would they pass up an opportunity to sell a substantial chunk at a price above the market.

Should Reciprocal Shares be Included S&P/TSX Index Members' Floats?

This will also now result in a reduction in the float of Terasen in the S&P/TSX Composite Index at the September 17th rebalancing (weight reduction of 3 bps – indexer selling 450k)

The latest Issued Capital Bulletin published by the TSX showed a 4.5 million-share decrease (9 million post 2:1 split) in the outstanding shares of Terasen Gas (TER). It appears that this was a correction to the previously reported outstanding shares, which included 9 million reciprocal shares owned by one of its wholly owned subsidiaries – Terasen Pipelines Inc. It is possible that the Company (or a market participant) informed the TSX that the outstanding shares of Terasen were too high and this resulted in the change to the issued capital for TER (keep in mind that companies pay sustaining fees to list on the TSX based on a formula that is a function of company value). Unfortunately, this will also now result in a reduction in the float of Terasen in the S&P/TSX Composite Index at the September 17th rebalancing (weight reduction of 3 bps – indexer selling 450k). Separately, but still in the pipelines sector (except in the minds of S&P's GICs classifications), Enbridge (ENB) owns 32% of Noverco who, in turn, holds several million shares of Enbridge. We believe that Noverco's holdings should remain in Enbridge's float, as Noverco is not wholly owned (in fact, less than 50% controlled by Enbridge). We are checking, but unaware of any other similar situations in the Index.

S&P COMPLETES AMEX PILOT PROJECT FOR END OF DAY PRICING – TO RESUME USING NASDAQ CLOSING PRICES FOR NASDAQ-LISTED S&P 500 NAMES

S&P has now finished the study and resumed using NASDAQ pricing for the 12 test stocks (in addition to the other 63 NASDAQ S&P 500 names unaffected by the study)

Last week, S&P announced the results of its AMEX pricing pilot study, in which AMEX closing prices for 12 stocks were used in calculating the S&P 500 Index closing level (instead of NASDAQ closing prices). Note: there are currently 75 stocks in the S&P 500 that are listed on NASDAQ. The study was initiated in response to concerns over the achievability and reliability of NASDAQ closing prices on different occasions. At that time, NASDAQ did not have a formal Market-on-Close (MOC) facility. However, since the start of the test, NASDAQ implemented a new process for closing stocks – the "NASDAQ Closing Cross". S&P has now finished the study and resumed using NASDAQ pricing for the 12 test stocks (in addition to the other 63 NASDAQ S&P 500 names unaffected by the study). S&P concluded that the best approach is to use the closing price from the stock's main exchange. S&P's use of NASDAQ's Closing Cross to price the S&P 500 end of day is important for fund managers replicating the large cap benchmark as they can completely eliminate tracking error on the entire index. Note: S&P has used the NYSE Market on Close facility to price listed securities in the S&P 500 and other S&P indices for as long as we can recall.

BIOVAIL SALE FROM CONTROL ANNOUNCEMENT INTERESTING IN ITS DETAIL ON RELATED CALL OPTION PURCHASE

details of the transactions were published in a Form 13D filing in the US, including specific option prices, counterparty (the document includes Merrill Lynch's option term sheet) and terms (the option expiries range from 18 to 24 months)

On August 13th, Biovail announced that Eugene Melnyk, Chairman and Chief Executive Officer of Biovail Corp (BVF), sold 3 million shares and acquired call options on an aggregate of 3 million shares of Biovail. This leaves Melnyk with beneficial ownership of approximately 21.5 million shares. While there is no effect on S&P/TSX indices, as Melnyk's holdings are already in the float of Biovail, the release of this information is interesting from a disclosure perspective. That is, interesting in its detail. One day following completion of the option trades, Biovail announced the sale from control and related option trades. Then, shortly thereafter, details of the transactions were published in a Form 13D filing in the US, including specific option prices, counterparty (the document includes Merrill Lynch's option term sheet) and terms (the option expiries range from 18 to 24 months). The link to this document is http://www.sec.gov/Archives/edgar/data/1108349/000101297504000213/e1066802v1.txt This specific detail allows option market followers to reverse engineer the one important pricing detail left out of the release; that is, volatility embedded in the option prices. Note: it is possible that some fees were not included in the term sheet that affect the overall price paid for the calls. According to TDSI's equity option group, Melnyk paid approximately mid 50s volatility for the call options. This compares to the January 2006 LEAPS with similar strike prices, which are offered around 50 volatility. While volatility on Biovail has been trending lower of late, option writers, including value added index managers, should consider writing short dated options on Biovail, as there may be natural bids in the market from the sellers of the longer dated options mentioned above.

PENN WEST PETROLEUM (PWT) PLANS TO CONVERT ITS BUSINESS INTO AN INCOME TRUST

We expect that Composite indexers would need to sell around 2.7 million PWT if converted and income trust indexers would need to buy an estimated 200,000 units of the resulting trust

As was speculated in the market for some time, after the close on Friday, Penn West announced its intention to reorganize into an income trust. The conversion arrangement was approved by Penn West's board of directors, subject to a favorable tax ruling. If the conversion is successful, the new Penn West Trust would be added to the S&P/TSX Capped Income Trust Index upon completion of the conversion and would be the third largest energy trust in the index (at current levels) with a weight of 5.22%. We expect that Composite indexers would need to sell around 2.7 million PWT if converted and income trust indexers would need to buy an estimated 200,000 units of the resulting trust. Penn West's addition to the Income Trust Index would add even more oil and gas exposure to an index that is already composed of almost 58% energy trusts. Furthermore, this reduces S&P/TSX Composite index exposure to the Oil and Gas sector and eliminates one more mid-tier producer from the landscape of investments for traditional Canadian equity managers. Perhaps the strongest argument in favor of inclusion of trusts in the S&P/TSX Composite Index is representation, as it makes little sense that overnight, when all that changes is corporate structure, a 43 basis point stock is removed from the S&P/TSX Composite Index.

SIGNIFICANT CORPORATE ACTIONS PENDING

EVENT	DETAILS	SEE BULLETIN DATED
Wheaton River Minerals (WRM) receive takeover bid	Coeur d'Alene bid is $5.47 cash for WRM	July 5
Manitoba Tel. (MBT) to Buy Back up to 18.6 MM Shares Via Dutch Auction / possible BCE control block to emerge	At prices between $43.00 and $48.00 – up to a 10 bp weight reduction in the Composite / up to a 7 bp decrease in weight if BCE does not have at least 2.4 million shares taken up.	July 16 & Above
SouthernEra Resources (SUF) to Split into Two Companies	Both companies will likely be removed on closing, which is expected on August 31st	Aug 3
QLT Inc. (QLT) to Acquire Atrix Labs (ATRX-NASDAQ)	$14.61 cash and 1 QLT share (24.7MM to be issued) – 6.8 bps – shareholder vote expected in Aug	June 21
Alcan (AL) to spin off Rolled Products Division	Newco will likely be added to the Mid-Cap Index – expected to close by the end of 2004	May 25
Esprit Exploration (EEE) to Reorganize into a Trust and Exploreco	Shareholder vote expected in late September	July 26
Coors (RKY-NYSE) to acquire Molson (MOL.A)	0.36 NV Molson Coors per MOL.A / 0.126 V & 0.234 NV Molson Coors per MOL.B	July 26
Penn West Pete. (PWT) to reorganize into an income trust	Approved by directors subject to a favorable tax ruling	Above
TD Newcrest Index Forum on November 4th		

TDSI'S TOP CANDIDATES FOR INCLUSION IN THE S&P/TSX COMPOSITE

Candidate For Inclusion		Float (Millions)	Price[1]	Size[2]	Criteria for Inclusion – Liquidity Tests					Est. Indexer Demand (Millions)
					[3]Volume (Millions)	[3]Value ($ Millions)	[3]Trans	Non-trade Days	Float Turn	
			$1.00	0.050%	13.42	171.67	8,050	25 days	0.25	
TRZ	**TRANSAT A.T. INC.**	**33.26**	**19.16 / 20.6**	**0.083%**	**63.32**	**904.55**	**30,347**	**0**	**1.90**	**1.7**
AGA	**ALGOMA STEEL INC.**	**38.00**	**11.62 / 13.53**	**0.062%**	**66.33**	**587.93**	**28,558**	**0**	**1.75**	**1.9**
NG	**NOVAGOLD RESOURCES INC. J**	**62.78**	**6.48 / 7.21**	**0.055%**	**46.11**	**276.68**	**39,057**	**0**	**0.73**	**3.1**
FEL	**FAIRBORNE ENERGY LTD. J**	**46.05**	**9.67 / 9.08**	**0.051%**	**46.46**	**370.52**	**8,975**	**1**	**1.01**	**2.3**
GNA	GERDAU AMERISTEEL CORPORATION	62.33	5.4 / 6.1	0.046%	48.46	227.61	17,465	0	0.78	3.1
WTC	WESTERN SILVER CORPORATION J	40.66	8.82 / 8.96	0.044%	26.42	205.89	29,457	0	0.65	2.0
NVA	NUVISTA ENERGY LTD.	40.33	8.34 / 8.48	0.041%	27.30	211.51	9,365	0	0.68	2.0
THY	THUNDER ENERGY INC.	50.24	7.13 / 6.71	0.041%	45.92	344.43	23,702	0	0.91	2.5

[1]3-month trade-weighted price/ current price [2] Potential S&P/TSX Composite Index Weight [3] 0.025% of the sum of all eligible securities (TDSI's estimates based on data from Sept. 2, 2003 to Aug.19, 2004 annualized) *Stocks in bold qualify for inclusion. **Prices as of end of August 20th.

Disclosures

TD Newcrest, A Division of TD Securities Inc. "TD Newcrest" is the tradename that TD Securities Inc. and TD Securities (USA) Inc. jointly use to market their institutional equity services. Although the information contained in this report has been obtained from sources that TD Securities (USA) Inc. and TD Securities Inc. (collectively > "> TD Securities> ">) believe to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities will furnish upon request publicly available information on which this report is based. TD Securities Inc. has accepted responsibility for the contents of any TD Securities (USA) Inc. research appearing in this document. TD Securities (USA) has accepted responsibility for the contents of any TD Securities Inc. research appearing in this document. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) Inc. Insofar as the information on this report is issued in the UK, it has been issued only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities. TD Securities Inc. and TD Securities (USA) Inc. are wholly owned subsidiaries of The Toronto-Dominion Bank. Copyright 2004 by TD Securities. All rights reserved.

Biovail - 13 TD Securities Inc. and/ or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.

Manitoba Tele - 14 TD Securities Inc. and/ or affiliated companies own 1% or more of the equity securities of the subject company.

Penn West - 14 TD Securities Inc. and/ or affiliated companies own 1% or more of the equity securities of the subject company.
9 A long position in the shares of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.

TD Securities may engage or may have already engaged in trading in the companies or strategies discussed in this report. As market conditions change, TD Securities Inc. may, without notice, alter, amend or otherwise change its trading strategy including full and complete divestment.

TD Newcrest

Action Notes

November 5, 2004
Equity Research

Pipelines, Power & Utilities

Recommendation: BUY
Unchanged
12-Month Target Price: C$26.00
Unchanged
12-Month Total Return: 5.3%

Market Data (C$)	
Current Price ($)	25.50
52-Wk Range ($)	21.50 - 25.74
Mkt Cap (f.d.)($mm)	2,672.4
Dividend ($)	0.84
Yield (%)	3.3

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	104.8
Float (mm)	104.8
BVPS (basic)($)	12.71
Net Debt/Tot Cap (%)	67.5
ROE (%)	11.2

Estimates (C$)			
Year	**2003A**	**2004E**	**2005E**
EPS (f.d.)($)	1.32	1.41	1.49
EPS (f.d.)(old)($)	1.32	1.40	1.49
CFPS (basic)($)	2.82	2.69	2.86
CFPS (basic)(old)($)	2.82	2.66	2.86
DI ($)	0.77	0.83	0.89

Valuations			
Year	**2003A**	**2004E**	**2005E**
P/E (f.d.)(x)	19.3	18.1	17.1
P/CFPS (basic)(x)	9.0	9.5	8.9
P/DI (x)	33.1	30.7	28.7

Linda Ezergailis, P.Eng.
416 983 7784
linda.ezergailis@tdsecurities.com

Michael McGowan, CA (Associate)
416 308 3404
michael.mcgowan@tdsecurities.com

Notes:
All figures in Canadian dollars, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Terasen Inc.

(TER-T; C$25.50)

Q3 Beats Expectations

Event - Q3/04 Earnings Release
Terasen's Q3/04 EPS of $(0.01) exceeded our estimate of $(0.05) and normalized Q3/03 EPS of $(0.09). Half of the better than expected results is due to a mark-to-market natural gas price gain from hedging at Clean Energy. Gas distribution operational efficiencies and contributions from the water and utility services businesses were also better than expected. The Q3/04 loss was down to $1.4 million from a normalized level of $8.9 million in Q3/03.

Impact - Slightly Positive
We are increasing our 2004E EPS by a penny to $1.41 reflective of the higher than expected mark-to-market gains in Clean Energy. This is consistent with management's reiterated guidance that 2004 EPS will be "in the high one-thirties" excluding any mark-to-market gains, which year-to-date have contributed four cents.

Our 2005E and 2006E EPS remain $1.49 and $1.55 respectively, although they could increase after we re-visit our assumptions when we get a detailed update from management during Terasen's first Investor Day on December 2nd, 2004. We believe that our forecasts are somewhat conservative, and therefore are more likely than not to be revised upward at that time.

Details
Natural Gas Distribution's strong earnings were due to operational efficiencies realized through the integration of the mainland and Vancouver Island operations. These results were especially impressive given that the 50/50 sharing mechanism with customers was put in place in 2004. These efficiencies were somewhat offset by a lower allowed ROE. Q3/04's loss of $18.0 million is an 8% improvement over the normalized $19.5 million loss reported in Q3/03.

The **Petroleum Transportation** division had a good quarter with Q3/04 earnings increasing by 15% to $16.5 million from $14.3 million in Q3/03. Throughput was strong with average volumes increasing by 9% across all systems. Trans Mountain's Q3/04 throughput increased 14% in Q3/04 to an average volume of 328,300 bbl/day vs. 288,800 bbl/day in Q3/03. Terasen has indicated that Trans Mountain is at full capacity and that nominations continue to exceed capacity by 20%. These increases in volume, along with lower financing costs, appear to have positively offset the lower effective tolls due to changes in throughput patterns.

Water and Utility Services Q3/04 earnings increased by 50% to $3.3 million from $2.2 million in Q3/03, due principally to Terasen's acquisition of Fairbanks Sewer & Water Inc., which closed on July 31, 2004, and a number of other minor acquisitions made throughout the current year. Terasen indicated that the segment is on track to deliver approximately 1/3 of the company's growth for 2004 and expects this contribution to overall growth to continue going forward.

The **Corporate** segment reduced its loss to $3.2 million in Q3/04 from $5.9 million in Q3/03. The reduction was due to lower financing costs and Terasen's $2.0 million share of Clean Energy's gain on natural gas derivatives.

Note that we have adjusted the Q3/03 reported earnings of $(0.09) per share and $(7.6) million as follows: 1) $0.2 million foreign exchange gain backed out of Express, and 2) reallocated to H1/03 $1.05 million of the change in amortization of TGVI RDDA booked in Q3/03 but related to H1/03.

Outlook
Terasen has some interesting organic growth opportunities over the next decade, and we believe the company will make progress on these initiatives in the coming year.

Organic growth through customer additions has picked up in its gas distribution utilities, and we think Terasen's proposal to provide natural gas for the new 252 MW combined cycle power plant on Vancouver Island, expected to be in service May 2007, will likely be approved. We estimate that this project, which will add compression to the system and a small LNG facility, could add $0.03 to earnings.

The 27,000 bbl/d Trans Mountain expansion went into service October 1, 2004, and therefore 2005 earnings should benefit from a full year of contributions from this new capacity. The 108,000 bbl/d expansion of the Express System to 280,000 bbl/d is on track to be completed in April 2005, and we hope to get more details on the contractual arrangements at the company's Investor Day. We are most interested in increasing our understanding of the $2.5 billion TMX project proposal; however, more information might not become available until mid-2005.

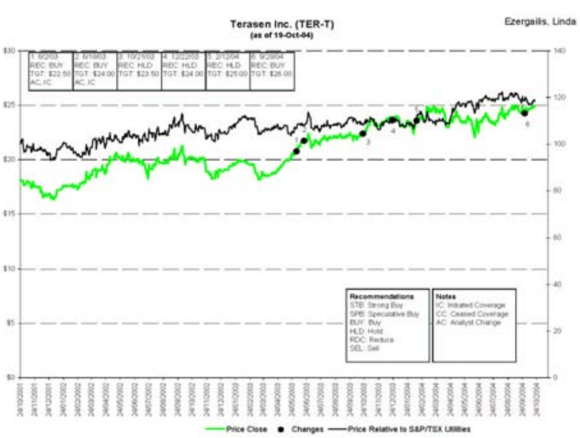
Valuation
Our $26.00 target price is based on our 2006 estimates, 10-year bond yield assumption of 4.8%, and the following blended valuation: 1) 50% relative earnings yield to 10-year bond of 124% (vs. historical average of 124%); 2) 25% relative dividend yield to 10-year bond of 75% (vs. historical average of 72%); and 3) 25% price-to-book value of 1.8 times (vs. the historical average of 1.7x). It implies a 16.8x price-to-earnings multiple and 3.6% dividend yield, compared to historical averages of 14.1x and 4.3%, respectively.

We believe Terasen deserves a premium versus the sector due to management's track record of value creation, our expectation of above-utility-average growth, and strong fundamentals of its petroleum transportation business. Terasen has recently been trading at a premium to the sector, and we expect this premium to continue.

Key risks to our target price include: 1) materially different bond yields versus our estimate, 2) potential reduction in the historical valuation premium vs. the sector, 3) tougher-than-expected competition for new oil transmission pipeline capacity, 4) unexpected negative surprises on the regulatory front, and 5) substantial delays and/or cancellations of oil sands projects.

Conclusion
More often than not, Terasen's earnings delight with better than expected results, and this quarter was no exception. We believe that our current forecasts are conservative, and will likely be revised upward after we get more detailed information on Terasen's various initiatives during Investor Day. Based on this quarter, the numerous new asset opportunities Terasen has, and our positive earnings bias, we are maintaining our $26 target and BUY rating.

Price Graph



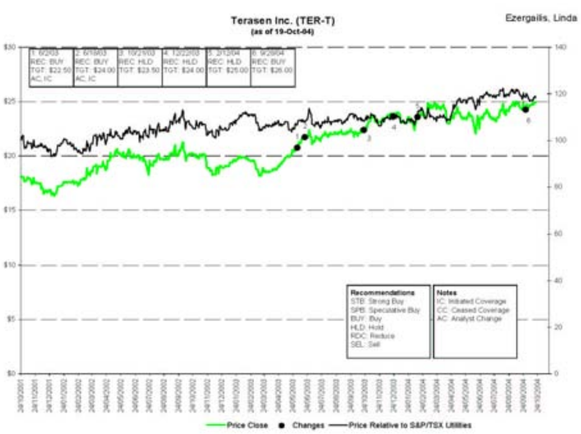
For full disclosures, please see the final page(s) of this document.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Terasen Inc.	TER-T	2, 4, 14

1. TD Securities Inc., TD Securities (USA) Inc. or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) Inc. or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) Inc. or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) Inc. has provided investment banking services within the last 12 months with respect to the subject company.
5. TD Securities Inc. or TD Securities (USA) Inc. has provided non-investment banking securities-related services within the last 12 months with respect to the subject company.
6. TD Securities Inc. or TD Securities (USA) Inc. has provided non-securities-related services within the last 12 months with respect to the subject company.
7. TD Securities Inc. or TD Securities (USA) Inc. has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
8. The research analyst knows that an affiliate to TD Securities Inc. or TD Securities (USA) Inc. has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
9. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
10. A short position in the shares of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
11. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
12. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
13. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
14. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
15. A partner, director or officer of TD Securities Inc. or TD Securities (USA) Inc., or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
16. Subordinate voting shares.
17. Restricted voting shares.
18. Non-voting shares.
19. Common/variable voting shares.

Price Graphs



Distribution of Research Ratings

Buy: 42%, Speculative Buy: 25%, Hold: 28%, Reduce: 43% Of the subject companies, TD Securities Inc. has provided investment banking services within the last 12 months for the following percentages of companies within each of the four categories: Buy: 53%, Speculative Buy: 5%; Hold: 31%, Reduce: 12%.

Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF and text form on First Call Notes, First Call Research Direct, Bloomberg and Reuters. Research Reports and Bulletins are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports and Bulletins are available on Reuters and First Call Research Direct. Summaries are available on First Call Notes and Bloomberg. All research is available by password to entitled institutional clients at www.tdsecurities.com.

Definition of Research Ratings

BUY: The stock's total return is expected to exceed a minimun of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 40% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Directorships

n/a

Analyst Certification

Each analyst of TD Securities Inc. whose name appears on this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

Disclaimer

TD Newcrest

Action Notes

December 3, 2004
Equity Research

Pipelines, Power & Utilities

Recommendation: HOLD
Unchanged
12-Month Target Price: C$26.00
Unchanged
12-Month Total Return: -0.4%

Market Data (C$)	
Current Price ($)	26.94
52-Wk Range ($)	22.00 - 50.00
Mkt Cap (f.d.)($mm)	2,823.3
Dividend ($)	0.84
Yield (%)	3.1

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	104.8
Float (mm)	104.8
BVPS (basic)($)	12.71
Net Debt/Tot Cap (%)	67.5
ROE (%)	11.2

Estimates (C$)			
Year	**2003A**	**2004E**	**2005E**
EPS (f.d.)($)	1.32	1.41	1.49
CFPS (basic)($)	2.82	2.69	2.86
DI ($)	0.77	0.83	0.89

Valuations			
Year	**2003A**	**2004E**	**2005E**
P/E (f.d.)(x)	19.3	18.1	17.1
P/CFPS (basic)(x)	9.0	9.5	8.9
P/DI (x)	33.1	30.7	28.7

Linda Ezergailis, P.Eng.
416 983 7784
linda.ezergailis@tdsecurities.com

Michael McGowan, CA (Associate)
416 308 3404
michael.mcgowan@tdsecurities.com

Notes:
All figures in Canadian dollars, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Terasen Inc.

(TER-T; C$26.94)

First Investor Conference a Positive

Event - On December 2, 2004, Terasen hosted its first investor conference.

Impact - Slightly Positive
The Investor Day conference gave us the opportunity to meet with Terasen's management and discuss the company's numerous future growth initiatives. New information was provided with respect to these opportunities, which supports our positive fundamental outlook.

Details
Terasen reiterated its core strategy of creating value through focusing on its core low-risk businesses to deliver consistent earnings growth. Key take-always for each of its business segments are as follows.

Terasen Gas - With a regulated ROE of 9.03% for 2005 and deemed equity ratio of 33%, Terasen Gas currently has one of the lowest equity thicknesses and the lowest ROE of its peer group. As a result, one of Terasen Gas's key initiatives over the coming year will be working with its regulator to obtain ROE relief when the BCUC undertakes its cost of capital review during Q3/05.

Long-term growth for the division is expected to occur from a combination of M&A activities and greenfield projects. Management is currently studying:

- A proposed LNG facility located between Nanaimo and Victoria on Vancouver Island which would supply fuel to a gas-fired power generation plant proposed by BC Hydro. The terminal has an estimated cost of $100 million and there is the potential for a $70-$80 million expansion based on BC Hydro's future generating needs. Construction of the storage facility is dependent on BC Hydro's decision to build, which will be made in Q1/05.
- Construction of the Whistler Pipeline that would replace the municipality's existing propane delivery system at an estimated cost of $40 million. Terasen's decision on whether to proceed with this project is dependent on municipal decisions regarding future growth in Whistler and the Sea to Sky Corridor.
- Construction of the Inland Pacific Connector natural gas transmission line that would connect the Southern Crossing Pipeline to the Lower Mainland and Sumas regions. If demand from shippers is sufficient to warrant construction, the pipeline could be completed at a cost between $300-$500 million.

Terasen Pipelines - The biggest story of the Investor Day centered around Terasen's announcement that it is seeking expressions of interest from shippers on routes for the proposed TMX expansion. As currently envisioned, the expansion could ultimately take two forms:

- The "Southern Option" would be completed in three phases between 2006-2010 at a total estimated cost of $2.3 billion. Essentially a twinning of the existing TMX pipeline, complete with upgrades to pumping stations, this option would add 625,000 bbls/day of incremental capacity to the existing TMX route, which currently runs at a capacity of 225,000 bbls/day. The Southern Option is primarily designed to meet the US's growing demand for oil imports by supplying the Pacific Northwest and California regions with Canadian-produced oil sands production. We estimate that this could contribute $0.85 to EPS.
- The "Northern Option" is designed to serve Asian export markets by extending TMX to shipping terminals at either Prince Rupert of Kitimat, BC. If chosen, the Northern Option would be completed in two phases between 2006-2010 at a total cost of $2.6 billion and add an incremental 625,000 bbls/day of throughput to the existing TMX system. Terasen estimates that, once complete, the Northern Option could reduce tolling rates of exports destined for Asia by approximately $0.50/bbl. We estimate that this could contribute $1.00 to EPS.

Terasen Pipelines is also considering two other projects: 1) expanding throughput on its Corridor System and/or Bison Project by looping the existing system or building a stand-alone pipeline at an estimated cost of upwards of $300 million; and, 2) building a bitumen storage facility (Heartland Terminal) 50 km north-east of Edmonton that connects to existing oil sands pipelines and the Edmonton hub (estimated cost of $30-$120 million for storage capacity of up to 7 million bbls). Terasen is expanding the Express Pipeline system (Terasen owns 33% of Express) by 108,000 bbl/day at an estimated cost of $100 million, for an estimated in-service date of 2005.

Water and Utility Services - the water and utility services industry is extremely fragmented and Terasen's strategy is to act as an industry consolidator by obtaining a big enough foothold in the BC and Alaskan markets in order to capitalize on future acquisition opportunities should municipalities decide to privatize and regulate their water services utilities.

Corporate Development/Financial Strategy - Since 1998, Terasen has achieved annual EPS and DPS growth of 7% and management reaffirmed its goal to deliver at least 6% annual EPS growth and maintain a 3-4% dividend yield, which, over the long term should deliver double-digit returns to shareholders. Terasen's three business segments are at different stages of growth - the water and utility services segment is their "growth" business; the pipelines business has medium growth prospects; and the legacy gas business represents Terasen's most mature business. Terasen reiterated that future growth would come from its core businesses and that it generally preferred organic growth opportunities over acquisitions due to the competitive M&A market. Terasen indicated that it would not pursue power generation, upstream oil and gas, or retail service opportunities, and is preparing to divest its Clean Energy segment when the opportunity arises.

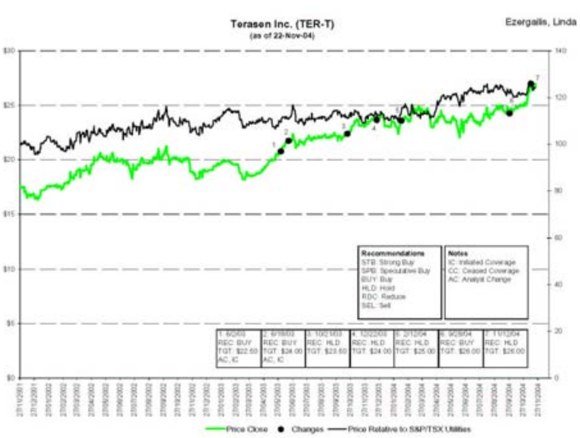
Valuation - Our $26.00 target price is based on our 2006 estimates, 10-year bond yield assumption of 4.8%, and the following blended valuation: 1) 50% relative earnings yield to 10-year bond of 124% (vs. historical average of 124%); 2) 25% relative dividend yield to 10-year bond of 75% (vs. historical average of 72%); and 3) 25% price-to-book value of 1.8 times (vs. the historical average of 1.7x). It implies a 16.8x price-to-earnings multiple and 3.6% dividend yield, compared to historical averages of 14.1x and 4.3%, respectively.

We believe Terasen deserves a premium versus the sector due to management's track record of value creation, our expectation of above-utility-average growth, and strong fundamentals of its petroleum transportation business. Terasen has traded at a premium to the sector, and we expect this premium to continue.

Key risks to our target price include: 1) materially different bond yields versus our estimate, 2) potential reduction in the historical valuation premium vs. the sector, 3) tougher-than-expected competition for new oil transmission pipeline capacity, 4) unexpected negative surprises on the regulatory front, and 5) substantial delays and/or cancellations of oil sands projects.

Outlook and Conclusion - We continue to believe that Terasen remains an attractive long-term investment and Terasen's Investor Day presentation confirmed that the company has some interesting organic opportunities. We are maintaining our HOLD recommendation based on our opinion that the company is currently fairly valued. We will continue to monitor the company's progress on its proposed greenfield projects, the renewal of the existing TransMountain incentive tolling agreement in late 2005 and the results of Terasen's TMX expression of interest solicitation.

Price Graph



For full disclosures, please see the final page(s) of this document.

TD Newcrest

Action Notes

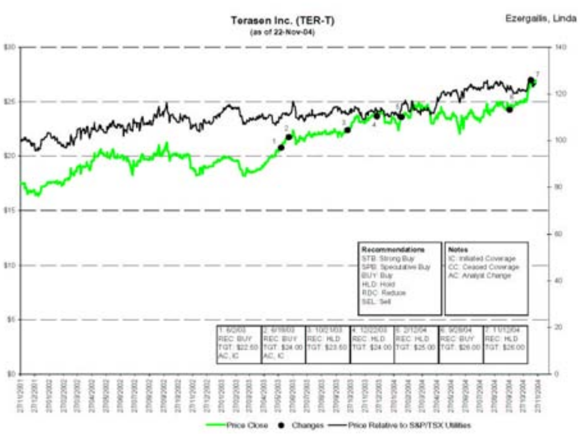
December 3, 2004
Equity Research

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Terasen Inc.	TER-T	2, 4, 14

1. TD Securities Inc., TD Securities (USA) Inc. or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) Inc. or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) Inc. or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) Inc. has provided investment banking services within the last 12 months with respect to the subject company.
5. TD Securities Inc. or TD Securities (USA) Inc. has provided non-investment banking securities-related services within the last 12 months with respect to the subject company.
6. TD Securities Inc. or TD Securities (USA) Inc. has provided non-securities-related services within the last 12 months with respect to the subject company.
7. TD Securities Inc. or TD Securities (USA) Inc. has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
8. The research analyst knows that an affiliate to TD Securities Inc. or TD Securities (USA) Inc. has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
9. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
10. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
11. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
12. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
13. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
14. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
15. A partner, director or officer of TD Securities Inc. or TD Securities (USA) Inc., or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
16. Subordinate voting shares.
17. Restricted voting shares.
18. Non-voting shares.
19. Common/variable voting shares.

Price Graphs



Distribution of Research Ratings

Buy: 42%, Speculative Buy: 25%, Hold: 28%, Reduce: 43% Of the subject companies, TD Securities Inc. has provided investment banking services within the last 12 months for the following percentages of companies within each of the four categories: Buy: 53%, Speculative Buy: 5%; Hold: 31%, Reduce: 12%.

Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF and text form on First Call Notes, First Call Research Direct, Bloomberg and Reuters. Research Reports and Bulletins are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports and Bulletins are available on Reuters and First Call Research Direct. Summaries are available on First Call Notes and Bloomberg. All research is available by password to entitled institutional clients at www.tdsecurities.com.

Definition of Research Ratings

BUY: The stock's total return is expected to exceed a minimun of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 40% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Directorships

n/a

Analyst Certification

Each analyst of TD Securities Inc. whose name appears on this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

Disclaimer

TD Newcrest, A Division of TD Securities Inc. "TD Newcrest" is the tradename that TD Securities Inc., TD Securities (USA) Inc. and TD Securities Limited use to market their institutional equity services. Although the information contained in this report has been obtained from sources that TD Securities (USA) Inc., TD Securities Inc. and TD Securities Limited (collectively "TD Securities") believe to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities will furnish upon request publicly available information on which this report is based. TD Securities Inc. has accepted responsibility for the contents of any TD Securities (USA) Inc. research appearing in this document. TD Securities (USA) Inc. has accepted responsibility for the contents of any TD Securities Inc. research appearing in this document. TD Securities Limited has accepted responsibility in Europe for the contents of any TD Securities Inc. research

TD Newcrest

Action Notes

January 31, 2005
Equity Research

Pipelines, Power & Utilities

Recommendation: HOLD
Unchanged
12-Month Target Price: C$27.30
Unchanged
12-Month Total Return: -3.0%

Market Data (C$)	
Current Price ($)	29.02
52-Wk Range ($)	22.00 - 50.00
Mkt Cap (f.d.)($mm)	3,041.3
Dividend ($)	0.84
Yield (%)	2.9

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	104.8
Float (mm)	104.8
BVPS (basic)($)	12.71
Net Debt/Tot Cap (%)	67.5
ROE (%)	11.2

Estimates (C$)

Year	2003A	2004E	2005E
EPS (f.d.)($)	1.32	1.41	1.49
CFPS (basic)($)	2.82	2.69	2.86
DI ($)	0.77	0.83	0.89

Valuations

Year	2003A	2004E	2005E
P/E (f.d.)(x)	20.5	19.2	18.2
P/CFPS (basic)(x)	9.6	10.1	9.5
P/DI (x)	35.2	32.6	30.4

Linda Ezergailis, P.Eng.
416 983 7784
linda.ezergailis@tdsecurities.com

Michael McGowan, CA (Associate)
416 308 3404
michael.mcgowan@tdsecurities.com

Notes:
All figures in Canadian dollars, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Terasen Inc.

(TER-T; C$29.02)

Terasen Raises Stakes in West Coast Pipeline Race

Event

Terasen announced that phase 1 of its proposed TMX pipeline expansion project received a high level of endorsement during the company's recent expression of interest solicitation.

Impact - Mildly Positive

Support for phase 1 of the proposed project appears to be broadly based. In total, 17 shippers, including Canadian producers, west coast refiners, and Far East refiners, indicated strong endorsement for the project. However, no clear consensus on which route out of the Northern or Southern Options emerged during the solicitation.

While we view this development positively, expressions of interest are non-binding and we consider the upcoming open season to be a more important milestone.

Details

Phase 1 of the TMX expansion would expand TransMountain's capacity by 75,000 bbls/d to 300,000 bbls/d from the existing 225,000 bbls/d. Initially, 35,000 bbls/d of additional capacity will be derived from adding pump stations, followed by an incremental 40,000 bbls/day from looping 178 km of the existing system. The pump upgrades could be in service by the end of 2006 at an estimated cost of $205 million, while looping could be completed by the end of 2008 at an estimated cost of $365 million.

For a more detailed explanation of the Southern and Northern pipeline expansion opportunities available after the completion of phase 1, please see our *Action Note* dated December 8, 2004.

Valuation

Our $27.30 target price is based on our 2006 estimates, 10-year bond yield assumption of 4.5%, and the following blended valuation: 1) 50% relative earnings yield to 10-year bond of 126% (versus historical average of 124%); 2) 25% relative dividend yield to 10-year bond of 76% (versus historical average of 72%); and 3) 25% price-to-book value of 1.9 times (versus the historical average of 1.7x). It implies a 17.6x price-to-earnings multiple and 3.4% dividend yield, compared to historical averages of 14.2x and 4.2%, respectively.

We believe Terasen deserves a premium versus the sector due to management’s track record of value creation, our expectation of above-utility-average growth, and strong fundamentals of its petroleum transportation business. Terasen has traded at a premium to the sector, and we expect this premium to continue.

Key risks to our target price include: 1) materially different bond yields versus our estimate, 2) potential reduction in the historical valuation premium vs. the sector, 3) tougher-than-expected competition for new oil transmission pipeline capacity, 4) unexpected negative surprises on the regulatory front, and 5) substantial delays and/or cancellations of oil sands projects.

Conclusion

While we believe that the results from the expression of interest solicitation are positive, Terasen's TMX expansion faces competition from Enbridge's Gateway proposal. The upcoming open season will be a more telling indicator of TMX's prospects because it will force producers not only to commit to building the project but also to a specific company (i.e. Enbridge or Terasen).

We are maintaining our HOLD recommendation based on our opinion that Terasen is fairly valued. We will continue to monitor the company's progress on its proposed greenfield projects, the renewal of the existing TransMountain incentive tolling agreement in late 2005 and the results of Terasen's TMX open season solicitation.

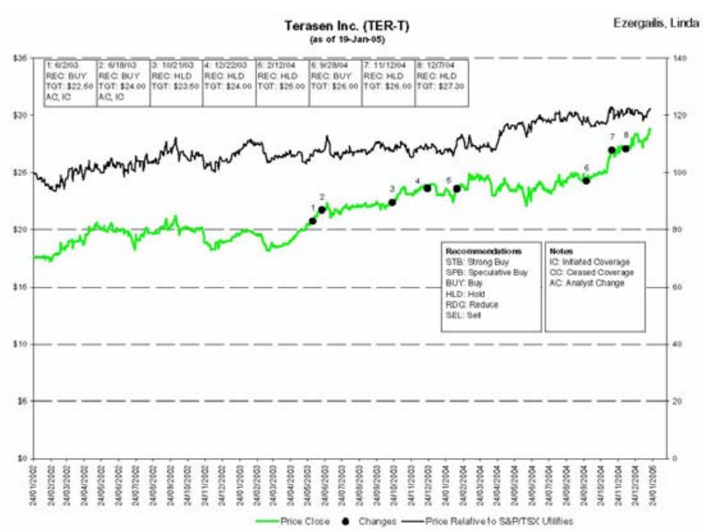
TD Newcrest	Action Notes	January 31, 2005 Equity Research

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Terasen Inc.	TER-T	1, 2, 4, 14

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. TD Securities Inc. or TD Securities (USA) LLC has provided non-investment banking securities-related services within the last 12 months with respect to the subject company.
6. TD Securities Inc. or TD Securities (USA) LLC has provided non-securities-related services within the last 12 months with respect to the subject company.
7. TD Securities Inc. or TD Securities (USA) LLC has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
8. The research analyst knows that an affiliate to TD Securities Inc. or TD Securities (USA) LLC has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
9. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
10. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
11. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
12. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
13. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
14. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
15. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
16. Subordinate voting shares.
17. Restricted voting shares.
18. Non-voting shares.
19. Common/variable voting shares.

Price Graphs



Distribution of Research Ratings

Buy: 47 %, Speculative Buy: 3 %, Hold: 43 %, Reduce: 7 % Of the subject companies, TD Securities Inc. has provided investment banking services within the last 12 months for the following percentages of companies within each of the four categories: Buy: 38 %, Speculative Buy: 0 % ; Hold: 33 %, Reduce: 41 %.

Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF and text form on First Call Notes, First Call Research Direct, Bloomberg and Reuters. Research Reports and Bulletins are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports and Bulletins are available on Reuters and First Call Research Direct. Summaries are available on First Call Notes and Bloomberg. All research is available by password to entitled institutional clients at www.tdsecurities.com.

Definition of Research Ratings

BUY: The stock's total return is expected to exceed a minimun of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Directorships

n/a

Analyst Certification

Each analyst of TD Securities Inc. whose name appears on this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

Disclaimer

TD Newcrest, A Division of TD Securities Inc. "TD Newcrest" is the tradename that TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited use to market their institutional equity services. Although the information contained in this report has been obtained from sources that TD Securities (USA) LLC, TD Securities Inc. and TD Securities Limited (collectively "TD Securities") believe to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities will furnish upon request publicly available information on which this report is based. TD Securities Inc. has accepted responsibility for the contents of any TD Securities (USA) LLC research appearing in this document. TD Securities (USA) LLC has accepted responsibility for the contents of any TD Securities Inc. research appearing in this document. TD Securities Limited has accepted responsibility in Europe for the contents of any TD Securities Inc. research

TD Newcrest

Action Notes

February 17, 2005
Equity Research

Pipelines, Power & Utilities

Recommendation: HOLD

Unchanged

12-Month Target Price: C$29.00 ↑

Prior: C$28.50

12-Month Total Return: 1.9%

Market Data (C$)	
Current Price ($)	29.34
52-Wk Range ($)	21.50 - 29.91
Mkt Cap (f.d.)($mm)	3,086.6
Dividend ($)	0.90
Yield (%)	3.1

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	105.2
Float (mm)	105.2
BVPS (basic)($)	13.04
Net Debt/Tot Cap (%)	65.4
ROE (%)	11.2

Estimates (C$)			
Year	**2004A**	**2005E**	**2006E**
EPS (f.d.)($)	1.42	1.46	1.55
EPS (f.d.)(old)($)	1.41	1.49	1.55
CFPS (basic)($)	2.83	2.83	3.11
DI ($)	0.83	0.90	0.96

Valuations			
Year	**2004A**	**2005E**	**2006E**
P/E (f.d.)(x)	20.7	20.1	18.9
P/CFPS (basic)(x)	10.9	10.3	--
P/DI (x)	35.3	33.0	--

Linda Ezergailis, P.Eng.
416 983 7784
linda.ezergailis@tdsecurities.com

Michael McGowan, CA (Associate)
416 308 3404
michael.mcgowan@tdsecurities.com

Notes:
All figures in Canadian dollars, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Terasen Inc.

(TER-T; C$29.34)

Surprise Dividend Increase

Event - Q4/04 Earnings Release

Terasen reported Q4/04 EPS of $0.51 (f.d.), which was five cents below our estimate of $0.56 (f.d.) and $0.02 below Q4/03 adjusted EPS of $0.53 (f.d.). Q4/03 EPS was adjusted to reflect a $1.8 million writedown against Terasen's investment in Westport Innovations Ltd. In addition, earnings were restated to reflect a change in the quarterly accounting for income tax - Terasen now records quarterly tax expense by applying its effective tax rate to pretax income for the quarter as opposed to its previous method of allocating quarterly income tax based on actual taxes estimated to have been collected in rates. This change affects quarterly tax allocations, but has no effect on annual EPS.

In concert with the Q4/04 earnings release, Terasen's board approved a 7.1% increase in the dividend to $0.90 (annualized) from $0.84. In previous years, Terasen's Board timed dividend increases to coincide with Q1 earnings.

Impact - Mildly Positive

We have adjusted our 2005E EPS down by $0.03 to $1.46 to reflect slightly higher other expenses. Our 2006E EPS of $1.55 remains intact.

Our dividend estimate for 2006E has increased by three cents to $0.96 reflective of our expectation that annual dividend increases will now be declared in conjunction with Q4 earnings releases instead of with Q1 releases.

Our target price increases to $29.00, reflective of our slightly higher 2006 financial forecasts.

Details

Natural Gas Distribution reported a decline in earnings to $42.6 million in Q4/04 from $44.8 million in Q4/03, which was primarily due to the 27 bps reduction in allowed ROE experienced in 2004. Although we expected reduced returns at the Gas Distribution division due to relatively low regulated ROEs, the division's 2004 annual performance exceeded our expectations and the strong cost performance there partially offset increased costs in other divisions (Terasen estimates its achieved $4.1 million in cost efficiencies during 2004).

The **Petroleum Transportation** division earned $19.9 million in Q4/04, up from $17.9 million in Q3/04. A 2.5% revenue decrease in Q4/04 to $58.5 million from $60.0 million caused by lower tolls on Trans Mountain was offset by increased throughput and operating efficiencies on the pipeline, and increased contributions from Express.

Water and Utility Services reported an earnings contribution of $0.7 million in Q4/04, up from $0.4 million in Q4/03. Contributions from the Fairbanks Sewer & Water Inc. acquisition, which closed on July 31, 2004 was partially offset by higher acquisition-related depreciation and other business development costs.

The **Corporate** segment increased its loss to $9.3 million in Q4/04 from $7.0 million in Q4/03 after adjusting for the $1.8 million writedown against Westport Innovations. The increased loss was due to an increase in financing costs and lower tax recoveries.

Updates on key initiatives included:

- News of preliminary approval to build a LNG storage facility on Vancouver Island. Final approval of the terminal is still subject to numerous conditions, the most important being the approval of a proposed gas-fired electricity plant on the island. The estimated cost of the LNG facility is between $90 and $130 million, with an anticipated in-service date between 2008-2009, assuming the project proceeds.
- Indication that the proposed TMX pipeline expansion is proceeding well. While the final outcome of this project remains speculative, Terasen noted that it continues to talk with shippers and hopes to conduct a formal open season on Phase 1 of the project by the end of Q2/05.

- An announcement that discussions with Shell and other third party shippers to expand the capacity of its Corridor Pipeline in the oil sands region are still in progress.
- The announcement of a more conservative capital structure, with a goal of 30-33% equity as a percentage of total capital, after excluding preferred securities, which are now classified as debt and carry a weight of approximately 3%. In the past, Terasen had target a capital structure of 33% equity including the preferred securities, which is at the low end of the new range.
- Guidance that volumes on the Trans Mountain line will be weak during Q1/05 due to refinery turnarounds and production outages in the Alberta oil sands.

Outlook - Terasen has a stated long-term goal of growing EPS in the range of 6-8%, however, management consistently guided to EPS growth of 6% throughout the call. The reduced guidance was likely due to the relatively low regulated ROE rates (9.03% for 2005) the company is facing on its legacy natural gas distribution assets. Terasen's Trans Mountain pipeline is up for re-basing in 2005, which could also put pressure on earnings.

We assume that the proposed Vancouver Island LNG facility will ultimately proceed, and, this, combined with other greenfield opportunities, should bode well for longer-term returns. In the near-term, Terasen will likely focus on obtaining ROE relief during a potential generic cost of capital review with the BCUC (Q3/05), growing its water services division, and delivering cost performance.

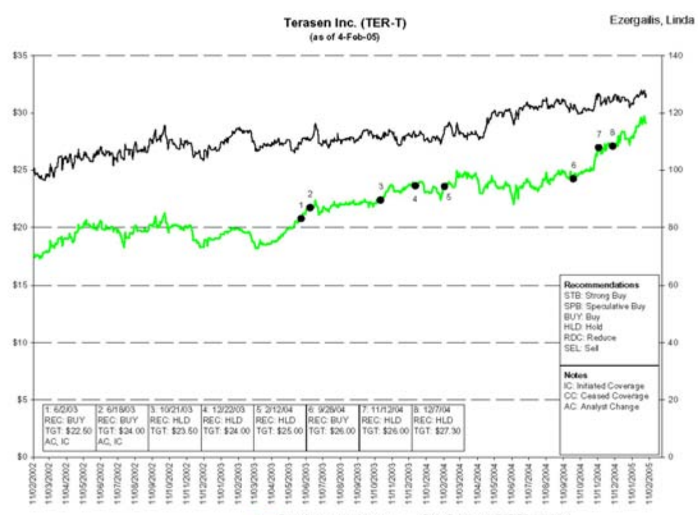
Valuation - Our $29.00 target price is based on our 2006 estimates, 10-year bond yield assumption of 4.3%, and the following blended valuation: 1) 50% relative earnings yield to 10-year bond of 124% (versus historical average of 124%); 2) 25% relative dividend yield to 10-year bond of 77% (versus historical average of 72%); and 3) 25% price-to-book value of 2.0 times (versus the historical average of 1.7x). It implies a 18.7x price-to-earnings multiple and 3.3% dividend yield, compared to historical averages of 14.2x and 4.2%, respectively.

We believe Terasen deserves a premium versus the sector due to management's track record of value creation, our expectation of above-utility-average growth, and strong fundamentals of its petroleum transportation business. Terasen has traded at a premium to the sector, and we expect this premium to continue.

Key risks to our target price include: 1) materially different bond yields versus our estimate, 2) potential reduction in the historical valuation premium vs. the sector, 3) tougher-than-expected competition for new oil transmission pipeline capacity, 4) unexpected negative surprises on the regulatory front, and 5) substantial delays and/or cancellations of oil sands projects.

Conclusion - In our view, Terasen's track record of EPS and dividend increases warrant a continued premium in the sector. We expect numerous infrastructure opportunities to offset the impact of any re-basing in Trans Mountain when its incentive tolling settlement expires at the end of this year. Given the modest returns implied by our target price; however, we continue to recommend that investors HOLD Terasen.

Price Graph



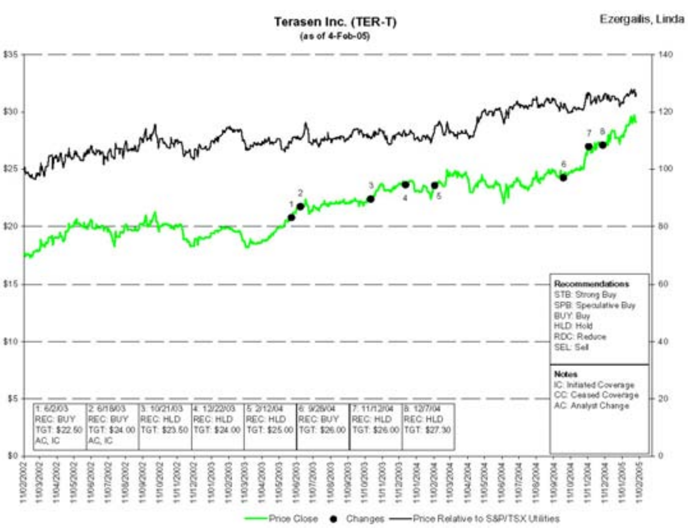
For full disclosures, please see the final page(s) of this document.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Terasen Inc.	TER-T	1, 2, 4, 14

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. TD Securities Inc. or TD Securities (USA) LLC has provided non-investment banking securities-related services within the last 12 months with respect to the subject company.
6. TD Securities Inc. or TD Securities (USA) LLC has provided non-securities-related services within the last 12 months with respect to the subject company.
7. TD Securities Inc. or TD Securities (USA) LLC has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
8. The research analyst knows that an affiliate to TD Securities Inc. or TD Securities (USA) LLC has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
9. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
10. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
11. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
12. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
13. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
14. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
15. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
16. Subordinate voting shares.
17. Restricted voting shares.
18. Non-voting shares.
19. Common/variable voting shares.

Price Graphs



Distribution of Research Ratings

Buy: 44 %, Speculative Buy: 3 %, Hold: 47 %, Reduce: 6 % Of the subject companies, TD Securities Inc. has provided investment banking services within the last 12 months for the following percentages of companies within each of the four categories: Buy: 34 %, Speculative Buy: 0 % ; Hold: 31 %, Reduce: 33 %.

Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF and text form on First Call Notes, First Call Research Direct, Bloomberg and Reuters. Research Reports and Bulletins are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports and Bulletins are available on Reuters and First Call Research Direct. Summaries are available on First Call Notes and Bloomberg. All research is available by password to entitled institutional clients at www.tdsecurities.com.

Definition of Research Ratings

BUY: The stock's total return is expected to exceed a minimun of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Directorships

n/a

Analyst Certification

Each analyst of TD Securities Inc. whose name appears on this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

Disclaimer

TD Newcrest, A Division of TD Securities Inc. "TD Newcrest" is the tradename that TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited use to market their institutional equity services. Although the information contained in this report has been obtained from sources that TD Securities (USA) LLC, TD Securities Inc. and TD Securities Limited (collectively "TD Securities") believe to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities will furnish upon request publicly available information on which this report is based. TD Securities Inc. has accepted responsibility for the contents of any TD Securities (USA) LLC research appearing in this document. TD Securities (USA) LLC has accepted responsibility for the contents of any TD Securities Inc. research appearing in this document. TD Securities Limited has accepted responsibility in Europe for the contents of any TD Securities Inc. research

TD Newcrest

Action Notes

May 4, 2005
Equity Research

Pipelines, Power & Utilities

Recommendation: HOLD
Unchanged
12-Month Target Price: C$29.00
Unchanged
12-Month Total Return: 8.9%

Market Data (C$)	
Current Price ($)	27.45
52-Wk Range ($)	22.00 - 49.00
Mkt Cap (f.d.)($mm)	2,887.7
Dividend ($)	0.90
Yield (%)	3.3

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	105.4
Float (mm)	105.4
BVPS (basic)($)	13.45
Net Debt/Tot Cap (%)	68.4
ROE (%)	11.2

Estimates (C$)			
Year	**2004A**	**2005E**	**2006E**
EPS (f.d.)($)	1.42	1.46	1.55
CFPS (basic)($)	2.83	2.83	3.11
DI ($)	0.83	0.90	0.96

Valuations			
Year	**2004A**	**2005E**	**2006E**
P/E (f.d.)(x)	19.3	18.8	17.7
P/CFPS (basic)(x)	9.7	9.7	8.8
P/DI (x)	33.0	30.4	28.5

Linda Ezergailis, P.Eng.
416 983 7784
linda.ezergailis@tdsecurities.com

Michael McGowan, CA (Associate)
416 308 3404
michael.mcgowan@tdsecurities.com

Notes:
All figures in Canadian dollars, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Terasen Inc.

(TER-T; C$27.45)

Q1 Impacted by Oil Sands Disruptions

Event - Q1/05 Earnings Release
Terasen reported Q1/05 EPS of $0.63 (f.d.) vs. our estimate of $0.65 and Q1/04 EPS of $0.64 (f.d.). (Note that Q1/04 earnings were restated to reflect a change in the quarterly accounting for income tax. Effective Q4/04, Terasen records quarterly tax expense by applying its effective tax rate to pretax income for the quarter as opposed to its previous method of allocating quarterly income tax based on actual taxes estimated to have been collected in rates. This change affects quarterly tax allocations, but has no effect on annual EPS.)

Impact - Neutral

Details
Natural Gas Distribution's Q1/05 earnings of $55.7 million were largely consistent with earnings of $54.7 million in Q1/04, as operating efficiencies and customer growth at Terasen Gas were able to offset a 12 bps drop in allowed ROEs for 2005. A lower effective tax rate reduced income tax expense, while lower interest rates were able to reduce financing costs.

The **Petroleum Transportation** division's Q1/05 earnings declined by 31% to $12.7 million from $18.3 million in Q1/04. Current earnings contributions from the TransMountain system fell by 48% to $5.4 million from $10.4 million in Q1/04 as production outages in the oil sands and refinery turnarounds impacted throughput. A decrease in the allowed return on equity for the Corridor pipeline decreased its Q1/05 earnings contribution to $3.6 million from $3.9 million in Q1/04. The Express System was also affected by the operational outages in the oil sands, although not to the same degree as TransMountain. Q1/05 earnings contribution from Express fell to $3.7 million from $4.0 million in Q1/04.

Water and Utility Services reported a Q1/05 earnings contribution of $0.8 million vs. $nil in Q1/04. Strong economic growth in BC and Alberta led to improved results in the base waterworks and utility service businesses, while Fairbanks (acquired on July 31/04) made a small contribution during the seasonally weak first quarter.

The **Corporate** segment's Q1/05 loss declined to $2.9 million from $5.1 million in Q1/04. The decreased loss was due to higher revenues, the realization of a larger hedging gain at Clean Energy ($2.6 million in Q1/05, vs. $1.7 million in Q1/04), and lower operating and maintenance expenses, which were partially offset by higher financing costs (due to higher debt levels) and a lower income tax recovery.

Other Details
- Terasen continues to forward its **TMX** expansion, and might hold an open season in June or July for TMX 1 pump stations (+ 35,000 bpd at a cost of $205 million) and the Anchor Loop (+ 40,000 bpd at a cost of $365 million).
- The **Corridor Pipeline** could benefit from Shell's recent regulatory filings to increase capacity at two of its oil sands projects. Terasen is in discussions with Shell to build a $700-$900 million pipeline to transport the additional throughput.
- **Express System** recently completed its 108,000 bpd expansion, just under budget at US$100 million. Management is now exploring adding incremental capacity into the PADD II and PADD IV markets in the U.S.
- **Natural Gas Distribution** could benefit if the BC regulator goes ahead with a generic cost of capital hearing, as the 2005 generic ROE of 9.03% is one of the lowest in Canada.
- Terasen still plans to construct an LNG terminal on Vancouver Island to supply the proposed Duke Point natural gas fired plant, which is still facing local opposition. While the BC Court of Appeal refused to grant opposition groups leave to appeal the BCUC's decision to approve the power plant, a request has been filed with the Appeal Court review panel to reconsider this ruling. The review hearing is scheduled for early June.

Valuation
Our $29.00 target price is based on our 2006 estimates, 10-year bond yield assumption of 4.3%, and the following blended valuation: 1) 50% relative earnings yield to 10-year bond of

124% (versus historical average of 124%); 2) 25% relative dividend yield to 10-year bond of 77% (versus historical average of 72%); and 3) 25% price-to-book value of 2.0 times (versus the historical average of 1.7x). It implies a 18.7x price-to-earnings multiple and 3.3% dividend yield, compared to historical averages of 14.2x and 4.2%, respectively.

We believe Terasen deserves a premium versus the sector due to management's track record of value creation, our expectation of above-utility-average growth, and leverage to growing volumes in the oil sands. Terasen has traded at a premium to the sector, and we expect this premium to continue.

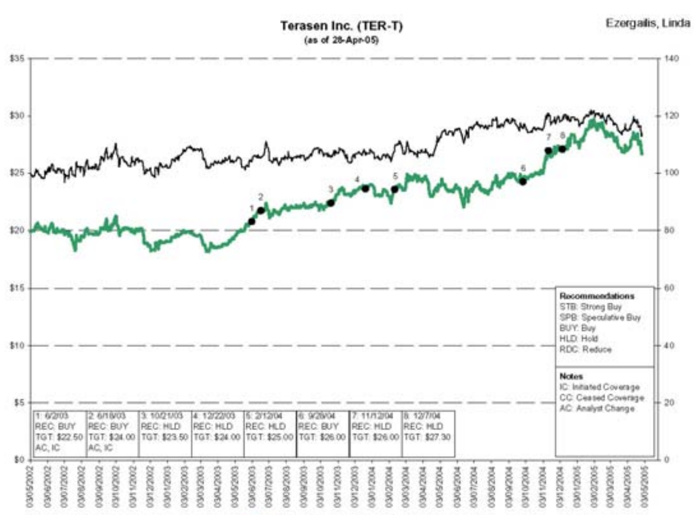
Key risks to our target price include: 1) higher than expected long bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) potential reduction in the historical valuation premium vs. the sector, 5) tougher-than-expected competition for new oil transmission pipeline capacity, 6) regulatory surprises, 7) substantial delays and/or cancellations of oil sands projects, and 8) WCSB risk.

Outlook & Conclusion

Terasen's non-petroleum businesses will have to perform strongly in order for management to meet its 6% EPS growth target for 2005. In addition, TransMountain faces some re-basing risk in 2006. The potential for a generic cost of capital hearing in British Columbia later this year could provide some incremental upside for gas distribution utility returns in 2006. In addition, we assume the Vancouver Island LNG facility will proceed, which when combined with growth in the water services businesses and significant expansion potential for the oil pipelines, provides some visibility to continued high single-digit EPS growth.

In our view, Terasen's track record of shareholder value creation warrant a continued premium to the sector despite a tough start to 2005 and the potential re-basing of TransMountain in 2006. The modest returns implied by our target price; however, result in no change to our HOLD rating.

Price Graph



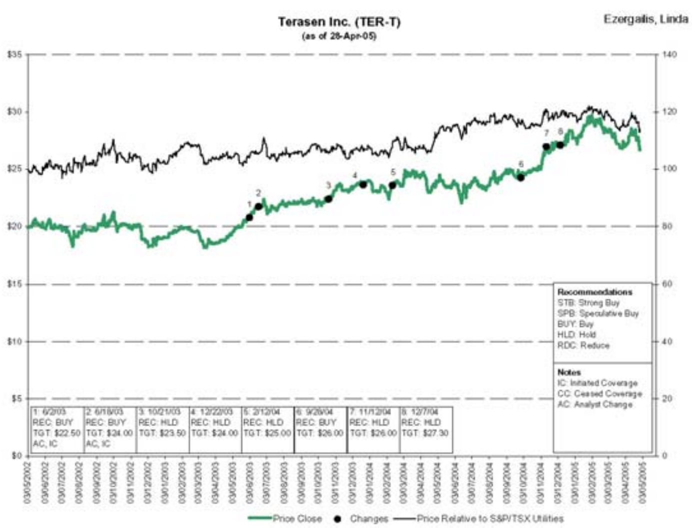
For full disclosures, please see the final page(s) of this document.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Terasen Inc.	TER-T	1, 2, 4, 14

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. TD Securities Inc. or TD Securities (USA) LLC has provided non-investment banking securities-related services within the last 12 months with respect to the subject company.
6. TD Securities Inc. or TD Securities (USA) LLC has provided non-securities-related services within the last 12 months with respect to the subject company.
7. TD Securities Inc. or TD Securities (USA) LLC has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
8. The research analyst knows that an affiliate to TD Securities Inc. or TD Securities (USA) LLC has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
9. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
10. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
11. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
12. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
13. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
14. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
15. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
16. Subordinate voting shares.
17. Restricted voting shares.
18. Non-voting shares.
19. Common/variable voting shares.

Price Graphs



Distribution of Research Ratings

Buy: 45 %, Speculative Buy: 4 %, Hold: 44 %, Reduce: 7 % Of the subject companies, TD Securities Inc. has provided investment banking services within the last 12 months for the following percentages of companies within each of the four categories: Buy: 48%, Speculative Buy: 33% ; Hold: 30%, Reduce: 31%.

Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF and text form on First Call Notes, First Call Research Direct, Bloomberg and Reuters. Research Reports and Bulletins are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports and Bulletins are available on Reuters and First Call Research Direct. Summaries are available on First Call Notes and Bloomberg. All research is available by password to entitled institutional clients at www.tdsecurities.com.

Definition of Research Ratings

BUY: The stock's total return is expected to exceed a minimun of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Directorships

n/a

Analyst Certification

Each analyst of TD Securities Inc. whose name appears on this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

Disclaimer

TD Newcrest

Action Notes

August 2, 2005
Equity Research

Pipelines, Power & Utilities

Recommendation: BUY ↑
Prior: HOLD
12-Month Target Price: C$35.75 ↑
Prior: C$31.00
12-Month Total Return: 16.7%

Market Data (C$)	
Current Price ($)	31.40
52-Wk Range ($)	23.38 - 31.78
Mkt Cap (f.d.)($mm)	3,312.7
Dividend ($)	0.90
Yield (%)	2.9

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	105.5
Float (mm)	105.5
BVPS (basic)($)	13.53
Net Debt/Tot Cap (%)	67.9
ROE (%)	11.2

Estimates (C$)			
Year	**2004A**	**2005E**	**2006E**
EPS (f.d.)($)	1.42	1.48	1.55
CFPS (basic)($)	2.83	2.84	3.10
DI ($)	0.83	0.90	0.96

Valuations			
Year	**2004A**	**2005E**	**2006E**
P/E (f.d.)(x)	22.3	21.4	20.4
P/CFPS (basic)(x)	11.2	11.1	10.2
P/DI (x)	38.1	35.2	33.0

Linda Ezergailis, P.Eng.
416 983 7784
linda.ezergailis@tdsecurities.com

Michael McGowan, CA (Associate)
416 308 3404
michael.mcgowan@tdsecurities.com

Notes:
All figures in Canadian dollars, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Terasen Inc.

(TER-T; C$31.40)

Kinder Morgan Inc. to Acquire Terasen

Event – On August 1, 2005 Kinder Morgan Inc. (KMI) announced that it is has agreed to purchase Terasen (TER) for approximately US$5.6 billion, including the assumption of US$2.5 billion debt, and subject to regulatory and TER shareholder approvals. Both boards of directors have unanimously approved the transaction. The transaction is expected by year-end 2005. Under present terms, TER shareholders can elect to receive i) C$35.75 in cash; or ii) 0.3331 shares of KMI common stock, or iii) C$23.25 in cash plus 0.1165 shares of KMI common stock. Elections are subject to proration if total cash elections exceed 65% of total consideration to be paid, or stock elections exceed 35%. Based on KMI's share price and the CAD/USD exchange rate on July 29, 2005, the offer is worth approximately $35.91/share.

Impact – Positive
Attractive Valuation Leads Us to Not Expect Any Competing Bids: The offer represents a premium of approximately 20% over TER's 20-day average share price (14% over its July 29, 2005 closing price), 23.8x 2005 expected earnings, 11.5x 2005 projected EBITDA, and 2.6x price-to-book. We believe KMI is paying a premium for access to oil sands growth opportunities. We don't expect any competing bids. We don't believe any other U.S. company has the valuation and financial strength to pay this price. We also don't think it is likely that Enbridge or TransCanada would pay more for TER because they already have a presence in the WCSB and relationships with Canadian producers.

Great Strategic and Operational Fit: We believe that there is a strategic and operational fit with the two businesses. With a combined pro-forma E.V. of more than US$19 billion, KMI will have the local presence, resources and scale to compete with Enbridge (approx. EV of C$21 billion) and TransCanada (approx. EV of C$30 billion) to build new energy infrastructure in Canada, in our view. We see a cultural fit because both TER and KMI have 1) a track record of shareholder value creation delivering above-utility average total returns, 2) a focus on operational excellence, 3) ownership of predominantly fee-based or regulated businesses focused on the transportation and storage of energy products across North America, and 4) access to low cost-of-capital through tax-efficient structures. We expect further details on potential revenue and cost synergies to be provided on the conference call.

Diversifies Geography and Business Mix: While we view both companies as having relatively low-risk assets, the combined entity will have further diversified the geography and business mix. This is of particular benefit to Terasen shareholders, as its petroleum pipeline operations service only one basin (WCSB), and its British Columbia based natural gas distribution business is required to compete with the province's with low-cost hydroelectricity. The combined entity will own and operate interest in natural gas pipelines, crude oil and refined product pipelines, natural gas distribution, and four power plants.

Details
Shareholders Approval Needed: Terasen will hold a special meeting of shareholders to approve the transaction no later than October 31, 2005. For the deal to proceed, 75% of TER shareholders in attendance must vote in favor of the transaction. There is a $75 million, or approximate $0.71 per share, break fee should TER shareholders reject KMI's offer, or accept a competing bid.

We Expect Regulatory Approvals Will be Granted: The transaction is subject to regulatory approval in both Canada and the US. We believe that KMI's intention to maintain Terasen Gas' head office in Vancouver, BC should ease some of any potential local concerns surrounding potential domestic job losses in British Columbia.

Details on Kinder Morgan: Headquartered in Houston, Texas, KMI is one of the largest midstream energy companies in the U.S., operating more than 35,000 miles of natural gas and products pipelines and approximately 145 terminals that store and handle products like gasoline and coal. KMI also owns a 240,000 customer natural gas retail distribution network in Colorado, Wyoming, and Nebraska. Kinder Morgan Inc. own approximately 16% of Kinder Morgan Energy Partners L.P. (KMP), and acts as its general partner. KMI and KMP have a combined E.V. of approximately U.S. $30 billion. The CEO Richard D. Kinder owns about 19% of KMI and receives a salary of $1 per year with no bonuses, no option grants, and no restricted stock. Over the past six years, KMI has delivered 40% annualized total returns.

Conference Call Information: Kinder Morgan will host a live webcast at www.kindermorgan.com at 8:30 AM ET, August 2, 2005 to discuss the transaction. Terasen will host a separate call at 10:00 AM ET (1-877-375-5688).

Valuation: Our target price of $35.75 is based on our view that the acquisition of TER by KMI will proceed under the current terms at what we view as an attractive cash offer. Note that we attribute a low probability to a higher competing offer. This new target price implies a P/E of 23.1x our standalone 2006E Terasen EPS, a historically high valuation.

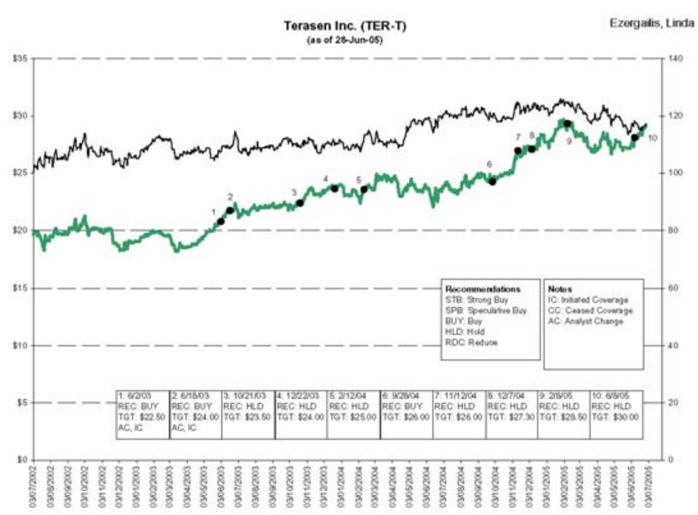
Key risks to our target price include: 1) regulatory and Terasen shareholder approvals for the transaction, 2) post-merger integration risk, 3) higher than expected long bond yields in North America, 4) lower than expected earnings and cash flow growth by Kinder Morgan 5) tougher-than-expected regulatory decisions, 6) operational disruptions, and 7) a competing higher offer.

Conclusion - Expect the Stock to Trade Up: We are upgrading Terasen to BUY purely based on the total returns implied by the closing price on July 29, 2005; however, we expect the stock to trade up rapidly to between $34 and 35 (just below the offer price in recognition of the time value of money and relatively low transaction risk), and we would accumulate the shares up to $34. We do not expect the shares to trade above the offer price as we view the probability of a competing bid as low.

We believe that this acquisition would create substantial value for TER shareholders. While there is some transaction risk associated with an acquisition of this scale, we believe that regulatory and TER shareholder approvals will be granted. In addition, the challenges of integrating two organizations with unique cultures could result in transaction EPS accretion to Kinder Morgan Inc. shareholders falling short of six to eight percent in 2006; however, given the track record of Kinder Morgan management we believe that the post-merger integration risk is modest.

Conclusion - Broad Implications for the Canadian Sector : This announcement dramatically alters the competitive landscape, as it creates a third large pipeline and energy infrastructure company in Canada. We expect high levels of competition between KMI, Enbridge, and TransCanada for the mandate to build new energy infrastructure, especially as it relates to the oil sands and Alaskan gas. While it is possible for Enbridge and TransCanada to compete with their current scale, we believe that these companies will likely consider a strategic response over the coming year. This could come in the form of an acquisition of a U.S. company to achieve north-south scale economies. It is also feasible that Enbridge and TransCanada consider a merger between themselves, as there is little overlap in their current businesses and it would likely bring revenue and cost synergies. ***We will be updating our thesis on all companies in the sector in the near term as a result of this acquisition announcement.***

Price Graph



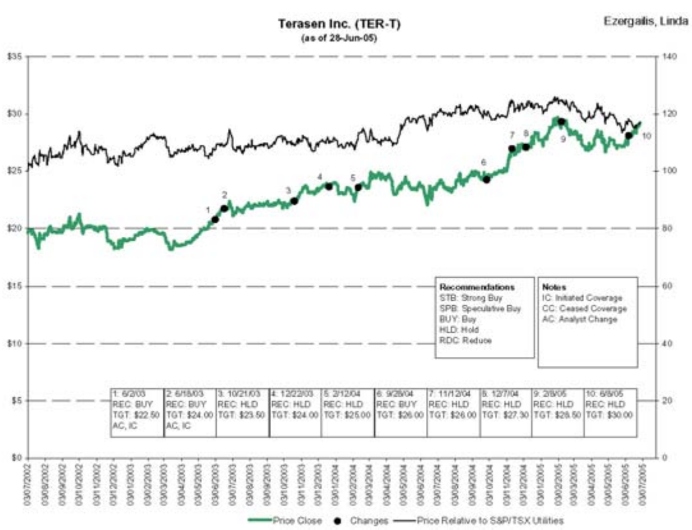
For full disclosures, please see the final page(s) of this document.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Terasen Inc.	TER-T	1, 2, 4, 14
Enbridge Inc.	ENB-T	1, 2, 4, 9, 13, 14
TransCanada Corp.	TRP-T	2, 13, 14

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. TD Securities Inc. or TD Securities (USA) LLC has provided non-investment banking securities-related services within the last 12 months with respect to the subject company.
6. TD Securities Inc. or TD Securities (USA) LLC has provided non-securities-related services within the last 12 months with respect to the subject company.
7. TD Securities Inc. or TD Securities (USA) LLC has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
8. The research analyst knows that an affiliate to TD Securities Inc. or TD Securities (USA) LLC has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
9. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
10. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
11. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
12. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
13. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
14. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
15. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
16. Subordinate voting shares.
17. Restricted voting shares.
18. Non-voting shares.
19. Common/variable voting shares.
20. Limited Voting Shares.

Price Graphs



Distribution of Research Ratings

Buy: 49 %, Speculative Buy: 4 %, Hold: 43 %, Reduce: 4 % Of the subject companies, TD Securities Inc. has provided investment banking services within the last 12 months for the following percentages of companies within each of the four categories: Buy: 52%, Speculative Buy: 44% ; Hold: 34%, Reduce: 40%.

Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF and text form on First Call Notes, First Call Research Direct, Bloomberg and Reuters. Research Reports and Bulletins are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports and Bulletins are available on Reuters and First Call Research Direct. Summaries are available on First Call Notes and Bloomberg. All research is available by password to entitled institutional clients at www.tdsecurities.com.

Definition of Research Ratings

BUY: The stock's total return is expected to exceed a minimun of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Directorships

Wendy K. Dobson, a Director of TransCanada Corp., is a member of the board of directors of The Toronto-Dominion Bank. TD Securities Inc. is a wholly owned subsidiary of The Toronto-Dominion Bank.

Analyst Certification

Each analyst of TD Securities Inc. whose name appears on this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

Disclaimer

TD Newcrest

Action Notes

August 3, 2005
Equity Research

Pipelines, Power & Utilities

Recommendation: N/A
12-Month Target Price:N/A
12-Month Total Return:N/A

Market Data (C$)	
Current Price ($)	36.00
52-Wk Range ($)	23.38 - 31.78
Mkt Cap (f.d.)($mm)	3,312.7
Dividend ($)	0.90
Yield (%)	2.9

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	105.5
Float (mm)	105.5
BVPS (basic)($)	13.53
Net Debt/Tot Cap (%)	67.9
ROE (%)	11.2

Estimates (C$)			
Year	**2004A**	**2005E**	**2006E**
EPS (f.d.)($)	1.42	1.48	1.55
CFPS (basic)($)	2.83	2.84	3.10
DI ($)	0.83	0.90	0.96

Valuations			
Year	**2004A**	**2005E**	**2006E**
P/E (f.d.)(x)	22.1	21.2	20.3
P/CFPS (basic)(x)	11.1	11.1	10.1
P/DI (x)	37.8	34.9	32.7

Linda Ezergailis, P.Eng.
416 983 7784
linda.ezergailis@tdsecurities.com

Michael McGowan, CA (Associate)
416 308 3404
michael.mcgowan@tdsecurities.com

Notes:
All figures in Canadian dollars, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Terasen Inc.

(TER-T; C$36.00)

Terasen and Kinder Morgan Discuss Merger

Event: Kinder Morgan and Terasen hosted conference calls to discuss Kinder Morgan Inc.'s (KMI) proposed acquisition of Terasen. Please see our Terasen *Action Note* dated August 2, 2005 for more details on the transaction.

Impact – Neutral

Details: Some new information and additional context was provided on the respective conference calls. Our takeaways are as follows:

Rationale for Terasen's Acceptance of KMI's Bid: KMI's bid was an unsolicited offer that Terasen felt it could not refuse. Terasen has had high-level, ongoing discussions about potential partial and total business combinations. Based on its perception of maximizing shareholder returns, and a review of KMI's bid by an external adviser, Terasen felt that KMI's offer was very attractive.

Preliminary Customer and Regulatory Reaction: Terasen perceives a generally favorable reaction by key stakeholders, based on preliminary discussions with various Canadian governments, regulators, customers and pension fund partners.

Growth Opportunities More the Focus than Cost Synergies: Terasen does not view much risk in customers or partners seeking to participate in benefits of the acquisition (and thereby potentially diluting benefits to Kinder Morgan) as the rationale for the transaction was based on the strategic fit, oilsands volume growth and improved competitive positioning rather than wringing operating synergies out of the combined entity. We note, however, that Terasen Gas is requesting a higher ROE and equity thickness from the BCUC, and given the premium KMI is paying for the parent company, Terasen's previous argument that its allowed rates of return hinder its ability to attract capital may be less persuasive. In addition, the TransMountain pipeline is in negotiations for a new 5-year deal with shippers. Our perception is that KMI is factoring in continuing high returns from this pipeline, and we see that as optimistic given our view on the likelihood of at least some re-basing.

BCUC Review Expected to be the Largest: Out of the many regulatory reviews to which this transaction will be subject, KMI expects the BCUC's to be the largest, since there will be an onus on KMI to prove that the transaction will not be detrimental to existing ratepayers and in fact all stakeholders. KMI believes that this risk has been mitigated by its decision to allow Terasen Gas to continue operating as an autonomous business unit, with the Terasen Gas head office remaining in Vancouver. In addition, Terasen believes that Duke Energy's 2001 acquisition of Westcoast Energy, which received regulatory approval, will serve as a precedent and that the regulator should be relatively indifferent to this transaction since the majority of acquisition related changes will occur at the corporate parent rather than at Terasen Gas Inc.

Other Details

- The tax-efficient Express Pipeline structure is fully protected under this acquisition.
- Terasen's CEO will be focused on consummating the transaction, and it is still to be determined whether he will sit on KMI board or obtain a senior position within KMI after the deal is completed.
- Non-electing Terasen shareholders will receive proceeds of 65 % cash and 35% KMI stock.
- There are no plans to offer KMI exchangeable shares to Terasen shareholders.

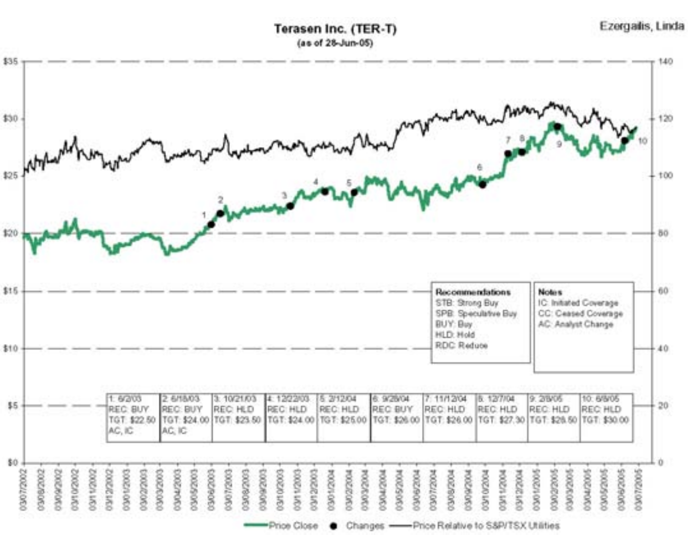
Outlook and Conclusion: Based on the information provided on the respective conference calls, our view continues to be that the transaction will likely proceed, and competing bids are unlikely. We believe that Terasen shares are now trading on the basis of the underlying value of the 65% cash and 35% stock offer, and will likely continue to do so until the transaction is finalized.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Terasen Inc.	TER-T	1, 2, 4, 14

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. TD Securities Inc. or TD Securities (USA) LLC has provided non-investment banking securities-related services within the last 12 months with respect to the subject company.
6. TD Securities Inc. or TD Securities (USA) LLC has provided non-securities-related services within the last 12 months with respect to the subject company.
7. TD Securities Inc. or TD Securities (USA) LLC has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
8. The research analyst knows that an affiliate to TD Securities Inc. or TD Securities (USA) LLC has received compensation for services other than investment banking within the last 12 months with respect to the subject company.
9. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
10. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
11. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
12. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
13. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
14. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
15. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
16. Subordinate voting shares.
17. Restricted voting shares.
18. Non-voting shares.
19. Common/variable voting shares.
20. Limited Voting Shares.

Price Graphs



Distribution of Research Ratings

Buy: 49 %, Speculative Buy: 4 %, Hold: 43 %, Reduce: 4 % Of the subject companies, TD Securities Inc. has provided investment banking services within the last 12 months for the following percentages of companies within each of the four categories: Buy: 52%, Speculative Buy: 44% ; Hold: 34%, Reduce: 40%.

Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF and text form on First Call Notes, First Call Research Direct, Bloomberg and Reuters. Research Reports and Bulletins are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports and Bulletins are available on Reuters and First Call Research Direct. Summaries are available on First Call Notes and Bloomberg. All research is available by password to entitled institutional clients at www.tdsecurities.com.

Definition of Research Ratings

BUY: The stock's total return is expected to exceed a minimun of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Directorships

n/a

Analyst Certification

Each analyst of TD Securities Inc. whose name appears on this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

Disclaimer

UBS

Global Equity Research

Canada

Gas Utilities

UBS Investment Research

Terasen Inc.

Rating	Neutral 1 *Unchanged*
Price target	C$23.75/US$17.86 *Unchanged*
Price	C$23.30/US$17.52

RIC: TER.TO BBG: TER CN

29 July 2004

Location, location, location

Lower than expect earnings - yet still significant growth

Terasen reported Q2 2004 net earnings of C$10.6 million, or C$0.10 per share, versus C$0.08 per share one-year earlier. The result was below our estimate of C$0.15 and slightly below the Street's C$0.11. Clearly, the year-over-year earnings growth was positive and we were too aggressive in our quarterly expectations for the natural gas and petroleum reporting segments.

Strong crude fundamentals support future growth

Notably, volumes on all of Terasen's pipeline systems were up 14.8% year-over-year. Trans Mountain (Cdn), Trans Mountain (US) and the Express System each delivered positive throughput increases. Over sequential quarters, only the 7% volumetric decline on the Trans Mountain (Cdn) system disappointed.

Location at the heart of future growth?

In our view, a significant portion of Terasen's future growth is premised upon its location and geographic positioning of its existing pipeline assets. We believe those factors position the company relatively well to benefit from projected oil sands volume growth and new market access.

Valuation: C$23.75 12-month target price

We continue to employ multiple valuation methods to obtain our C$23.75 12-month target price, including: a 16.25x P/E multiple; a projected dividend yield of 3.7%; and, a dividend yield spread of 170 bps. We retain our Neutral 1 rating.

Highlights (C$m)	12/02	12/03	12/04E	12/05E	12/06E
Revenues	1,707	1,848	1,924	2,097	2,114
EBIT	337	338	400	427	424
Net income (UBS)	125	111	144	155	159
EPS (UBS, C$)	1.22	1.27	1.36	1.46	1.50
Net DPS (UBS, C$)	0.70	0.76	0.82	0.87	0.92

Profitability & Valuation	5-yr hist. av.	12/03	12/04E	12/05E	12/06E
EBIT margin %	-	18.3	20.8	20.4	20.1
ROIC (EBIT) %	-	8.3	9.7	10.5	10.4
EV/EBITDA x	-	10.6	9.9	9.2	9.1
PE (UBS) x	-	16.6	17.2	15.9	15.6
Dividend yield %	-	3.6	3.5	3.7	3.9

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is adjusted by adding back goodwill amortization.
Valuations: based on an average share price that year, (E): based on a share price of C$23.30 on 28 Jul 2004; Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is stated before goodwill, exceptionals and other special items.

Andrew M. Kuske
andrew.kuske@ubs.com
+1-416-814 3663

Trading data (local/US$)

52-wk. range	C$24.93-21.75/US$18.88-15.55
Market cap.	C$2.44bn/US$1.83bn
Shares o/s	105m (COM)
Free float	100%
Avg. daily volume ('000)	131
Avg. daily value (C$m)	3.1

Balance sheet data 12/04E

Shareholders' equity	C$1.47bn
P/BV (UBS)	1.7x
Net cash (debt)	(C$2.84bn)

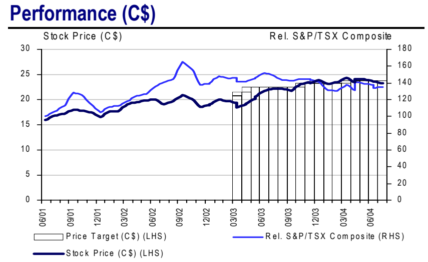
Forecast returns

Forecast price appreciation	+1.9%
Forecast dividend yield	3.7%
Forecast stock return	+5.6%
Market return assumption	7.7%
Forecast excess return	-2.1%

EPS (UBS, C$)

	12/04E			12/03
	From	To	Cons.	Actual
Q1	0.76	0.77	*0.80*	0.71
Q2	0.15	0.10	*0.10*	0.08
Q3	(0.09)	(0.09)	*(0.07)*	(0.07)
Q4	0.57	0.58	*0.62*	0.56
12/04E	1.39	1.36	*1.41*	
12/05E	1.46	1.46	*1.50*	

Performance (C$)



Source: UBS

www.ubs.com/investmentresearch

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 6

Terasen reported Q2 2004 net earnings of C$10.6 million, or C$0.10 per share, versus C$0.08 per share one-year earlier. The result was below our estimate of C$0.15 and slightly below the Street's C$0.11 for the quarter. Clearly, the year-over-year earnings growth was positive and we were too aggressive in our quarterly expectations for the natural gas and petroleum reporting segments. In our view, strong crude fundamentals, continued oil sands growth and new market access issues underpin a significant portion of Terasen's future growth. Additionally, in some respects, we believe the company possesses an advantageous location for certain pipeline proposals. This research note is divided into three categories: (1) results; (2) going forward; and, (3) valuation.

Results

Terasen reported Q2 2004 net earnings of C$10.6 million, or C$0.10 per share, versus C$0.08 per share one-year earlier. The result was below our estimate of C$0.15 and slightly below the Street's C$0.11 for the quarter. Clearly, the year-over-year earnings growth was positive and we were too aggressive in our quarterly expectations for the natural gas and petroleum reporting segments. Our segmented earnings analysis appears below.

Natural gas distribution

Terasen's natural gas distribution segment generated a net loss of C$2.2 million in Q2 2004 which is an improvement over the wider loss of C$2.5 million delivered in Q2 2003. Within those numbers, the performance at Terasen Gas marginally declined and Terasen Gas (Vancouver Island) again strengthened. On the top line, segmented revenues declined $51.1 million to $248.1 million, from $299.2 million in the same quarter of 2003 which reflected the declining cost of natural gas itself. Notably, natural gas consumption and sales was significantly impacted as a result of warmer weather year-over-year and versus the first quarter (see table 1).

Table 1: Natural gas distribution data points

				Chg (%)	Chg (%)
	Q2 2004	Q2 2003	Q1 2004	y-o-y	q-o-q
Earnings (C$millions)					
Terasen Gas	-8.5	-8.3	60.7	2.4%	-114.0%
TGVI	6.3	5.8	6.7	8.6%	-6.0%
Total	-2.2	-2.5	67.4	-12.0%	-103.3%
Number of Customers	862,752	851,261	862,631	1.3%	0.01%
Volumes (petajoules)					
Sales Volumes	18.3	22.8	49.3	-19.7%	-62.9%
Transportation volumes	14.1	17.3	21.9	-18.5%	-35.6%
Throughput	3.7	3.1	4.2	19.4%	-11.9%

Source: Company reports and UBS

Additional pertinent information included: (a) y-o-y, the number of natural gas customers increased by 1%; (b) operations and maintenance costs increased by a modest 3.5%; and, (c) financing costs declined by 16.5%. In summary, we believe these results are rather positive, however, they did not meet our expectations.

Petroleum transportation

Strong volumetric increases y-o-y…

Contrary to our expectations, Petroleum transportation's Q2 2004 net earnings declined by 11.5% to C$16.2 million from Q1 2004, however, that sequential quarterly decrease was mitigated by an almost 33% earnings boost year-over-year. Notably, volumes on all of Terasen's pipeline systems were up 14.8% year-over-year. Trans Mountain (Cdn), Trans Mountain (US) and the Express System each delivered year-over-year volume gains of 6.1%, 76.1% and 5.3%, respectively. Over sequential quarters, only the 7% Q2 2004 decline on the Trans Mountain (Cdn) system was a disappointment. (see table below).

…sequential volumetric disappointment on the Canadian portion of the Trans Mountain system

Table 2: Petroleum transportation data points

				Chg (%)	Chg (%)
	Q2 2004	Q2 2003	Q1 2004	y-o-y	q-o-q
Earnings (C$millions)					
Trans Mountain	9.0	9.6	10.4	-6.3%	-13.5%
Express System	4.0	2.9	3.9	37.9%	2.6%
Corridor	3.2	-0.3	4.0	nm	-20.0%
Total	16.2	12.2	18.3	32.8%	-11.5%
Volumes (b/d)					
Trans Mtn Cdn mainline	223,500	210,600	240,400	6.1%	-7.0%
Trans Mtn US mainline	97,400	55,300	93,300	76.1%	4.4%
Express System	176,200	167,300	171,300	5.3%	2.9%
Total	497,100	433,200	505,000	14.8%	-1.6%

Source: Company reports and UBS

We believe Terasen's Trans Mountain Pipeline and the Westridge Dock are enviably positioned to continue benefiting from very robust Californian refinery margins. For instance, California refinery margins have hit an abnormally high average of US$15.77/bbl in Q2 2004. Naturally, this figure is well above the recently upwardly trending five-year average of US$7.75/bbl. (For further details please refer to 26 July 2004 *"U.S. and International Refining Margins"*). These margins may continue to help boost Terasen's throughput numbers in the quarters ahead.

Water and utility services

Reflecting a certain degree of seasonality, operating results improved to give earnings of $2.6 million for the Q2 2004, up from $2.1 in Q2 2003. A 26% increase in revenue in Q2 2004 to $53.6 million over the same period in 2003 reflects growth in existing operations and minor acquisitions subsequent to the second quarter of 2003.

Other activities

Contrary to our expectations, losses from activities increased to C$6 million in Q2 2004 from a loss of C$3.6 million in Q2 2003. Losses from other activities increased as a result of higher corporate costs and increased financing costs. We must note higher costs were somewhat mitigated by a C$2.3m mark-to-market gain.

Going forward

We believe Terasen investors, whether existing or prospective, should be aware of three major issues: (1) Incremental expansion; (2) New market development; and, (3) Water wings? Each of these will be addressed in greater detail below.

Incremental expansion

Substantial expansion opportunities

We believe Terasen possesses a number of incremental expansion opportunities on a number of its pipeline systems. Such expansions include: (1) the addition of new pumping capacity and reactivating an idle Trans Mountain loop resulting in an increased capacity of 27,000 barrels per day (ready in Q4 2004); (2) another Trans Mountain expansion should result in an additional 17,000 bpd (possibly completed within 2005); and, (3) a US$110 million Express pipeline expansion adding another 108,000 bpd (potentially completed in Q2 2005). Provided that the appropriate regulatory approvals are obtained and sufficient shipper support exists, we believe these projects are likely to result in strong earnings momentum for Terasen going forward.

New market development

In a series of research notes (including: 15 July 2003 "*Line of march to Oklahoma*"; 9 October 2003 "*Continental siege*"; 1 April 2004 "*Contracting or expanding?*") we have outlined our thoughts on new market development for Canadian crudes. Much of the thrust for new market development arises from the necessity of avoiding a significant market saturation of Canadian crudes (including heavy and synthetic) in any one market region. In our view, new market development is necessary and Terasen is likely to benefit from such market diversification. We continue to believe a number of market areas will be attractive and necessary for Canadian based producers. By way of corollary, the pipeline and appropriate transportation network serving those markets will be equally important. Clearly, a number of potential markets are in North America, however, a number of Asian markets also appear relatively attractive (for greater detail please refer to 17 June 2004 *"Q-Series: Asian Refining Sector: How much higher can refining margins go?"* and the table below).

Table 3: Selected refinery market data points (000's bpd)

Market	Refinery Runs	Total Imports	Canadian Imports
Eastern PADD II	794	266	17
Cushing Hub (PADD II)	712	29	10
US Gulf Coast (PADD III)	6,750	5,064	29
California (PADD V)	1,585	615	11
Asia Pacific	14,616	11,220	0

Source: Enbridge and UBS

We believe continued market development for selected Canadian crudes is supported by the above selected data, existing and historic refining margins. For instance, California and Petroleum Administration Defense District II have both exhibited rather robust refining margins which, subject to a number of factors, support continued pipeline development for both Enbridge and Terasen via their Gateway and various TMX projects, respectively. We also highlight the relative historic strength of Asian refining margins (Japan and Singapore with five-year refining margins averaging US$6.47 and US$3.86, respectively), and the general desire of those markets to diversify away from Middle Eastern crudes. We believe these markets may become meaningful for Canadian oil sands related crude products in the future.

Pipeline development largely dependent upon shippers' needs

In our view, over the longer-term, crude oil inventory levels and refining margins, among other factors bode well for continued pipeline development for Canadian sourced crude products. Yet, one must be cognizant that more significant expansions and other initiatives will, as almost always, be entirely dependent upon the desires of a proposed system's shippers. Despite recent setbacks (i.e. Enbridge's Spearhead put on hold), over the longer term, the trend toward crude market diversification is likely to continue. These factors lead to the conclusion that Trans Mountain has outgrown its swing pipeline status.

Water wings?

As discussed in our 21 April 2004 research note *"Alaskan water works"*, we have long believed the water business should be privately owned. Moreover, among our coverage universe, Terasen is uniquely positioned to expand its activities in the water sector. Given increasing capital needs for water infrastructure and various financial motivations (albeit often similar) of many municipal governments, we believe a significant number of investment opportunities will exist for Terasen. Such opportunities may translate into a more meaningful and significant stream of cash flow and earnings being derived from Terasen's water sector investments in the future.

Valuation

We believe Terasen is positioned for potentially significant growth opportunities over the next several years. Yet, we believe a substantial portion of that growth potential is already priced within the existing share valuation. Thus, we retain our Neutral 1 rating and C$23.75 12-month price target. We continue to employ multiple valuation methodologies to obtain our price-target; including: a 16.25x P/E multiple to our C$1.46 2005 earnings estimate; a projected dividend yield of 3.7%; and, a dividend yield spread of 170 bps.

■ Terasen Inc.

Terasen is a traditional regulated natural gas distribution utility serving several market areas in the Province of British Columbia. The company also possesses a substantial liquids pipelines business that provides direct access into three separate Petroleum Administration Defence Districts (PADD) for Alberta crude products.

■ Statement of Risk

Competitive pipeline expansions may significantly affect volume throughput and, therefore, earnings. Additionally, Terasen's business is exposed to a number of specific risks, including: throughput; weather; interest rates; and, competitive energy sources. Finally, one should never underestimate the power of the regulator in any regulated business.

IDA Policy No. 11, Standard 13 Disclosure: The Analyst named in this report has viewed the issuer's head office location within the last 12 months.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Securities Canada Inc, an affiliate of UBS AG (UBS).

UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage[1]	IB services[2]
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	**Buy 2**	FSR is > 10% above the MRA, lower degree of predictability	**Buy**	44%	33%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	**Neutral 2**	FSR is between -10% and 10% of the MRA, lower degree of predictability	**Hold/Neutral**	48%	31%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	**Reduce 2**	FSR is > 10% below the MRA, lower degree of predictability	**Sell**	7%	28%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 June 2004.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).
Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.
UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

Companies mentioned

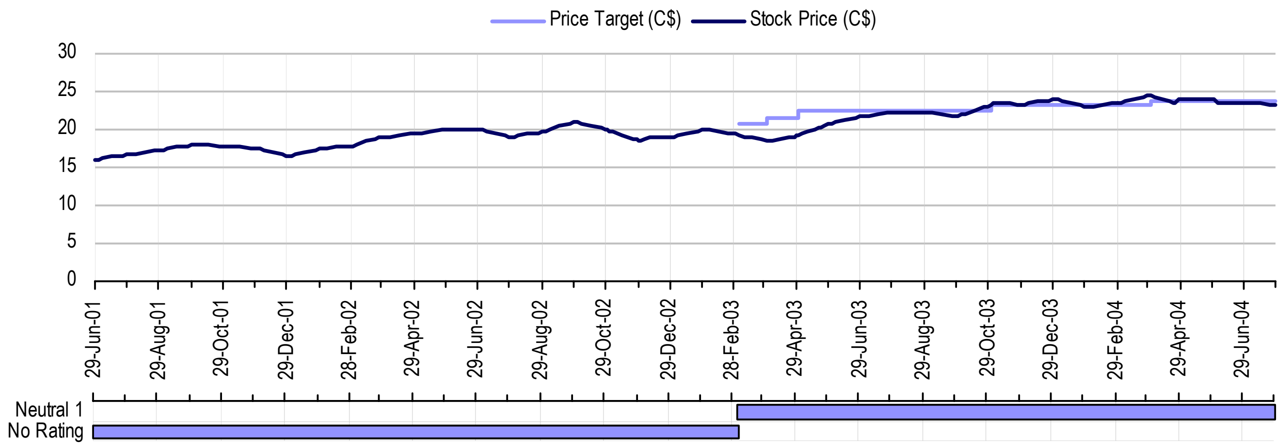
Company Name	Reuters	Rating	Price
Terasen Inc.[5]	TER.TO	Neutral 1	C$23.30

Price(s) as of 28 July 2004. Source: UBS.

5. UBS Securities Canada Inc or an affiliate expect to receive or intend to seek compensation for investment banking services from this company within the next three months.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Terasen Inc. (C$)



Source: UBS; as of 28 July 2004.

Global Disclaimer

This report was produced by:UBS Securities Canada Inc, an affiliate of UBS AG (UBS).

Head Office: UBS Limited, 1 Finsbury Avenue, London, EC2M 2PP, UK Phone: +44-20-7567 8000

Local Office: UBS Securities Canada Inc, BCE Place, Suite 4100, Bay Street Suite, 161 Bay Street, Toronto, Ontario M5J 2S1 Phone: +1-416-364 3293

This report has been prepared by UBS AG or an affiliate thereof ("UBS"). In certain countries UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. UBS is under no obligation to update or keep current the information contained herein. UBS, its directors, officers and employees (excluding the US broker-dealer unless specifically disclosed under required disclosures) or clients may have or have had interests or long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in them as principal or agent. UBS (excluding the US broker-dealer unless specifically disclosed under Required Disclosures) may act or have acted as market-maker in the securities or other financial instruments discussed in this report, and may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant companies. Employees of UBS may serve or have served as officers or directors of the relevant companies. UBS may rely on information barriers, such as "Chinese Walls," to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. **Additional information will be made available upon request.**

United Kingdom and rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Should persons receiving this research in Italy require additional information or wish to effect transactions in the relevant securities, they should contact Giubergia UBS SIM SpA, an associate of UBS SA, in Milan. **South Africa:** UBS South Africa (Pty) Ltd (incorporating J.D. Anderson & Co.) is a member of the JSE Securities Exchange SA. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Singapore Pte. Ltd. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to "Wholesale" clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd.

UBS

UBS

UBS Investment Research

Terasen Inc.

Growing up fast

Global Equity Research

Canada

Gas Utilities

Rating	Neutral 1 *Unchanged*
Price target	C$25.50/US$21.12 ***Prior:C$24.50/US$20.29***
Price	C$25.50/US$21.12

RIC: TER.TO BBG: TER CN

5 November 2004

■ Strong earnings and positive directions

Terasen reported a Q3 2004 net loss of C$1.4 million, or C$(0.01) per share, vs. C$(0.08) per share one-year earlier. This result was well ahead of our estimate of C$(0.09) and the Street's C$(0.07). Over the past several quarters, Terasen has delivered strong results and faces relatively good prospects ahead.

■ Volume growth continues

Notably, overall pipeline volumes on Terasen's systems were up 9.2% y-o-y. Trans Mountain (Cdn), Trans Mountain (US) and the Express System each delivered positive throughput increases. Over sequential quarters, only a 7% volumetric decline on the Trans Mountain (US) system disappointed.

■ Slow and steady?

In our view, a significant portion of Terasen's future growth is premised upon its location and geographic positioning of pipeline assets. We believe these factors position the company relatively well to benefit from projected oil sands volume growth, new market access and natural gas generator build within British Columbia.

■ Valuation: C$25.50 12-month target price

We continue to employ multiple valuation methods to obtain our newly revised C$25.50 12-month target price (up from C$24.50), including: 17x P/E multiple; a projected dividend yield of 3.5%; and, a dividend yield spread of 180 bps. We retain our Neutral 1 rating.

Highlights (C$m)	12/02	12/03	12/04E	12/05E	12/06E
Revenues	1,707	1,848	1,984	2,097	2,114
EBIT	337	338	385	430	429
Net income (UBS)	122	111	149	158	164
EPS (UBS, C$)	1.22	1.27	1.40	1.48	1.54
Net DPS (UBS, C$)	0.70	0.76	0.82	0.88	0.93

Profitability & Valuation	5-yr hist. av.	12/03	12/04E	12/05E	12/06E
EBIT margin %	-	18.3	19.4	20.5	20.3
ROIC (EBIT) %	-	8.3	9.6	11.2	11.3
EV/EBITDA x	-	10.6	10.4	9.7	9.6
PE (UBS) x	-	16.6	18.3	17.2	16.6
Dividend yield %	-	3.6	3.2	3.4	3.6

Source: UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of C$25.50 on 04 Nov 2004

Andrew M. Kuske

andrew.kuske@ubs.com

+1-416-814 3663

Trading data (local/US$)	
52-wk. range	C$25.50-22.05/US$21.12-16.00
Market cap.	C$2.67bn/US$2.21bn
Shares o/s	105m (COM)
Free float	100%
Avg. daily volume ('000)	102
Avg. daily value (C$m)	2.5

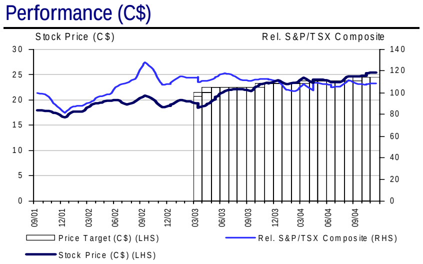
Balance sheet data 12/04E	
Shareholders' equity	C$1.54bn
P/BV (UBS)	1.7x
Net cash (debt)	(C$2.89bn)

Forecast returns	
Forecast price appreciation	+0.0%
Forecast dividend yield	3.4%
Forecast stock return	+3.4%
Market return assumption	8.0%
Forecast excess return	-4.6%

EPS (UBS, C$)

	12/04E			12/03
	From	To	Cons.	Actual
Q1	0.77	0.77	*0.77*	0.71
Q2	0.10	0.10	*0.10*	0.08
Q3	(0.09)	(0.01)	*(0.07)*	(0.07)
Q4E	0.58	0.55	*0.61*	0.56
12/04E	1.36	1.40	*1.40*	
12/05E	1.47	1.48	*1.49*	

Performance (C$)



Source: UBS

www.ubs.com/investmentresearch

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7

Exceeding expectations

Terasen reported a Q3 2004 net loss of C$1.4 million, or C$(0.01) per share, versus C$(0.08) per share one-year earlier. This result was well ahead of our estimate of C$(0.09) and the Street's C$(0.07). Over the past several quarters, the company has delivered impressive results and faces relatively good prospects in its core business areas. In our view, strong crude fundamentals, continued oil sands growth prospects and new market access issues underpin a significant portion of Terasen's future growth. We believe that the major pipelines stocks with direct takeaway capacity exposure to oil sands developments are gaining greater market favour ahead of their potentially significant capital programs. Thus, in line with our capital expenditure theory of valuation, we see valuations expanding at this point in time for those companies. This research note is divided into three categories: (1) results; (2) going forward; and, (3) valuation.

Results

Several quarters of impressive results

Terasen reported a Q3 2004 net loss of C$1.4 million, or C$(0.01) per share, versus C$(0.08) per share one-year earlier. This result was well ahead of our estimate of C$(0.09) and the Street's C$(0.07). Over the past several quarters, the company has delivered impressive results and faces relatively good prospects in its core business areas. Our segmented analysis appears below.

Natural gas distribution

Terasen's natural gas distribution segment generated a net loss of C$18.0 million in Q3 2004 which is a slight improvement over the loss of C$18.4 million delivered in Q3 2003. Within those numbers, the performance at Terasen Gas marginally improved and Terasen Gas (Vancouver Island) slightly weakened. On the top line, segmented revenues increased by 2.5% to $198.8 million from $193.8 million in the same quarter of 2003, which reflected the increasing cost of natural gas itself. Notably, natural gas consumption and sales were significantly impacted by weather that was warmer when compared to both last year, and the first quarter of 2004 (see table 1).

Table 1: Natural gas distribution data points

				Chg (%)	Chg (%)
	Q3 2004	Q3 2003	Q2 2004	y-o-y	q-o-q
Earnings (C$millions)					
Terasen Gas	-24.8	-25.5	-8.5	-2.7%	191.8%
TGVI	6.8	7.1	6.3	-4.2%	7.9%
Total	-18	-18.4	-2.2	-2.2%	718.2%
Number of Customers	866,311	851,551	862,752	1.7%	0.41%
Volumes (petajoules)					
Sales Volumes	12.6	12	18.3	5.0%	-31.1%
Transportation volumes	14.5	6.4	14.1	126.6%	2.8%
Throughput	6	11.2	3.7	-46.4%	62.2%

Source: Company reports and UBS

Solid customer growth and transportation volumes

Additional pertinent information included: (a) y-o-y, the number of natural gas customers increased by 1.7%; (b) operations and maintenance costs increased by a modest 1.7%; and, (c) financing costs declined by roughly 10%. In summary, these results exceeded our expectations and we expect a potential natural gas load in Terasen's service territory to increase, which is another positive going forward (see below).

Petroleum transportation

Similar to Natural Gas Distribution, this segment performed beyond our expectations by delivering net earnings growth of 13.8% year-over-year (see table below). Both the Trans Mountain and the Express System delivered the bulk of the Petroleum Transportation segment's growth. Strong volumetric growth on all of the systems helped contribute to increased revenues that aided profitability.

Table 2: Petroleum transportation data points

				Chg (%)	Chg (%)
	Q3 2004	Q3 2003	Q2 2004	y-o-y	q-o-q
Earnings (C$millions)					
Trans Mountain	8.8	7.9	10.4	11.4%	-15.4%
Express System	3.8	2.8	3.9	35.7%	-2.6%
Corridor	3.9	3.8	4.0	2.6%	-2.5%
Total	16.5	14.5	18.3	13.8%	-9.8%
Volumes (b/d)					
Trans Mtn Cdn mainline	241,100	233,100	240,400	3.4%	0.3%
Trans Mtn US mainline	86,900	55,700	93,300	56.0%	-6.9%
Express System	178,200	174,700	171,300	2.0%	4.0%
Total	506,200	463,500	505,000	9.2%	0.2%

Strong volume growth

Source: Company reports and UBS

Buoyant refining margin aid throughput

We believe Terasen's Trans Mountain Pipeline and the Westridge Dock are enviably positioned to continue benefiting from very robust Californian refinery margins. Clearly, Californian margins continue to be robust at a Q3 2004 average of US$11.95/bbl. That figure is well above the 5-year average of US$ 7.75/bbl. Such margins are likely to help boost Terasen's throughput numbers in the quarters ahead.

Water and utility services

Reflecting the contribution of Fairbanks acquisition, among other factors, operating results improved by 50% to C$3.3 million for Q3 2004, up from $2.2 in Q3 2003. Notably, gross margin declined modestly in the quarter to 38.2% from 38.9% one-year earlier, however, net margin was stronger at 5.3% in Q3 2004 versus 4.5% in Q3 2003.

Other activities

Year-over-year performance improved in this segment by delivering a loss of C$3.2 million versus a loss of C$5.9 million in the previous year. Once again, financial performance of this unit was affected by a mark-to-market gain that we treat as an operating item as it occurs in the normal course of Clean Energy's business operations. Finally, gross margins significantly improved during the quarter to 64.2% from 28.1% in Q3 2003.

Going forward

We believe Terasen investors, whether existing or prospective, should be aware of three major issues: (1) Oil sands affection; (2) New market development; and, (3) Gas distribution growth. Each of these will be addressed in greater detail below.

Oil sands affection?

Increased affection towards oil sands names

Fundamentally, we have always viewed the oil sands as a very unique investment opportunity that may provide relatively visible growth over an extended period of time. Moreover, we regard pipelines that provide takeaway capacity from the oil sands as being similarly unique. Considering the ongoing strength in global oil prices, we believe a greater degree of investor attention is being directed towards oil sands related companies, including Enbridge and Terasen. As several of the large integrated oil and gas companies are on the verge of embarking upon significant capital programs for continued or new oil sands development, we believe a number of investors are building significant expectations into an indirect method of playing oil sands developments: the liquids pipeline companies. Thus, we are slightly adjusting our valuation parameters to reflect this increased affection towards these uniquely positioned names. Yet, as per capital expenditure theory, we are likely to become far less bullish when the major capital programs commence.

New market development

Greater crude dispersion necessary

In a series of research notes (including: 15 July 2003 "*Line of march toOklahoma*"; 9 October 2003 "*Continental siege*"; 1 April 2004 "*Contracting or expanding?*") we have outlined our thoughts on new market development for Canadian crudes. Much of the thrust for new market development arises from the necessity of avoiding a significant market saturation of Canadian crudes (including heavy and synthetic) in any one market region. In our view, new market development is necessary and Terasen is likely to benefit from such market diversification. We continue to believe a number of market areas will be attractive and necessary for Canadian based producers. By way of corollary, the pipeline and appropriate transportation network serving those markets will be equally important. Clearly, a number of potential markets are in North America, however, a number of Asian markets also appear relatively attractive (for greater detail please refer to 17 June 2004 *"Q-Series: Asian Refining Sector: How much higher can refining margins go?"*).

Shippers play a lead role

In our view, over the longer-term, crude oil inventory levels and refining margins, among other factors, bode well for continued pipeline development of Canadian sourced crude products. Potential developments such as Enbridge's Gateway project and Teresen's varions TMX projects may both have a role in future new market development. Yet, one must be cognizant that more significant expansions and other initiatives will be entirely dependent upon the desires of a proposed system's shippers. Despite some significant concerns (i.e. rising steel costs and significant capital expenditure programs being upwardly revised), over the longer term, the trend toward crude market diversification is likely to continue. These factors lead to the conclusion that Trans Mountain has outgrown its swing pipeline status.

Gas distribution growth

On 3 November BC Hydro selected a proposal from private investors to build a natural gas-fired generator facility on Vancouver Island. That facility may benefit Terasen in a number of ways, including: (1) increased distribution rate base; (2) increased system throughput; and (3) gradual transmission system expansion. We view this prospective plant and other prospective projects within the province as beneficial for Teresen's utility business.

Valuation

Over the last several quarters, the company has delivered impressive results and faces relatively good prospects in its core business areas. In our view, strong crude fundamentals, continued oil sands growth and new market access issues underpin a significant portion of Terasen's future growth. We believe that the major pipelines stocks with direct takeaway capacity exposure to oil sands developments are gaining greater market favour ahead of their potentially significant capital programs. Thus, in line with our capital expenditure theory of valuation, we see valuations expanding at this point in time for those companies. Thus, we have revised our 12-month target price to C$25.50 (up from C$24.50), in part, due to better earnings prospects. We continue to obtain that target via multiple valuation methods, including: 17x P/E multiple; a projected dividend yield of 3.5%; and, a dividend yield spread of 180 bps. We retain our Neutral 1 rating.

■ Terasen Inc.

Terasen is a traditional regulated natural gas distribution utility serving several market areas in the Province of British Columbia. The company also possesses a substantial liquids pipelines business that provides direct access into three separate Petroleum Administration Defence Districts (PADD) for Alberta crude products.

■ Statement of Risk

Competitive pipeline expansions may significantly affect volume throughput and, therefore, earnings. Additionally, Terasen's business is exposed to a number of specific risks, including: throughput; weather; interest rates; and, competitive energy sources. Finally, one should never underestimate the power of the regulator in any regulated business.

IDA Policy No. 11, Standard 13 Disclosure: The Analyst named in this report has viewed the issuer's head office location within the last 12 months.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Securities Canada Inc, an affiliate of UBS AG (UBS).

UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage[1]	IB services[2]
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	**Buy 2**	FSR is > 10% above the MRA, lower degree of predictability	**Buy**	41%	33%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	**Neutral 2**	FSR is between -10% and 10% of the MRA, lower degree of predictability	**Hold/Neutral**	50%	33%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	**Reduce 2**	FSR is > 10% below the MRA, lower degree of predictability	**Sell**	9%	27%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 September 2004.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).
Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.
UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

Companies mentioned

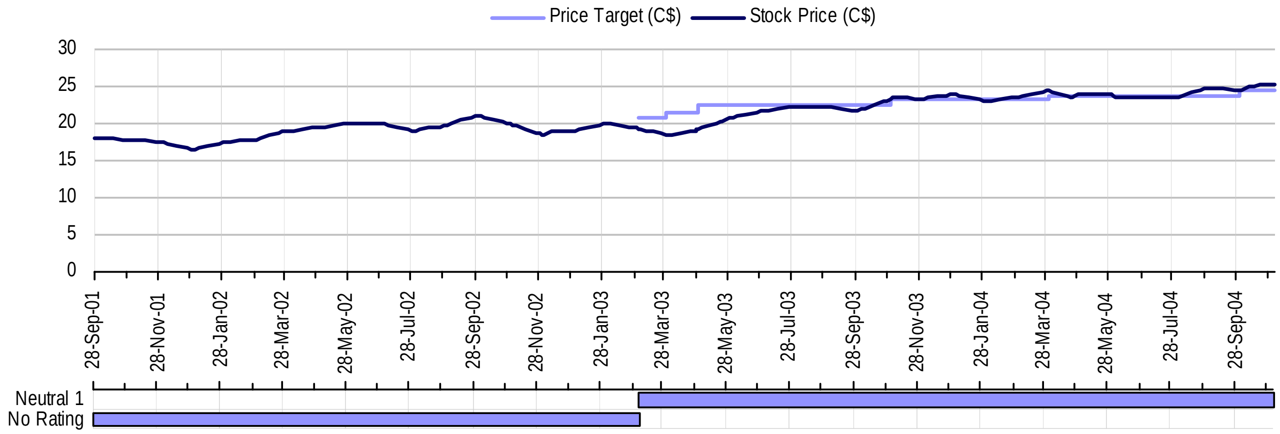
Company Name	Reuters	Rating	Price
Terasen Inc.[5]	TER.TO	Neutral 1	C$25.20

Price(s) as of 3 November 2004. Source: UBS.

5. UBS Securities Canada Inc or an affiliate expect to receive or intend to seek compensation for investment banking services from this company within the next three months.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Terasen Inc. (C$)



Source: UBS; as of 3 November 2004.

Global Disclaimer

This report was produced by:UBS Securities Canada Inc, an affiliate of UBS AG (UBS).

Head Office: UBS Limited, 1 Finsbury Avenue, London, EC2M 2PP, UK Phone: +44-20-7567 8000

Local Office: UBS Securities Canada Inc, BCE Place, Suite 4100, Bay Street Suite, 161 Bay Street, Toronto, Ontario M5J 2S1 Phone: +1-416-364 3293

This report has been prepared by UBS AG or an affiliate thereof ("UBS"). In certain countries UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. UBS is under no obligation to update or keep current the information contained herein. UBS, its directors, officers and employees (excluding the US broker-dealer unless specifically disclosed under required disclosures) or clients may have or have had interests or long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in them as principal or agent. UBS (excluding the US broker-dealer unless specifically disclosed under Required Disclosures) may act or have acted as market-maker in the securities or other financial instruments discussed in this report, and may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant companies. Employees of UBS may serve or have served as officers or directors of the relevant companies. UBS may rely on information barriers, such as "Chinese Walls," to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. **Additional information will be made available upon request.**

United Kingdom and rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Should persons receiving this research in Italy require additional information or wish to effect transactions in the relevant securities, they should contact Giubergia UBS SIM SpA, an associate of UBS SA, in Milan. **South Africa:** UBS South Africa (Pty) Ltd (incorporating J.D. Anderson & Co.) is a member of the JSE Securities Exchange SA. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Singapore Pte. Ltd. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to "Wholesale" clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd.

UBS

UBS

UBS Investment Research

Terasen Inc.

Focusing on the future

■ Investor day highlights

In our view, Terasen's first investor day was clearly a step in the right direction by providing increased disclosure regarding corporate direction and strategy. After the presentation, we believe Terasen faces a considerable number of investment opportunities, however, they will likely take time to unfold.

■ Crude pipelines clearly the near-term focus

Over the next five years, we expect the bulk of opportunities for Terasen to be focused on oil sands related pipeline investments. The company's recent information package for its westcoast pipeline expansion proposal provided an unusually detailed analysis of projected tolls that may underpin the economics of these projects

■ Abundant opportunities, but slow and steady

While Terasen faces a number of somewhat compelling opportunities, we believe only a selection of these prospects will come to fruition. Additionally, we believe the progression into a much larger and potentially higher earning and returning company will take some time to develop.

■ Valuation: C$25.50 12-month target price

We continue to utilize multiple valuation methods to obtain our C$25.50 12-month target price, including: 17x P/E multiple on our H2 2005/H1 2006 earnings estimate; a projected dividend yield of 3.5%; and, a dividend yield spread of 180 bps. We retain our Neutral 1 rating.

Highlights (C$m)	12/02	12/03	12/04E	12/05E	12/06E
Revenues	1,707	1,848	1,984	2,097	2,114
EBIT	337	338	385	430	429
Net income (UBS)	122	111	149	158	164
EPS (UBS, C$)	1.22	1.27	1.40	1.48	1.54
Net DPS (UBS, C$)	0.70	0.76	0.82	0.88	0.93

Profitability & Valuation	5-yr hist. av.	12/03	12/04E	12/05E	12/06E
EBIT margin %	-	18.3	19.4	20.5	20.3
ROIC (EBIT) %	-	8.3	9.6	11.2	11.3
EV/EBITDA x	-	10.6	10.7	10.0	9.8
PE (UBS) x	-	16.6	19.3	18.2	17.5
Dividend yield %	-	3.6	3.0	3.3	3.4

Source: UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of C$26.94 on 02 Dec 2004

Andrew M. Kuske

andrew.kuske@ubs.com

+1-416-814 3663

Global Equity Research

Canada

Gas Utilities

Rating	Neutral 1
	Unchanged
Price target	C$25.50/US$21.33
	Unchanged
Price	C$26.94/US$23.10

RIC: TER.TO BBG: TER CN

2 December 2004

Trading data (local/US$)	
52-wk. range	C$27.38-22.05/US$23.10-16.00
Market cap.	C$2.82bn/US$2.42bn
Shares o/s	105m (COM)
Free float	100%
Avg. daily volume ('000)	103
Avg. daily value (C$m)	2.6

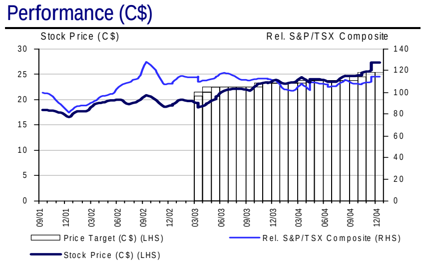
Balance sheet data 12/04E	
Shareholders' equity	C$1.54bn
P/BV (UBS)	1.9x
Net cash (debt)	(C$2.89bn)

Forecast returns	
Forecast price appreciation	-5.3%
Forecast dividend yield	3.2%
Forecast stock return	-2.1%
Market return assumption	7.8%
Forecast excess return	-9.9%

EPS (UBS, C$)

	12/04E		12/03
	UBS	Cons.	Actual
Q1	0.77	*0.77*	0.71
Q2	0.10	*0.10*	0.08
Q3	(0.01)	*(0.03)*	(0.07)
Q4E	0.55	*0.58*	0.56
12/04E	1.40	*1.41*	
12/05E	1.48	*1.51*	

Performance (C$)



Source: UBS

www.ubs.com/investmentresearch

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7

Obviously, we cannot endeavour to provide a synopsis of an entire investor day within the confines of one research note. Yet, we believe one recurring theme throughout Terasen's first investor day was that of abundant opportunity. While many types of opportunities were mentioned, there was often scant detail associated with the potential growth platforms. Notably, the level of detail regarding Terasen's various TMX proposals was one major exception. In fact, the company included a rather unusually high level of detail regarding TMX – in our view, an indication of that project's relative degree of importance. This research note is divided into three sections: (a) investor day highlights; (b) going forward; and, (c) valuation.

Investor day highlights

Obviously, we cannot endeavour to provide a synopsis of an entire investor day within the confines of one research note. Yet, we believe it to be worthwhile to provide highlights of three specific issues: (a) abundant opportunities; (b) strong pipeline fundamentals; and, (c) waterfall of deals. Each of these areas will be addressed individually below.

Abundant opportunities

Significant opportunities...

Perhaps the most dominant theme from Terasen's inaugural investor day was the abundant number of investment opportunities facing the company. The table below highlights the opportunities presented by the company.

Table 1: Terasen growth drivers 2005-2010

Potential Project Portfolio (C$ millions)	
Vancouver Island LNG	$100
Whistler Gas Pipeline	40
Inland Pacific Connector	300 - 500
Express Expansions (US$)	110
Corridor Expansion	300+
TMX1	600 - 700
TMX2	600 - 700
TMX3	800 - 900
Heartland Terminal	30 - 120
Water and Utility Services	100+
Total (in billions)	$ 3.0 - 3.6
Current Asset Base (in billions)	$4.9

Source: Terasen

...potentially significant longer-term capital needs

Clearly, the company presented a considerable number of growth opportunities for a number of its businesses. In considering the above projects, we would assign a higher probability to those projects that are extensions or expansions of Terasen's existing asset base. Other projects, namely the various forms of TMX, will require significant commitments from crude shippers before they may come to fruition. Finally, we would also note, the projected opportunities for the water and utility services business seems to be largely predicated on acquisition activity.

Strong pipeline fundamentals

Pipelines the growth engine

In spite of the recent crude oil price retreat, we continue to believe in the longer-term development potential of Alberta's oil sands basin. Continued oil sands development may become a significant earnings driver for Terasen as the need for new pipeline takeaway capacity increases. Clearly, a number of intra-Alberta pipelines are required for the growing oil sands volumes, however, we have chosen to focus our commentary on Terasen's inter-provincial projects as evidenced in the table below.

Table 2: Selected Terasen pipeline project costs and information

Expansion Phase	Earliest In-Service Year	Incremental Capacity (bpd)	Final Capacity (bpd)	Incremental Capital Costs (millions)	Cumulative Capital Costs (millions)
Current	n/a	n/a	225,000*	n/a	n/a
TMx1	2006	75,000	30,0000	$570	
Pump Stations	2008	35,000	26,0000	$205	$570
Anchor Loop		40,000	30,0000	$365	
Southern Option	2009	550,000	850,000	$1,700	
TMx2	2010	100,000	400,000	$900	$2,270
TMx3		450,000	850,000	$800	
Northern Option	2010	550,000	850,000	$2,000	$2,570

Source: Terasen

From our perspective, the above table highlights one of the major advantages associated with Terasen's pipeline projects: that being the rather gradual phasing in of potential capacity and the ability to provide access to different end markets (see going forward below for refining margins in various markets).

Naturally, one of the biggest issues in transporting Canadian crude to new and existing markets is that of relative cost. Terasen's recently released "*West Coast Pipeline Expansion Proposal – Express of Interest*" (EOI) that provided an unusual level of detail regarding tolls in a variety of situations. We provide selected highlights in table 3 and the bullet points below of selected data.

- While many of Terasen's assumptions were based on the controversial issue of rolled in tolls, as one would expect, a variety of expansion scenarios resulted in lower tolls.

- Tolls via Northern pipeline route to China where estimated to be US$3.48/bbl and US$4.05/bbl for light and heavy crude, respectively, which is roughly US$0.50/bbl lower than comparable amounts today.

- Tolls from a Southern route option to the California market are projected to decline by roughly US$0.15/bbl from the current toll of US$2.74/bbl.

Table 3: Selected tolling projections

Destination	2004	South	North	Comments
Burnaby (L)	1.35	1.26	1.28	
Washington (L)	1.51	1.42	1.40	
California (L)	2.32	2.19	2.53	Aframaz/Panamax liftings
California (H)	2.74	2.55	3.00	
Japan (L)	3.62	2.99	2.63	
Japan (H)	4.14	3.45	3.05	Aframax liftings from southern port (Westridge)
China (L)	3.92	3.29	2.78	VLCC liftings from northern port
China (H)	4.59	3.85	3.25	
Japan (L)	3.62	2.99	3.18	
Japan (H)	4.14	3.45	3.75	Aframax liftings both ports
China (L)	3.92	3.29	3.48	
China (H)	4.59	3.85	4.05	

Source: Terasen

Significant tolling information provided

We continue to believe tremendous expansion opportunities exist for Terasen's pipeline business; however, shippers are likely to be the major decision makers for additional pipeline capacity. Thus, as partly evidenced by the EOI, Terasen must attempt to present the most compelling value proposition for shippers. Yet, shippers individually and collectively will ultimately decide which pipeline expansion projects they will support.

Waterfall of deals

"Flow of water deals"

We have long believed the water business should be privately owned. Moreover, among our coverage universe, Terasen is uniquely positioned to expand its activities in the water sector. Given increasing capital needs for water infrastructure and various financial motivations (albeit often similar) of many municipal governments, we believe a significant number of investment opportunities will exist for Terasen. In fact, Terasen management stated they are currently looking at over 100 potential water related projects. Of that amount, potentially 30 such projects might proceed to a more rigorous due diligence level. Clearly, such opportunities may translate into a more meaningful and significant stream of cash flow and earnings being derived from Terasen's water sector investments in the future.

Going forward

We believe Terasen investors, whether existing or prospective, should be aware of three major issues: (1) Oil sands affection; (2) New market development; and, (3) Gas distribution growth. Each of these will be addressed in greater detail below.

Oil sands affection?

Increased affection towards oil sands names

Fundamentally, we have always viewed the oil sands as a very unique investment opportunity that may provide relatively visible growth over an extended period of time. Moreover, we regard pipelines that provide takeaway capacity from the oil sands as being similarly unique. In spite of the recent pullback in oil prices, the ongoing strength in global oil prices has led to an increased amount of investor attention being directed towards oil sands related companies, including Enbridge and Terasen. As several of the large integrated oil and gas companies are on the verge of embarking upon significant capital programs for continued or new oil sands development, we believe a number of investors are building significant expectations into an indirect method of playing oil sands developments: the liquids pipeline companies. In our view, this increased affection towards oil sands related names has moderately boosted recent valuations. Yet, as per capital expenditure theory, we are likely to become far less bullish when the major capital programs commence. Finally, to a certain degree, the index positioning of pipeline companies like Enbridge and TransCanada, may gain relative funds flow in the event that oil prices continue their recent retreat.

New market development

Greater crude dispersion necessary

In a series of research notes (including: 15 July 2003 "*Line of march to Oklahoma*"; 9 October 2003 "*Continental siege*"; 1 April 2004 "*Contracting or expanding?*") we have outlined our thoughts on new market development for Canadian crudes. Much of the thrust for new market development arises from the necessity of avoiding a significant market saturation of Canadian crudes (including heavy and synthetic) in any one market region. In our view, new market development is necessary and Terasen is likely to benefit from such market diversification. We continue to believe a number of market areas will be attractive and necessary for Canadian based producers. By way of corollary, the pipeline and appropriate transportation network serving those markets will be equally important. We believe the recent announcement by Encana and Premcor reinforces the need for innovative approaches for crude market diversification (for greater details please refer to the 30 November 2004 Premcor Inc. research note "*Possible PCO Refinery Joint Venture with Encana*"). Clearly, a number of potential markets are in North America that currently to not use Canadian crude or utilize very small amounts of that product. In addition to these markets, a number of Asian markets also appear relatively attractive (for greater detail please refer to 17 June 2004 *"Q-Series: Asian Refining Sector: How much higher can refining margins go?"*). In a rather crude fashion (pun intended), we remain watchful of refining margins in order to better discern the potential relative value propositions of selected markets.

Table 4: Selected refining margins (CARB2, Clear, Oxygenated, reformulated)

Refining Margin, $/bbl	4Q03	1Q04	2Q04	3Q04	4Q04 to date	5 Year Average
1 (East Coast) Brent-Based	4.79	7.24	9.32	6.13	7.11	4.60
1 (East Coast) WTI-Based	4.30	5.30	7.69	5.01	3.83	4.60
2 (Mid west)	4.97	6.84	11.12	7.51	5.33	5.65
3 (Gulf Coast)	3.96	5.82	8.52	5.94	4.09	4.00
5 (West Coast) ex CA	4.49	5.98	12.86	8.56	8.95	5.10
California	7.17	9.77	15.77	11.95	13.53	7.75
US Wgt Avg	4.66	6.50	10.21	7.12	5.83	5.00
Japan	5.35	8.27	7.01	9.23	15.43	6.47
Singapore	5.05	6.93	5.95	7.84	12.93	3.86
Asia Wgt Avg	5.20	7.60	6.48	8.53	14.18	5.50
Canada	NA	NA	NA	NA	NA	3.93

Source: UBS

Shippers play a lead role

In our view, over the longer-term, crude oil inventory levels and refining margins, among other factors, bode well for continued pipeline development of Canadian sourced crude products. Potential developments such as Enbridge's Gateway project and Teresen's various TMX projects may both have a role in future new market development. Yet, one must be cognizant that more significant expansions and other initiatives will be entirely dependent upon the desires of a proposed system's shippers. Despite some significant concerns (i.e. rising steel costs and significant capital expenditure programs being upwardly revised), over the longer term, the trend toward crude market diversification is likely to continue. These factors lead to the conclusion that Trans Mountain has outgrown its swing pipeline status.

Gas distribution growth

On 3 November BC Hydro selected a proposal from private investors to build a natural gas-fired generator facility on Vancouver Island. That facility may benefit Terasen in a number of ways, including: (1) increased distribution rate base; (2) increased system throughput; and (3) gradual transmission system expansion. We view this prospective plant and other prospective projects within the province as beneficial for Teresen's utility business. Additionally, recent electricity rate increases within British Columbia are slowly improving the relative competitiveness of natural gas for home heating versus baseboard electric.

Valuation

In our view, the company faces relatively good prospects in its core business areas and continued oil sands growth, combined with new market access issues, underpin a significant portion of Terasen's future growth. While a number of clear positives exist for the stock, we believe a portion of future growth is priced within the stock at this point in time. We continue to utilize multiple valuation methods to obtain our C$25.50 12-month target price, including: 17x P/E multiple on our H2 2005/H1 2006 earnings estimate; a projected dividend yield of 3.5%; and, a dividend yield spread of 180 bps. We retain our Neutral 1 rating.

■ Terasen Inc.

Terasen is a traditional regulated natural gas distribution utility serving several market areas in the Province of British Columbia. The company also possesses a substantial liquids pipelines business that provides direct access into three separate Petroleum Administration Defence Districts (PADD) for Alberta crude products.

■ Statement of Risk

Competitive pipeline expansions may significantly affect volume throughput and, therefore, earnings. Additionally, Terasen's business is exposed to a number of specific risks, including: throughput; weather; interest rates; and, competitive energy sources. Finally, one should never underestimate the power of the regulator in any regulated business.

IDA Policy No. 11, Standard 13 Disclosure: The Analyst named in this report has viewed the issuer's head office location within the last 12 months.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Securities Canada Inc, an affiliate of UBS AG (UBS).

UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage[1]	IB services[2]
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	**Buy 2**	FSR is > 10% above the MRA, lower degree of predictability	**Buy**	41%	33%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	**Neutral 2**	FSR is between -10% and 10% of the MRA, lower degree of predictability	**Hold/Neutral**	50%	33%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	**Reduce 2**	FSR is > 10% below the MRA, lower degree of predictability	**Sell**	9%	27%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 September 2004.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).
Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.
UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

Companies mentioned

Company Name	Reuters	Rating	Price
Enbridge Inc.[2a,2b,4,5,6,16]	ENB.TO	Buy 1 (RRD)	C$57.00
Terasen Inc.[5]	TER.TO	Neutral 1	C$27.34

Price(s) as of 1 December 2004. Source: UBS.

2a. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past three years.

2b. UBS Securities Canada Inc or an affiliate has acted as manager/co-manager, underwriter or placement agent in regard to an offering of securities of this company within the past three years.

4. Within the past 12 months, UBS Securities Canada Inc or an affiliate has received compensation for investment banking services from this company.

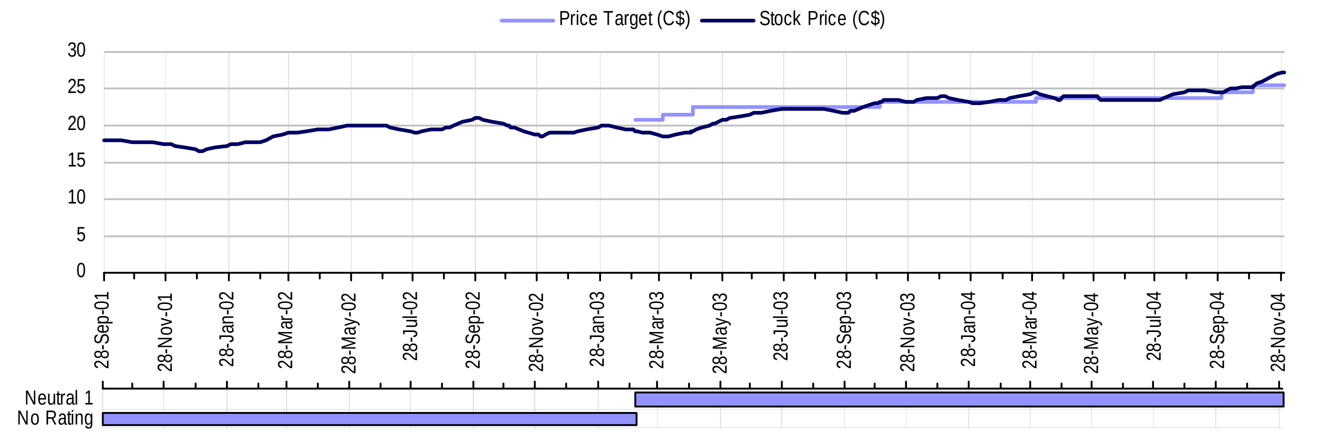
5. UBS Securities Canada Inc or an affiliate expect to receive or intend to seek compensation for investment banking services from this company within the next three months.

6. This company is, or within the past 12 months has been, a client of UBS Securities LLC, and investment banking services are being, or have been, provided.

16. UBS Securities LLC and/or UBS Capital Markets LP makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Terasen Inc. (C$)



Source: UBS; as of 1 December 2004.

Global Disclaimer

This report was produced by:UBS Securities Canada Inc, an affiliate of UBS AG (UBS).

Head Office: UBS Limited, 1 Finsbury Avenue, London, EC2M 2PP, UK Phone: +44-20-7567 8000

Local Office: UBS Securities Canada Inc, BCE Place, Suite 4100, Bay Street Suite, 161 Bay Street, Toronto, Ontario M5J 2S1 Phone: +1-416-364 3293

This report has been prepared by UBS AG or an affiliate thereof ("UBS"). In certain countries UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. UBS is under no obligation to update or keep current the information contained herein. UBS, its directors, officers and employees (excluding the US broker-dealer unless specifically disclosed under required disclosures) or clients may have or have had interests or long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in them as principal or agent. UBS (excluding the US broker-dealer unless specifically disclosed under Required Disclosures) may act or have acted as market-maker in the securities or other financial instruments discussed in this report, and may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant companies. Employees of UBS may serve or have served as officers or directors of the relevant companies. UBS may rely on information barriers, such as "Chinese Walls," to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. **Additional information will be made available upon request.**

United Kingdom and rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Should persons receiving this research in Italy require additional information or wish to effect transactions in the relevant securities, they should contact Giubergia UBS SIM SpA, an associate of UBS SA, in Milan. **South Africa:** UBS South Africa (Pty) Ltd (incorporating J.D. Anderson & Co.) is a member of the JSE Securities Exchange SA. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Singapore Pte. Ltd. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to "Wholesale" clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd.

UBS

UBS

Global Equity Research

Americas

Gas Utilities

UBS Investment Research

Terasen Inc.

Rating	Neutral 1 *Unchanged*
Price target	C$28.00/US$22.79 *Unchanged*
Price	C$29.34/US$23.81

RIC: TER.TO BBG: TER CN

17 February 2005

A full pipeline of opportunities

■ Earlier than expected dividend increase

Terasen reported Q4 2004 EPS of C$0.51 which was below our estimate of C$0.55 and the Street's view of C$0.58, however, we note a considerable part of the difference arose from a regulatory accounting change that does not impact overall annual earnings. Positively, the company increased its dividend one quarter earlier than expected.

■ Better things to come

Overall this quarter (after considering the accounting change) was largely in line with expectations, however, we continue to believe that better things are potentially ahead for Terasen's oil sands related exposure.

■ Abundant opportunities, but slow and steady

While Terasen faces a number of somewhat compelling opportunities, we believe only a selection of these prospects will come to fruition. Additionally, we believe the progression into a much larger and potentially higher earning and returning company will take some time to develop.

■ Valuation: C$28.00 12-month target price

We continue to utilize multiple valuation methods to obtain our C$28.00 12-month target price, including: a 17.5x P/E multiple on our 2006 earnings estimate; a projected dividend yield of 3.2%; and, a dividend yield spread of 180 bps. We retain our Neutral 1 rating.

Highlights (C$m)	12/03	12/04	12/05E	12/06E	12/07E
Revenues	1,848	1,957	2,022	2,074	2,163
EBIT	338	377	395	397	432
Net income (UBS)	111	156	163	172	179
EPS (UBS, C$)	1.27	1.41	1.52	1.61	1.67
Net DPS (UBS, C$)	0.76	0.82	0.90	0.93	0.98

Profitability & Valuation	5-yr hist. av.	12/04	12/05E	12/06E	12/07E
EBIT margin %	-	19.3	19.5	19.2	20.0
ROIC (EBIT) %	-	9.4	10.0	9.9	10.7
EV/EBITDA x	-	10.3	11.0	10.9	10.1
PE (UBS) x	-	17.3	19.2	18.3	17.5
Dividend yield %	-	3.4	3.1	3.2	3.3

Source: UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of C$29.34 on 17 Feb 2005

Andrew M. Kuske

andrew.kuske@ubs.com

+1-416-814 3663

Trading data (local/US$)	
52-wk. range	C$29.71-22.05/US$24.10-16.00
Market cap.	C$3.07bn/US$2.50bn
Shares o/s	105m (COM)
Free float	100%
Avg. daily volume ('000)	98
Avg. daily value (C$m)	2.7

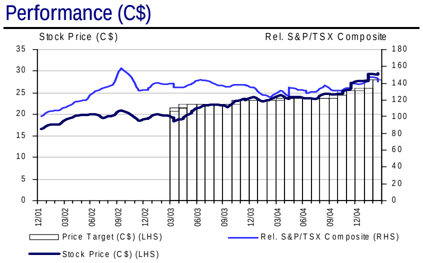
Balance sheet data 12/05E	
Shareholders' equity	C$1.62bn
P/BV (UBS)	1.9x
Net cash (debt)	(C$2.94bn)

Forecast returns	
Forecast price appreciation	-4.6%
Forecast dividend yield	3.1%
Forecast stock return	-1.5%
Market return assumption	7.8%
Forecast excess return	-9.3%

EPS (UBS, C$)

	12/05E			12/04
	From	To	Cons.	Actual
Q1E	-	0.79	*0.81*	0.77
Q2E	-	0.15	*0.11*	0.10
Q3E	-	(0.02)	*(0.04)*	(0.01)
Q4E	-	0.60	*0.64*	0.51
12/05E	1.48	1.52	*1.50*	
12/06E	1.54	1.61	*1.56*	

Performance (C$)



Source: UBS

www.ubs.com/investmentresearch

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7

Continuing to exceed expectations

Terasen reported Q4 2004 EPS of C$0.51 versus adjusted EPS of C$0.52 one year earlier. The quarterly result was below our C$0.55 estimate and the Street's C$0.58, however, we note a considerable part of the difference arose from a regulatory accounting change that does not impact overall annual earnings. For the full year, after adjusting for an unrealized hedge gain, the company's results were in line with our expectations of C$1.40 which reinforces the accounting change only having an impact on the allocation of taxation through the quarters and not on the full year's economics. Positively, the company deviated from its usual approach of raising its dividend with the Q1 results and increased the dividend one quarter earlier than expected. We continue to believe Terasen faces relatively good prospects in its core business areas. In our view, strong crude fundamentals, continued oil sands growth prospects and new market access issues underpin a significant portion of Terasen's future growth. This research note is divided into three categories: (1) results; (2) going forward; and, (3) valuation.

Results

Annual earnings in line with expectations

Terasen reported Q4 2004 EPS of C$0.51 versus adjusted EPS of C$0.52 one year earlier. The quarterly result was below our C$0.55 estimate and the Street's C$0.58, however, we note a considerable part of the difference arose from a regulatory accounting change that does not impact overall annual earnings. For the full year, after adjusting for an unrealized hedge gain, the company's results were in line with our expectations of C$1.40 which reinforces the accounting change only having an impact on the allocation of taxation through the quarters and not on the full year's economics. Our segmented analysis appears below.

Natural gas distribution

The full year earnings generated by Terasen's natural gas distribution unit were largely in line with expectations, however, as discussed above, there was a regulatory accounting change that impacts past and future quarterly earnings potential for this segment. Table 1 contains the restated earnings for Terasen Gas.

Modest (and immaterial) restatement

Table 1: Natural Gas earnings restatement (C$ millions)

	2004				2003			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Restated	36.2	(13.3)	(1.2)	48.0	37.5	(14.4)	(1.9)	51.4
Previous	42.2	(24.7)	(8.5)	60.7	45.3	(25.5)	(8.3)	61.1

Source: Company reports

The restatement involves the method for calculated income tax expense. The change does not affect full year earnings, however, quarterly earnings are impacted by this change. Previously, Terasen Gas' annual tax expense had been allocated based on budgeted sales revenue for the four quarters. Beginning in the fourth quarter of 2004, Terasen Gas' income tax expense is determined by applying the effective annual tax rate to the pre-tax income in the quarter. This treatment is much more consistent with the existing peer group. Selected comparative data appears in Table 2.

Table 2: Natural gas distribution data points

	Q4 2004	Q4 2003	Q3 2004	FY 2004	FY 2003	Q4 Chg (%) y-o-y	Chg (%) sequential	FY Chg (%) y-o-y
Earnings (C$millions)								
Terasen Gas	36.2	37.5	-24.8	69.7	72.6	-3.5%	-246.0%	-4.0%
TGVI	6.4	7.3	6.8	26.2	26.2	-12.3%	-5.9%	0.0%
Total	42.6	44.8	-18	95.9	98.8	-4.9%	-336.7%	-2.9%
Number of Customers			866,311	875,166	859,183		1.0%	1.9%
Volumes (petajoules)								
Sales Vols	41.1	43.9	12.6	121.6	125.6	-6.4%	226.2%	-3.2%
Transportation vols	19.6	20.2	14.5	72.2	72.2	-3.0%	35.2%	0.0%
Throughput	5.5	4	6	17.5	12.6	37.5%	-8.3%	38.9%

Source: Company reports and UBS

Solid customer growth and transportation volumes

Additional pertinent information include: (a) y-o-y, the number of natural gas customers increased by 1.0% over the course of Q4, and 1.9% for the full year; (b) operations and maintenance costs increased by a very modest 0.6% for the full-year 2004; and, (c) financing costs declined by roughly 6.9% in 2004. In summary, aside from the accounting change, these results were roughly inline with our expectations.

Petroleum transportation

Similar to Natural Gas Distribution, this segment performed inline with our expectations by delivering net earnings growth of 11.2% in Q4 2004 and 26.2% in 2004 on a year-over-year basis (see Table 3). Trans Mountain and the Express System produced the majority of the growth during Q4, while the Express System and Corridor delivered the bulk of the Petroleum Transportation segment's growth over the full year. Strong volumetric growth on all of the systems helped contribute to increased revenues that aided profitability.

Table 3: Petroleum transportation data points

	Q4 2004	Q4 2003	Q3 2004	FY 2004	FY 2003	Q4 Chg (%) y-o-y	Chg (%) sequential	FY Chg (%) y-o-y
Earnings (C$millions)								
Trans Mountain	11.2	10	8.8	39.4	35.8	12.0%	27.3%	10.1%
Express System	4.9	3.9	3.8	15.9	9.7	25.6%	28.9%	63.9%
Corridor	3.8	4	3.9	15.6	10.7	-5.0%	-2.6%	45.8%
Total	19.9	17.9	16.5	70.9	56.2	11.2%	20.6%	26.2%
Volumes (b/d)								
Trans Mtn C mainline	239,100	218,500	241,100	236,100	216,100	9.4%	-0.8%	9.3%
Trans Mtn US mainline	89,300	57,700	86,900	91,700	54,600	54.8%	2.8%	67.9%
Express System	175,400	174,000	178,200	175,300	171,200	0.8%	-1.6%	2.4%
Total	503,800	450,200	506,200	503,100	441,900	11.9%	-0.5%	13.8%

Source: Company reports and UBS

We believe Terasen's Trans Mountain Pipeline and the Westridge Dock are enviably positioned to continue benefiting from very robust Californian refinery margins.

Water and utility services

Reflecting the contribution of Fairbanks acquisition, among other factors, net income improved by more than 50% to C$6.6 million for 2004, up from C$4.1m in 2003.

Other activities

Year-over-year performance in 2004 weakened in this segment by delivering a disappointing loss of C$23.3 million versus a loss of C$23.0 million in the previous year.

Going forward

We believe Terasen investors, whether existing or prospective, should be aware of three major issues: (1) Oil sands affection; (2) New market development; and, (3) Gas distribution growth. Each of these will be addressed in greater detail below.

Oil sands affection?

Fundamentally, we have viewed the oil sands as a unique investment opportunity that may provide relatively visible growth over an extended period of time. Moreover, we regard pipelines that provide takeaway capacity from the oil sands as being similarly unique. The ongoing strength in global oil prices has led to an increased amount of investor attention being directed towards oil sands related companies, including Enbridge and Terasen. As several of the large oil and gas companies are on the verge of embarking upon significant capital programs for continued or new oil sands development, we believe a number of investors are building significant expectations into an indirect method of playing oil sands developments: the liquids pipeline companies. In our view, this increased affection towards oil sands related names has moderately boosted recent valuations. Yet, as per capital expenditure theory, we are likely to become far less bullish when the major capital programs commence. Prior to that time, we continue to believe that "oil sands affection" along with a number of other factors are likely to support rather robust valuations for selected oil sands pipeline plays.

Increased affection towards oil sands names

Go west, young man, go west!

In our report titled "*Go west, young man, go west!*" (dated 27 January 2005), we have outlined a number of issues related to new market development for western Canadian crude and related products. Much of the thrust for new market development arises from the necessity of avoiding a significant market saturation of Canadian crudes (including heavy and synthetic) in any one market region. In our view, new market development is necessary and Terasen is likely to benefit from such market diversification. We continue to believe a number of market areas will be attractive and necessary for Canadian based producers. By way of corollary, the pipeline and appropriate transportation network serving those markets will be equally important. Potential developments such as Enbridge's Gateway project and Teresen's various TMX projects may both have a role in future new market development. Yet, one must be cognizant that more significant expansions and other initiatives will be entirely dependent upon the desires of a proposed system's shippers. Additionally, the attractiveness of these potential investments has attracted considerable attention and increased project competition (consider TransCanada's recent Keystone proposal - for greater details please refer to our 9 February 2005 note "*Keystone proposal*"). Despite some significant concerns (i.e. rising steel costs and significant capital expenditure programs being upwardly revised), over the longer term, the trend toward crude market diversification is likely to continue. That trend is likely to be economically beneficial for companies exposed to the oil sands.

Greater crude dispersion necessary

Shippers play a lead role

Gas distribution growth

As with many regulated utilities, Terasen's natural gas distribution utility has suffered from a declining yield curve that has translated into lower allowed regulated returns. Yet, there have been some positive trends and announcements for the company's natural gas distribution business. For instance, on 16 February the British Columbia Utilities Commission approved a C$100 million liquefied natural gas storage facility near Nanaimo, British Colubmia that would be used for peak shaving and load management activities (note this facility as with Terasen's existing LNG facility would not be used for imports). One of the driving factors for this project is the need for additional generation capacity on Vancouver Island. Regarding that issue, the BCUC approved an energy purchase contract between BC Hydro and Duke Point Power LP for a 262MW natural gas power plant That generation facility and the LNG proposal may benefit Terasen in a number of ways, including: (1) increased distribution rate base; (2)

Incremental distribution growth on Vancouver Island driven by power plant development increased system throughput; and (3) gradual transmission system expansion. We view this prospective plant and other prospective projects within the province as beneficial for Teresen's utility business. Additionally, recent electricity rate increases within British Columbia are slowly improving the relative competitiveness of natural gas for home heating versus baseboard electric.

Valuation

In our view, the company faces relatively good prospects in its core business areas and continued oil sands growth, combined with new market access issues, underpin a significant portion of Terasen's future growth. Additionally, a number of marco factors, are likely to be supportive of the company's existing valuation, including: currency fundamentals; the Canadian interest rate environment; and, fund flows (for greater details please refer to our 14 January 2005 research report "*Rise of the loonie?*"). Clearly, a number of positives exist for the stock. However, we believe a portion of future growth is priced within the stock at this point. We continue to utilize multiple valuation methods to obtain our C$28.00 12-month target price, including: 17.5x P/E multiple on our 2006 earnings estimate; a projected dividend yield of 3.2%; and, a dividend yield spread of 180 bps. We retain our Neutral 1 rating.

■ Terasen Inc.

Terasen is a traditional regulated natural gas distribution utility serving several market areas in the Province of British Columbia. The company also possesses a substantial liquids pipelines business that provides direct access into three separate Petroleum Administration Defence Districts (PADD) for Alberta crude products.

■ Statement of Risk

Competitive pipeline expansions may significantly affect volume throughput and, therefore, earnings. Additionally, Terasen's business is exposed to a number of specific risks, including: throughput; weather; interest rates; and, competitive energy sources. Finally, one should never underestimate the power of the regulator in any regulated business.

IDA Policy No. 11, Standard 13 Disclosure: The Analyst named in this report has viewed the issuer's head office location within the last 12 months.u

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Securities Canada Inc, an affiliate of UBS AG (UBS).

UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage[1]	IB services[2]
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	**Buy 2**	FSR is > 10% above the MRA, lower degree of predictability	**Buy**	36%	32%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	**Neutral 2**	FSR is between -10% and 10% of the MRA, lower degree of predictability	**Hold/Neutral**	53%	35%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	**Reduce 2**	FSR is > 10% below the MRA, lower degree of predictability	**Sell**	11%	29%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 31 December 2004.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).
Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.
UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

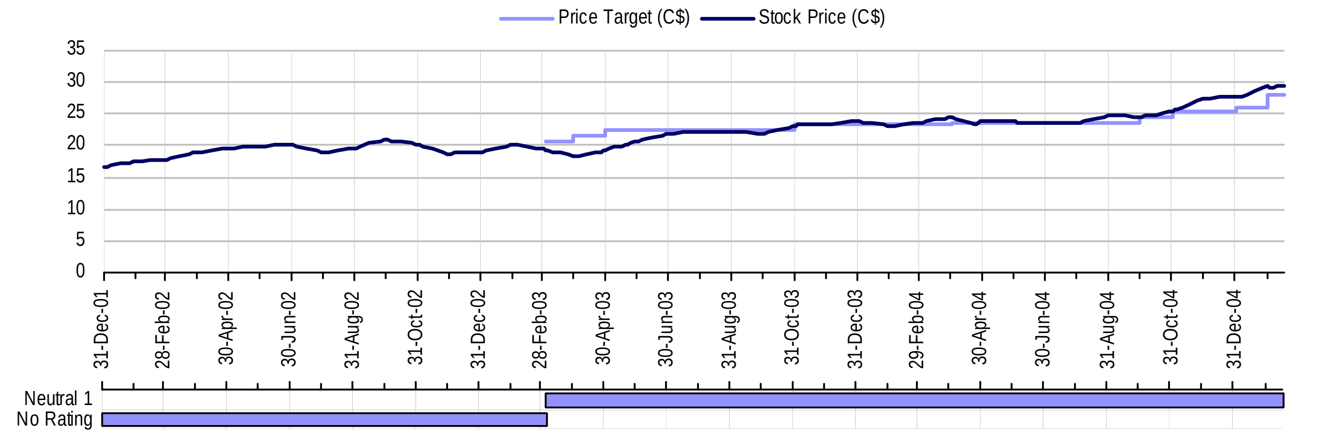
Companies mentioned

Company Name	Reuters	Rating	Price
Terasen Inc.	TER.TO	Neutral 1	C$29.45

Price(s) as of 16 February 2005. Source: UBS.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Terasen Inc. (C$)



Source: UBS; as of 16 February 2005.

Global Disclaimer

This report was produced by:UBS Securities Canada Inc, an affiliate of UBS AG (UBS).

Head Office: UBS Limited, 1 Finsbury Avenue, London, EC2M 2PP, UK Phone: +44-20-7567 8000

Local Office: UBS Securities Canada Inc, BCE Place, Suite 4100, Bay Street Suite, 161 Bay Street, Toronto, Ontario M5J 2S1 Phone: +1-416-364 3293

This report has been prepared by UBS AG or an affiliate thereof ("UBS"). In certain countries UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. UBS is under no obligation to update or keep current the information contained herein. UBS, its directors, officers and employees (excluding the US broker-dealer unless specifically disclosed under required disclosures) or clients may have or have had interests or long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in them as principal or agent. UBS (excluding the US broker-dealer unless specifically disclosed under Required Disclosures) may act or have acted as market-maker in the securities or other financial instruments discussed in this report, and may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant companies. Employees of UBS may serve or have served as officers or directors of the relevant companies. UBS may rely on information barriers, such as "Chinese Walls," to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. **Additional information will be made available upon request.**

United Kingdom and rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Should persons receiving this research in Italy require additional information or wish to effect transactions in the relevant securities, they should contact Giubergia UBS SIM SpA, an associate of UBS SA, in Milan. **South Africa:** UBS South Africa (Pty) Ltd (incorporating J.D. Anderson & Co.) is a member of the JSE Securities Exchange SA. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Singapore Pte. Ltd. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to "Wholesale" clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd.

UBS

UBS

UBS Investment Research

Terasen Inc.

Less than full pipeline

EPS falls short

Terasen reported Q1 2005 EPS of C$0.63, which fell short of our C$0.68 estimate and the Street's view of C$0.71. Yet, two notable issues skewed these results: 1) an after tax mark-to-market gain of C$0.02/sh; and, 2) low petroleum throughput which resulted in a drag on earnings of C$0.05/sh.

Weak volumes due to oil supply disruption

Several production outages in the Alberta oil sands coupled with certain refinery outages resulted in lower throughput volumes on both the Trans Mountain and Express Systems. When compared to Q1 of last year, volumes on the Trans Mountain system were down nearly 30%, while volumes on the Express system were down 2.6%.

Expect short term weakness; opportunities remain ahead

While Terasen faces a number of somewhat compelling opportunities, we believe only a seletion of these prospects will come to fruition. Additionally, we believe the progression into a much larger and potentially higher earning and returning company will take some time to develop.

Valuation: C$28.00 12-month target price

We continue to utilize multiple valuation methods to obtain our C$28.00 12-month target price, including: a 17.5x P/E multiple on our 2006 earnings estimate; a projected dividend yield of 3.2%; and, a dividend yield spread of 180 bps. We retain our Neutral 1 rating.

Highlights (C$m)	12/03	12/04	12/05E	12/06E	12/07E
Revenues	1,848	1,957	2,020	2,074	2,163
EBIT	338	377	393	397	432
Net income (UBS)	111	156	161	172	179
EPS (UBS, C$)	1.27	1.41	1.50	1.60	1.67
Net DPS (UBS, C$)	0.76	0.82	0.90	0.93	0.98

Profitability & Valuation	5-yr hist. av.	12/04	12/05E	12/06E	12/07E
EBIT margin %	-	19.3	19.5	19.2	20.0
ROIC (EBIT) %	-	9.4	10.1	10.1	11.0
EV/EBITDA x	-	10.3	10.8	10.8	10.0
PE (UBS) x	-	17.3	18.3	17.1	16.4
Dividend yield %	-	3.4	3.3	3.4	3.6

Source: Company accounts, Thomson Financial, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of C$27.45 on 04 May 2005 19:21 EDT

Andrew M. Kuske
Analyst
andrew.kuske@ubs.com
+1-416-814 3663

Global Equity Research

Americas

Gas Utilities

Rating	Neutral 1 *Unchanged*
Price target	C$28.00/US$22.33 *Unchanged*
Price	C$27.45/US$22.02

RIC: TER.TO BBG: TER CN

4 May 2005

Trading data (local/US$)	
52-wk. range	C$29.71-22.05/US$24.10-16.00
Market cap.	C$2.88bn/US$2.32bn
Shares o/s	105m (COM)
Free float	100%
Avg. daily volume ('000)	143
Avg. daily value (C$m)	4.0

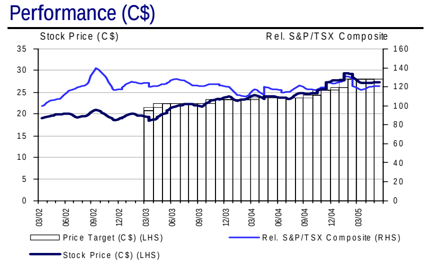
Balance sheet data 12/05E	
Shareholders' equity	C$1.49bn
P/BV (UBS)	2.0x
Net cash (debt)	(C$3.07bn)

Forecast returns	
Forecast price appreciation	+2.0%
Forecast dividend yield	3.3%
Forecast stock return	+5.3%
Market return assumption	7.8%
Forecast excess return	-2.5%

EPS (UBS, C$)

	12/05E		12/04
	UBS	Cons.	Actual
Q1	0.63	*0.64*	0.77
Q2E	0.22	*0.20*	0.10
Q3E	0.13	*0.09*	(0.01)
Q4E	0.52	*0.56*	0.51
12/05E	1.50	*1.49*	
12/06E	1.60	*1.56*	

Performance (C$)



Source: UBS

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities Canada Inc

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 6

Terasen reported Q1 2005 EPS of C$0.63, which fell short of our C$0.68 estimate and the Street's view of C$0.71. Yet, two notable issues skewed these results: 1) an after tax mark-to-market gain of C$0.02/sh in the "other activities" segment; and, 2) low petroleum throughput which resulted in a drag on earnings in the amount of C$0.05/sh. Several production outages in the Alberta oil sands coupled with certain refinery outages resulted in lower throughput on both the Trans Mountain and the Express Systems. When compared to Q1 of last year, volumes on the Trans Mountain system were down nearly 30%, while volumes on the Express system were down 2.6%. We continue to believe Terasen faces relatively good prospects in its core business areas. In our view, strong crude fundamentals, continued oil sands growth prospects and new market access issues underpin a significant portion of Terasen's future growth. This research note is divided into three categories: (1) results; (2) going forward; and, (3) valuation.

Results

Terasen reported Q1 2005 EPS of C$0.63, which fell short of our C$0.68 estimate and the Street's view of C$0.71. Yet, two notable issues skewed these results: 1) an after tax mark-to-market gain of C$0.02/sh in the "other activities" segment; and, 2) low petroleum throughput which resulted in a drag on earnings in the amount of C$0.05/sh. Several production outages in the Alberta oil sands coupled with certain refinery outages resulted in lower throughput on both the Trans Mountain and the Express Systems. When compared to Q1 of last year, volumes on the Trans Mountain system were down nearly 30%, while volumes on the Express system were down 2.6%. We continue to believe Terasen faces relatively good prospects in its core business areas. In our view, strong crude fundamentals, continued oil sands growth prospects and new market access issues underpin a significant portion of Terasen's future growth. Our segmented analysis appears below.

Selected issues affected pipeline volumes

Natural gas distribution

Moderately disappointing results

While total volumes in the natural gas segment were nearly flat at 75.1PJ in Q1 2005 compared to 75.4PJ during the same quarter last year, earnings in this segment grew 1.8% from C$54.7m in Q1 2004 to C$55.7m in Q1 2005. This performance was partially attributable to operating efficiencies and customer growth. Selected comparative data appears in the table below.

Table 1: Natural gas distribution data points

	Q1 2005	Q1 2004	Q4 2004	Chg (%) y-o-y	Chg (%) seq
Earnings (C$millions)					
Terasen Gas	49.0	48.0	36.2	2.1%	35.4%
TGVI	6.7	6.7	6.4	0.0%	4.7%
Total	55.7	54.7	42.6	1.8%	30.8%
Number of Customers	878,560	862,631		1.8%	
Volumes (petajoules)					
Sales Volumes	48.8	49.3	41.1	-1.0%	18.7%
Transportation volumes	21.6	21.9	19.6	-1.4%	10.2%
Throughput	4.7	4.2	5.5	11.9%	-14.5%
	75.1	75.4	66.2	-0.4%	13.4%

Source: Company reports and UBS

Customer growth continues

Additional pertinent information includes: (a) During Q1 2005 the customer base grew by roughly 4%, which is roughly equivalent to the customer growth experienced during Q1 2004; (b) operations and maintenance costs increased by a very modest 0.8% compared to the same quarter last year; and, (c) financing costs declined by roughly 2% in Q1 2005.

Petroleum transportation

Substantial volume declines are unlikely to be ongoing

Temporary production outages in the Alberta oil sands coupled with certain refinery outages resulted in lower throughput volumes in both the Trans Mountain system and the Express System. When compared to Q1 of last year, volumes on the Trans Mountain system were down nearly 30%, while volumes on the Express system were down 2.6%.

Table 2: Petroleum transportation data points

	Q1 2005	Q1 2004	Q4 2004	Chg (%) y-o-y	Chg (%) seq
Earnings (C$millions)					
Trans Mountain	5.4	10.4	11.2	-48.1%	-51.8%
Express System	3.7	4.0	4.9	-7.5%	-24.5%
Corridor	3.6	3.9	3.8	-7.7%	-5.3%
Total	12.7	18.3	19.9	-30.6%	-36.2%
Volumes (b/d)					
Trans Mtn Cdn mainline	170,000	240,400	239,100	-29.3%	-28.9%
Trans Mtn US mainline	44,500	93,300	89,300	-52.3%	-50.2%
Express System	166,900	171,300	175,400	-2.6%	-4.8%
Total	381,400	505,000	503,800	-24.5%	-24.3%

Source: Company reports and UBS

The volume declines were largely related to production problems and several oil sands projects (eg: Suncor Energy) coupled with selected refinery outages. Naturally, risks exist in the pipeline transmission business, however, we consider the confluence of activities in Q1 to be somewhat rare. Yet, we are considering them to be of an operating nature, rather than one-time.

Water and utility services

Reflecting the contribution of Fairbanks acquisition, among other factors, net income improved to C$0.8m in Q1 2005 compared to C$0.0m in Q1 2004.

Other activities

Based on reported figures, year-over-year performance in this segment improved, with a loss of C$2.9m in Q1 2005 compared to a loss of C$5.1m in Q1 2004. However, after extracting the effect of mark-to-market gains in each of the quarters being compared, losses in this segment during Q1 2005 were C$5.5 compared to a loss of C$6.8m during the same quarter last year.

Going forward

We believe Terasen investors, whether existing or prospective, should be aware of three major issues: (1) Oil sands affection; (2) New market development; and, (3) Gas distribution growth. Each of these will be addressed in greater detail below.

Oil sands affection?

Increased affection towards oil sands names

Fundamentally, we have viewed the oil sands as a unique investment opportunity that may provide relatively visible growth over an extended period of time. Moreover, we regard pipelines that provide takeaway capacity from the oil sands as being similarly unique. The ongoing strength in global oil prices has led to an increased amount of investor attention being directed towards oil sands related companies, including Enbridge and Terasen. As several of the large oil and gas companies are on the verge of embarking upon significant capital programs for continued or new oil sands development, we believe a number of investors are building significant expectations into an indirect method of playing oil sands developments: the liquids pipeline companies. Notably, as discussed on the Terasen conference call, the significant oil sands expansion project recently filed by Shell Canada for its Muskeg River mine is likely to provide opportunities for the Corridor Pipeline. In our view, the long-term and highly visible growth associated with the oil sands has moderately boosted recent valuations. Yet, as per capital expenditure theory, we are likely to become far less bullish when the major capital programs commence. Prior to that time, we continue to believe that “oil sands affection” along with a number of other factors are likely to support rather robust valuations for selected oil sands pipeline plays.

Go west, young man, go west!

In our report titled "*Go west, young man, go west!*" (dated 27 January 2005), we have outlined a number of issues related to new market development for western Canadian crude and related products. Much of the thrust for new market development arises from the necessity of avoiding a significant market saturation of Canadian crudes (including heavy and synthetic) in any one market region. In our view, new market development is necessary and Terasen is likely to benefit from such market diversification. We continue to believe a number of market areas will be attractive and necessary for Canadian based producers. By way of corollary, the pipeline and appropriate transportation network serving those markets will be equally important. Potential developments such as Enbridge's Gateway project and Teresen's various TMX projects may both have a role in future new market development. At this time, we are seeing substantial evidence that crude diversification strategies are truly taking hold with the recent National Energy Board decision relating to the Spearhead and Corsicana pipelines. Additionally, with the relatively recent announcement regarding the Enbridge-PetroChina Memorandum of Understanding about the Gateway Pipeline provides further evidence of the forces of supply push and demand pull coming into balance (for greater details please refer to our 14 April 2005 research note "*When east meets west*"). Over the longer term, the trend toward crude market diversification is likely to continue. That trend is likely to be economically beneficial for companies exposed to the oil sands.

Greater crude dispersion necessary

Shippers play a lead role

Gas distribution growth

As compared to the company's Petroleum Transportation business, we believe Terasen will have a lower growth profile in its natural gas distribution utility. In our view, there are a number of issues of which one should be cognizant, including:

Incremental distribution growth on Vancouver Island driven by power plant development

- The British Columbia Utilities Commission approved a C$100m Terasen peak shaving liquefied natural gas storage facility near Nanaimo, British Columbia;
- One of the driving factors for the LNG facility is the need to help fuel proposed additional natural gas fired generation capacity on Vancouver Island; and,
- Weaker Pacific Northwest hydrology combined with electricity rate increases within British Columbia are slowly improving the relative competitiveness of natural gas for home heating versus that of baseboard electric.

Valuation

In our view, this quarter's earnings were a bit of a disappointment. Yet, over the longer-term, we believe Terasen faces relatively good prospects in its core business areas and continued oil sands growth, combined with new market access issues, underpin a significant portion of the company's future growth. We continue to utilize multiple valuation methods to obtain our C$28.00 12-month target price, including: 17.5x P/E multiple on our 2006 earnings estimate; a projected dividend yield of 3.2%; and, a dividend yield spread of 180 bps. We retain our Neutral 1 rating.

■ Terasen Inc.

Terasen is a traditional regulated natural gas distribution utility serving several market areas in the Province of British Columbia. The company also possesses a substantial liquids pipelines business that provides direct access into three separate Petroleum Administration Defence Districts (PADD) for Alberta crude products.

■ Statement of Risk

Competitive pipeline expansions may significantly affect volume throughput and, therefore, earnings. Additionally, Terasen's business is exposed to a number of specific risks, including: throughput; weather; interest rates; and, competitive energy sources. Finally, one should never underestimate the power of the regulator in any regulated business.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Securities Canada Inc, an affiliate of UBS AG (UBS).

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures.

UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage[1]	IB services[2]
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	**Buy 2**	FSR is > 10% above the MRA, lower degree of predictability	**Buy**	37%	30%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	**Neutral 2**	FSR is between -10% and 10% of the MRA, lower degree of predictability	**Hold/Neutral**	52%	32%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	**Reduce 2**	FSR is > 10% below the MRA, lower degree of predictability	**Sell**	11%	25%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 31 March 2005.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).
Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.
UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

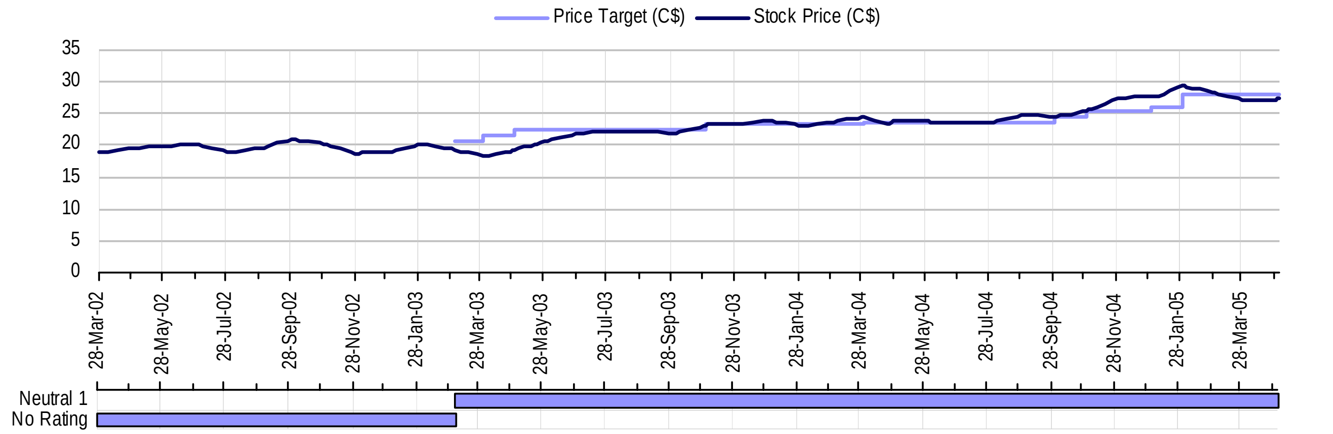
Companies mentioned

Company Name	Reuters	Rating	Price	Price date/time
Terasen Inc.	TER.TO	Neutral 1	C$27.39	03 May 2005 19:35 EDT

Source: UBS. EDT: Eastern daylight time.

The analyst responsible for this report has reviewed the material operations of the issuer and/or met with senior management. Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Terasen Inc. (C$)



Source: UBS; as of 3 May 2005.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

Global Disclaimer

This report has been prepared by UBS Securities Canada Inc, an affiliate of UBS AG (UBS).

Head Office: UBS Limited, 1 Finsbury Avenue, London, EC2M 2PP, UK Phone: +44-20-7567 8000

Local Office: UBS Securities Canada Inc, BCE Place, Suite 4100, Bay Street Suite, 161 Bay Street, Toronto, Ontario M5J 2S1 Phone: +1-416-364 3293

This report has been prepared by UBS AG or an affiliate thereof ("UBS"). In certain countries UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. UBS is under no obligation to update or keep current the information contained herein. UBS, its directors, officers and employees (excluding the US broker-dealer unless specifically disclosed under required disclosures) or clients may have or have had interests or long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in them as principal or agent. UBS (excluding the US broker-dealer unless specifically disclosed under Required Disclosures) may act or have acted as market-maker in the securities or other financial instruments discussed in this report, and may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant companies. Employees of UBS may serve or have served as officers or directors of the relevant companies. UBS may rely on information barriers, such as "Chinese Walls," to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. **Additional information will be made available upon request.**

United Kingdom and rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Should persons receiving this research in Italy require additional information or wish to effect transactions in the relevant securities, they should contact Giubergia UBS SIM SpA, an associate of UBS SA, in Milan. **South Africa:** UBS South Africa (Pty) Ltd (incorporating J.D. Anderson & Co.) is a member of the JSE Securities Exchange SA. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Singapore Pte. Ltd. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to "Wholesale" clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd.

UBS

UBS

Global Equity Research

Americas

Gas Utilities

UBS Investment Research

Terasen Inc.

Rating	Neutral 1*
	Unchanged
Price target	C$28.00/US$23.03
	Unchanged
Price	C$30.08/US$25.00

RIC: TER.TO BBG: TER CN

12 July 2005

Pumping up Trans Mountain

Modestly upping capacity

Terasen has filed an application with the National Energy Board (NEB) to increase the capacity of its Trans Mountain system by 35,000 bpd. If approved, the expansion will cost C$210 million and will come online in Q1 2007.

Phase one of many

The expansion, which involves building new as well as upgrading existing pumpstations, is the first phase in potentially larger Trans Mountain expansions to follow. The next phase involves gaining shipper support for the construction of a 30-inch pipeline loop between Hinton, Alberta and Valemount, B.C.

Short-term weakness; opportunities remain ahead

While Terasen faces a number of somewhat compelling opportunities, we believe only a seletion of these prospects will come to fruition. Additionally, we believe the progression into a much larger and potentially higher earning and returning company will take some time to develop.

Valuation: C$28.00 12-month target price

We continue to utilize multiple valuation methods to obtain our C$28.00 12-month target price, including: a 17.5x P/E multiple on our 2006 earnings estimate; a projected dividend yield of 3.3%; and, a dividend yield spread of 170 bps. We rate the stock Neutral 1 (RRD).

Highlights (C$m)		12/03	12/04	12/05E	12/06E	12/07E
Revenues		1,848	1,957	2,020	2,074	2,163
EBIT		338	377	393	397	432
Net income (UBS)		111	156	161	172	179
EPS (UBS, C$)		1.27	1.41	1.50	1.60	1.67
Net DPS (UBS, C$)		0.76	0.82	0.90	0.93	0.98
Profitability & Valuation	**5-yr hist. av.**		**12/04**	**12/05E**	**12/06E**	**12/07E**
EBIT margin %	-		19.3	19.5	19.2	20.0
ROIC (EBIT) %	-		9.4	10.1	10.1	11.0
EV/EBITDA x	-		10.3	11.3	11.3	10.5
PE (UBS) x	-		17.3	20.1	18.8	18.0
Dividend yield %	-		3.4	3.0	3.1	3.3

Source: Company accounts, Thomson Financial, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of C$30.08 on 12 Jul 2005 17:21 EDT

Andrew M. Kuske
Analyst
andrew.kuske@ubs.com
+1-416-814 3663

Trading data (local/US$)

52-wk. range	C$30.08-23.15/US$25.00-17.36
Market cap.	C$3.17bn/US$2.63bn
Shares o/s	105m (COM)
Free float	100%
Avg. daily volume ('000)	127
Avg. daily value (C$m)	3.6

Balance sheet data 12/05E

Shareholders' equity	C$1.49bn
P/BV (UBS)	2.2x
Net cash (debt)	(C$3.07bn)

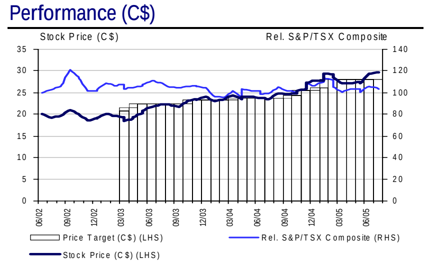
Forecast returns

Forecast price appreciation	-6.9%
Forecast dividend yield	3.0%
Forecast stock return	-3.9%
Market return assumption	7.9%
Forecast excess return	-11.8%

EPS (UBS, C$)

	12/05E		12/04
	UBS	Cons.	Actual
Q1	0.63	*0.60*	0.77
Q2E	0.22	*0.21*	0.10
Q3E	0.13	*0.12*	(0.01)
Q4E	0.52	*0.55*	0.51
12/05E	1.50	*1.49*	
12/06E	1.60	*1.56*	

Performance (C$)



Source: UBS

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities Canada Inc

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

*Rating/return divergence; See page 3

wi

■ Terasen Inc.

Terasen is a traditional regulated natural gas distribution utility serving several market areas in the Province of British Columbia. The company also possesses a substantial liquids pipelines business that provides direct access into three separate Petroleum Administration Defence Districts (PADD) for Alberta crude products.

■ Statement of Risk

Competitive pipeline expansions may significantly affect volume throughput and, therefore, earnings. Additionally, Terasen's business is exposed to a number of specific risks, including: throughput; weather; interest rates; and, competitive energy sources. Finally, one should never underestimate the power of the regulator in any regulated business.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Securities Canada Inc, an affiliate of UBS AG (UBS).

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures.

UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage[1]	IB services[2]
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	**Buy 2**	FSR is > 10% above the MRA, lower degree of predictability	**Buy**	40%	41%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	**Neutral 2**	FSR is between -10% and 10% of the MRA, lower degree of predictability	**Hold/Neutral**	49%	43%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	**Reduce 2**	FSR is > 10% below the MRA, lower degree of predictability	**Sell**	11%	35%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 June 2005.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).
Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.
UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

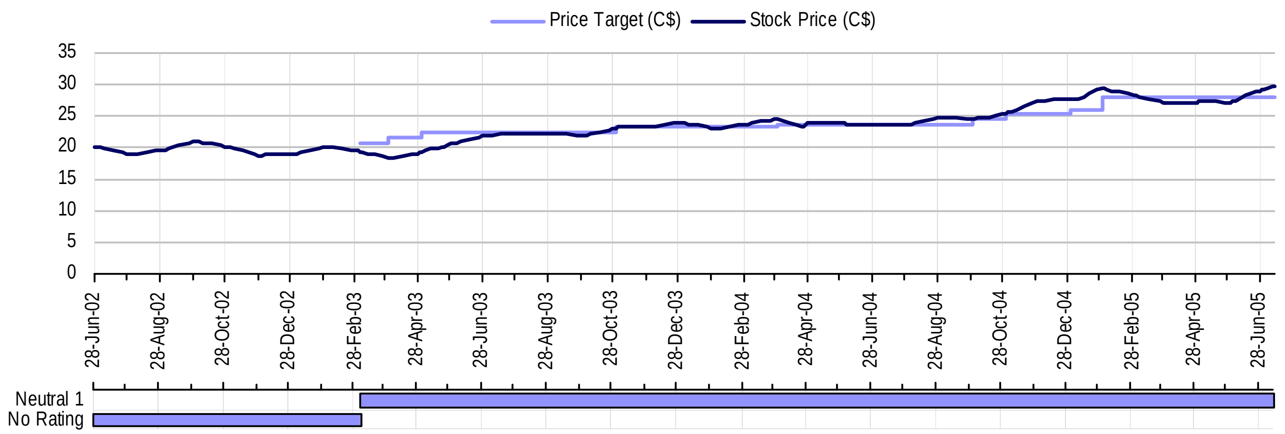
Companies mentioned

Company Name	Reuters	Rating	Price	Price date/time
Terasen Inc.	TER.TO	Neutral 1 (RRD)	C$29.78	11 Jul 2005 19:37 EDT

Source: UBS. EDT: Eastern daylight time.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Terasen Inc. (C$)



Source: UBS; as of 11 July 2005.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

Global Disclaimer

This report has been prepared by UBS Securities Canada Inc, an affiliate of UBS AG (UBS).

Head Office: UBS Limited, 1 Finsbury Avenue, London, EC2M 2PP, UK Phone: +44-20-7567 8000

Local Office: UBS Securities Canada Inc, BCE Place, Suite 4100, Bay Street Suite, 161 Bay Street, Toronto, Ontario M5J 2S1 Phone: +1-416-364 3293

This report has been prepared by UBS AG or an affiliate thereof ('UBS'). In certain countries UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. UBS is under no obligation to update or keep current the information contained herein. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. **Additional information will be made available upon request.**

United Kingdom, Sweden and Netherlands: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France SA. **Germany:** Prepared by UBS Limited. Distributed by UBS Limited and UBS Deutschland AG. UBS Limited is regulated by FSA. UBS Deutschland AG is regulated by Bundesanstalt fur Finanzdienstleistungsaufsicht. **Spain:** Prepared by UBS Limited and distributed by UBS Securities Espana SV SA, a member of the Comision Nacional del Mercado de Valores. **Russia:** Prepared and distributed by Brunswick UBS (a division of UBS Securities LLC). **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Should persons receiving this research in Italy require additional information or wish to effect transactions in the relevant securities, they should contact Giubergia UBS SIM SpA, an associate of UBS SA, in Milan and a member of the Commissione Nazionale per le Societa e la Borsa. **South Africa:** UBS South Africa (Pty) Limited (incorporating J.D. Anderson & Co.) is a member of the JSE Securities Exchange SA. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a 'non-US affiliate'), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Singapore Pte. Ltd. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to 'Wholesale' clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd.

UBS